CSBA

Update

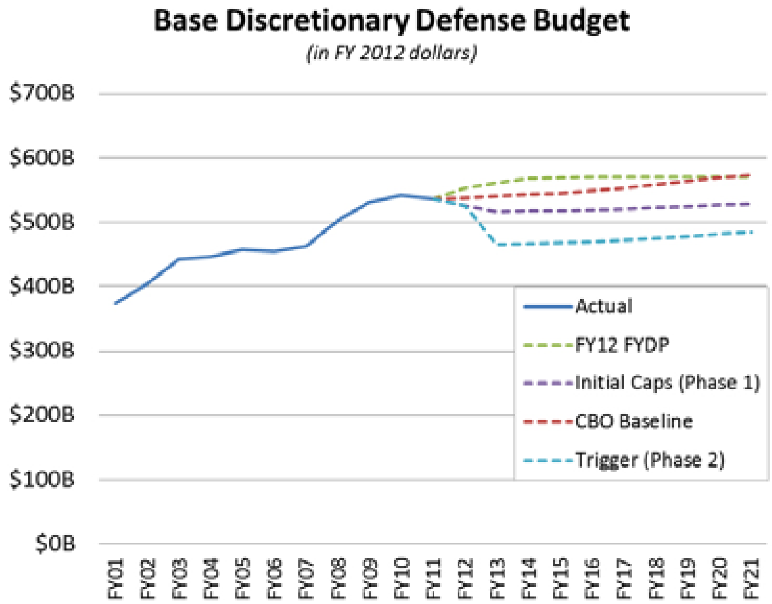
AUGUST 2011

DEFENSE FUNDING IN THE BUDGET CONTROL ACT OF 2011

Todd Harrison

Highlights

- The initial caps on discretionary spending included in the bill will likely result in the FY 2012 base defense budget falling to $525 billion. In comparison, the current level of funding for FY 2011 is $530 billion and the president's request for FY 2012 is $553 billion.
- If the Joint Committee bill is not enacted, the trigger provision in the bill would automatically cut the FY 2013 base defense budget to approximately $472 billion. This compares to the CBO baseline of $549 billion and the president's FYDP projection of $571 billion for FY 2013.
- The trigger would return the base defense budget in FY 2013 to its FY 2007 level of funding, adjusting for inflation, and would hold it near that level for the following eight years.
- Given the abruptness of the cuts imposed under the trigger and the real possibility that Congress may not be able to reach a deficit reduction compromise in time to avoid the trigger, DoD should immediately begin contingency planning for how to handle such a reduction.



Introduction

The Budget Control Act of 2011, signed into law on August 2 only hours before the nation was to default on its obligations for the first time in history, allows the president to raise the debt limit in three steps over the coming months by a total of $2.1 trillion. While the bill resolves the debt ceiling issue through 2012, the deficit reduction measures contained in the bill offer few specifics and do little to resolve many of the difficult issues that remain. For example, the bill sets broad limits on discretionary spending in future years without specifying what programs and activities should be cut. The bill does not address tax revenues or some of the largest areas of government spending, such as Social Security and Medicaid. While the bill does include significant cuts in defense spending, it does not allocate these cuts to specific accounts or funding lines. The bill excludes war funding from its deficit reduction calculations, since this funding is already expected to decline significantly over the coming years as operations in Iraq and Afghanistan draw to a close.

Initial Caps

The implementation of the bill is divided into two distinct phases. The first phase imposes caps on non-war-related discretionary spending for FY 2012 to FY 2021. In FY 2012 and FY 2013, these caps are divided into security spending and non-security spending. For FY 2014 to FY 2021, a single cap is provided for all discretionary spending. Under this part of the bill, security spending is defined as "agency budgets for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95–0401–0–1–054), and all budget accounts in budget function 150 (international affairs)."[1]

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Security	$684B	$686B								
Non-Security	$359B	$361B								
Total	$1,043B	$1,047B	$1,066B	$1,086B	$1,107B	$1,131B	$1,156B	$1,182B	$1,208B	$1,234B

In FY 2012, the security spending cap is $5 billion less than the $689 billion enacted in FY 2011 and $36 billion less than the $720 billion requested for FY 2012. How the cuts will be allocated across the accounts included in security spending is not specified in the legislation and will ultimately be determined by the appropriations bills enacted for FY 2012. If all of the accounts included under security spending were allocated their full request for FY 2012 except defense, the base defense budget would fall to $517 billion. On the other hand, if the cuts were spread proportionately across all security accounts—a more likely scenario—the base defense budget would fall to $525 billion. This would represent a $4 billion decrease from the base defense budget enacted for FY 2011 and a $28 billion reduction from the FY 2012 request. While the bill does not specify separate caps for security and non-security in FY 2014 and beyond, the Office of Management

1 *Budget Control Act of 2011*, Section 102, p. 7. Accessed on August 4, 2011 at: http://www.gpo.gov/fdsys/pkg/BILLS-112s365enr/pdf/BILLS-112s365enr.pdf

and Budget calculates that the reduction in the base defense budget over ten years would sum to $330 billion.[2] But before the FY 2013 caps included in the first phase of the bill can be implemented, one of two things will occur: either Congress will enact the recommendations of the Joint Select Committee on Deficit Reduction (created under the bill) or the trigger provision of the bill will take effect.

Trigger Provision

The second phase of the bill relies on an automatic trigger to force cuts if Congress fails to act on the recommendations of the Joint Committee. The Joint Committee has broad authority to recommend spending cuts across the entire federal budget as well as increases in revenues. It would presumably recommend smaller cuts to defense spending than under the trigger in order to attract broader support, meaning the trigger can be considered the deepest level of cuts to defense one might expect. The trigger takes effect if Congress fails to enact the recommendations of the Joint Committee or if the Joint Committee's recommendations result in less than $1.2 trillion in deficit reduction.

The trigger sets separate caps for security and non-security spending for FY 2013 to FY 2021, but it defines security spending more narrowly. Under the trigger provision, security spending only includes the 050 budget function for national defense. It does not include funding for International Affairs, the Department of Veterans Affairs, and the vast majority of the Department of Homeland Security. The Department of Defense is 96 percent of the 050 budget function. The caps on the 050 budget function are then reduced by the trigger according to the following formula, where D represents the total amount of deficit reduction that results from enactment of the Joint Committee bill[3]:

$$\textit{Annual Reduction} = \frac{(\$1.2 \text{ trillion} - D) \times (1-0.18)}{9 \times 2}$$

If Congress fails to enact the Joint Committee bill, i.e. D = $0, then the annual reduction for the 050 budget function would be $54.7 billion. However, this reduction would apply to both discretionary and mandatory accounts under the 050 budget function. The reduction to the discretionary portion of the budget is calculated according to the following formula[4]:

$$\textit{Reduction to Discretionary Budget Cap} = \frac{\textit{Annual Reduction} \times \textit{Discretionary Budget Cap}}{\textit{Discretionary Budget Cap} + \textit{Mandatory Budget}}$$

Mandatory funding in the 050 budget function is projected to be about $6.6 billion each year[5], which means the annual reduction to the discretionary budget cap would be

2 Inside Defense, "Debt-Ceiling Deal Will Force Revisions In New Military Investment Plans," August 3, 2011.

3 This formula only applies if the deficit reduction, D, is less than the $1.2 trillion target. See *Budget Control Act of 2011*, Section 302, p. 18.

4 *Budget Control Act of 2011*, Section 302, p. 18.

5 The mandatory funding in the 050 budget function is primarily accrual payments to the military retirement fund.

$54.0 billion. The trigger provision does not specify how the reduction is applied within the 050 budget function, but since 96 percent of this budget function is DoD funding, it is reasonable to assume that DoD would be allocated approximately 96 percent of the cuts. Using this assumption, the base defense budget would fall to $472 billion in FY 2013—some $99 billion below the level of funding projected for FY 2013 in the president's FY 2012 FYDP and $77 billion below the CBO baseline for FY 2013. The total reduction in the base defense budget over ten years, including both the reductions from the initial caps on security spending and the additional reductions from the trigger, would be $815 billion relative to the CBO baseline and $968 billion relative to the president's FY 2012 FYDP and projections. These cuts are roughly the same as those proposed by the Fiscal Commission in November 2010[6] and Senator Coburn's deficit reduction plan, *Back in Black*.[7]

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
050 Budget Function Cap	$546B	$556B	$566B	$577B	$590B	$603B	$616B	$630B	$644B
Reduction from Trigger	$54B	$54B	$54B	$54B	$54B	$54B	$54B	$54B	$54B
Revised Cap	$492B	$502B	$512B	$523B	$536B	$549B	$562B	$576B	$590B
Estimated DoD Base Budget	$472B	$482B	$492B	$502B	$515B	$527B	$540B	$553B	$566B

Upcoming Milestones

While the Budget Control Act of 2011 resolves the debt ceiling issue through the end of 2012, it leaves many budget issues unresolved. Several important milestones are scheduled to occur over the coming months that will play a critical role in determining the future of the defense budget.

- August 15th: Congressional leaders must appoint members to the Joint Committee tasked with formulating a deficit reduction proposal totaling at least $1.2 trillion.
- September / October: DoD will complete its comprehensive strategic review outlining how it plans to implement the president's April proposal to reduce spending by $400 billion over twelve years, which is roughly equivalent to the initial reductions under this bill.
- October 1st: To avoid a government shutdown, Congress must enact either FY 2012 appropriations or a continuing resolution.
- November 23rd: The Joint Committee must approve by a simple majority its deficit reduction plan.
- December 23rd: Congress must hold an up or down vote on the Joint Committee bill with a simple majority required for approval. If a bill with deficit reduction of at least $1.2 trillion is not approved by both chambers and signed into law by the president by January 15, the trigger provision automatically takes effect.
- February 6th: The White House will release its FY 2013 budget request.

6 See Fiscal Commission Co-Chair's Proposal, November 10, 2010. Accessed on August 4, 2011 at: http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/CoChair_Draft.pdf

7 Tom Coburn, "Back in Black: A Deficit Reduction Plan," July 2011. Accessed on August 4, 2011 at: http://coburn.senate.gov/public//index.cfm?a=Files.Serve&File_id=c6590d01-017a-47b0-a15c-1336220ea7bf

Conclusion

Under the first phase of the bill, the initial cuts to the base defense budget would result in a total reduction of 6 percent over ten years in the base defense budget relative to the CBO baseline and an 8 percent reduction relative to the president's FY 12 FYDP and projections. The department is already preparing for cuts of this magnitude with the comprehensive strategic review in progress. But these cuts should be viewed as the minimum likely to result because the Joint Committee is tasked with formulating a larger deficit reduction package that may well include additional cuts to defense. The trigger provision of the bill likely bounds the upper end of cuts to defense, resulting in a total reduction of 14 percent over ten years relative to the CBO baseline and a 16 percent reduction relative to the president's FY 12 FYDP and projections. The department is not currently preparing for cuts of this magnitude, much less a reduction that would occur abruptly in FY 2013 rather than being phased in over time.

The pattern of behavior observed since the 112th Congress was sworn-in in January has been one of management by crisis, beginning with the near government shutdown in April and the narrowly-avoided government default on August 2. These are not ideal conditions under which to conduct thoughtful and strategic discussions about how best to reduce defense spending in the future, and there is no reason to expect this pattern of behavior will change in the coming months. While there are many reasons members of Congress on both sides do not want the trigger provision to take effect—and many ways Congress could override it or work around it—all it takes for the trigger to be implemented is inaction and gridlock. For this reason, DoD should immediately begin contingency planning for the sharp cuts required by the trigger in FY 2013. The Department should develop budget options that can be implemented quickly and responsibly without doing long term harm to critical military capabilities and the defense industrial base. Now is the time to begin shaping the force to prepare for an uncertain fiscal future.

About the Center for Strategic and Budgetary Assessments

The Center for Strategic and Budgetary Assessments (CSBA) is an independent, nonpartisan policy research institute established to promote innovative thinking and debate about national security strategy and investment options. CSBA's goal is to enable policymakers to make informed decisions on matters of strategy, security policy and resource allocation.

CSBA provides timely, impartial and insightful analyses to senior decision makers in the executive and legislative branches, as well as to the media and the broader national security community. CSBA encourages thoughtful participation in the development of national security strategy and policy, and in the allocation of scarce human and capital resources. CSBA's analysis and outreach focus on key questions related to existing and emerging threats to US national security. Meeting these challenges will require transforming the national security establishment, and we are devoted to helping achieve this end.