

**TESTIMONY OF BAKER SPRING**  
**F.M. KIRBY RESEARCH FELLOW IN NATIONAL SECURITY POLICY**  
**THE HERITAGE FOUNDATION**  
**BEFORE**  
**THE SENATE BUDGET COMMITTEE**  
**ON**  
**THE IMPACT OF SEQUESTRATION**  
**ON NATIONAL SECURITY AND THE ECONOMY**

**July 23, 2013**

Madam Chairman, Senator Sessions, it is an honor for me to testify before the Senate Budget Committee on this pressing topic of the impact of sequestration under the Budget Control Act of 2011(BCA), which is currently in effect, on the ability of the government to meet existing national security requirements and its impact on the economy. My name is Baker Spring. I am the F.M. Kirby Research Fellow at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation. With your permission, I will summarize my testimony. I have made my full statement available to Committee pursuant to its rules, which the Committee may use as it sees fit.

Madam Chairman, as you know, the Department of Defense (DOD) has examined its options for proceeding under the extension of the ongoing automatic reductions in defense expenditures under the process of sequestration through fiscal year 2014, the outline of which Secretary of Defense Hagel has provided to the Chairman and Ranking Member of the Senate Armed Services Committee in a letter dated July 10. Given this outline, I believe Congress has three options for future defense budgets. Unfortunately, all three would impose significant damage on the nation's defense posture. This is because even the highest level of funding among the three options would shrink the portion of the economy committed to defense, shrink force structure, reduce the number of people serving in the military, impose slower increases in military compensation, reduce the scope of training and maintenance, and deprive the military of significant portions of the new weapons and equipment it needs. Most importantly, the budget reductions would result in a military of insufficient overall strength to meet the established security commitments the federal government has made to the American people and U.S. friends and allies around the world.

### **The Scope of the Reductions Under the Three Options**

The three options available to Congress are:

1. The Obama Administration's fiscal year (FY) 2014 defense budget proposal: a \$100 billion reduction over 10 years from the spending caps imposed on defense under the BCA;
2. A \$300 billion reduction over 10 years from the spending caps imposed by the BCA; and
3. The level of funding for defense provided by the BCA in accordance with sequestration, which is a \$500 billion reduction over 10 years.

The best starting point for comparing the three options is President Obama's request for defense in FY 2014 and beyond, which Secretary Hagel has confirmed as the Administration's preference. However, the DOD has also revised the request to provide a firm number of a bit over \$79 billion for the defense portion of overseas contingency operations (OCO) in FY 2014, but it omits OCO funding levels for any year beyond FY 2014.

For practical reasons, however, I will limit the comparisons to the remaining period covered by the BCA (FY 2014 through FY 2021) because this is the best means of comparison for Congress as it drafts legislation on the defense program in the course of this year. The following are the funding levels for the total defense program under the three options for the eight-year period:

- Option 1: \$4.865 trillion;

- Option 2: \$4.684 trillion;
- Option 3: \$4.489 trillion.

Accordingly, Option 2 provides about 4 percent less for the total defense program than Option 1. Option 3 provides about 8 percent less than Option 1. It is important to understand, however, that the defense reductions have been going on for several years at this point. Even Option 1 in FY 2014 is more than 11 percent below what the nation spent on defense in FY 2010.

By way of analysis, there are eight bases for comparing the three options and their impact on defense. Each basis provides Congress a different means for assessing the impact. All of the comparisons apply the spending amounts in percentage terms and on a straight line across elements of the defense program:

1. **Percent of GDP devoted to defense.** Option 1 would reduce the share of the economy devoted to defense to 2.6 percent in FY 2021, as measured in budget authority. Option 2 would reduce it to a little more than 2.5 percent. Option 3 would reduce it to somewhat less than 2.5 percent. By way of comparison, the U.S. devoted 5 percent of gross domestic product (GDP) to defense in FY 2010.
2. **Modernization funding.** Modernization funding is defined here as the sum of procurement and research and development. The Administration's current budget is proposing to spend roughly \$200 billion in FY 2021 on modernization. Option 2 would reduce it to around \$190 billion in FY 2021. At best, Option 3 would leave it at about \$184 billion. The latter figure depends on the formula for sequestration being eliminated, which would end its exemption for military personnel funding.
3. **Active-duty manpower levels.** It appears that the Obama Administration wants to stabilize active-duty manpower in the military. Accordingly, Option 1 appears to support a total active-duty manpower level of 1,326,000. Option 2 would reduce it to 1,273,000. Option 3 would reduce it to 1,220,000. Comparatively, the military requested 1,401,000 total active duty personnel in FY 2013.
4. **Air Force force structure.** The Obama Administration has an objective of retaining 40 combat-coded Air Force fighter squadrons in the active service. This represents the Air Force active force structure under Option 1. Option 2 would reduce it to 38. Option 3 would reduce it to 37.
5. **Army force structure.** The Obama Administration's objective is to retain 37 active brigade combat teams (BCTs), which represents the active army force structure under Option 1. Option 2 would reduce it to 35 or 36. Option 3 would reduce it to 34. By way of reference, the army currently has 45 active BCTs. It should be noted that Army Chief of Staff Raymond Odierno announced that the Army intends to reduce active BCTs to 32 or 33, but this is being done, in my judgment, for structural as well as budget reasons.
6. **Navy ships.** The Obama Administration's objective is to retain 291 ships. There is considerable uncertainty regarding the viability of this objective under Option 1 funding levels. Option 2 would reduce this number to no more than 279. Option 3 would reduce it to no more than 267. These numbers could be significantly lower.

7. **Missile Defense Agency (MDA) funding levels.** The Administration's current budget proposal, which is in keeping with Option 1, looks to fund the MDA at about \$7.5 billion annually later in this decade. Option 2 would reduce this amount to \$7.2 billion. Option 3 would fund the MDA at \$6.9 billion. The MDA budget for the current fiscal year is \$8.3 billion—prior to the application of sequestration.
8. **Funding for atomic energy defense activities.** These activities are largely under the Department of Energy (DOE) and the National Nuclear Security Administration, which is under the DOE. The Obama Administration is proposing to fund these activities at \$20.5 billion in FY 2021. This funding level is in accordance with Option 1. Option 2 would reduce this amount to \$19.7 billion. Option 3 would reduce it to \$18.8 billion. It should be noted that nuclear weapons delivery vehicle acquisition programs are under the purview of the DOD and are funded under the modernization accounts described above.

### **Defense Spending and the Economy**

Defense spending, like all federal spending, imposes a direct burden on the economy. On the other hand, it provides essential indirect support for the economy both domestically and globally, by providing the secure environment necessary for productive business activity. Further, as I described earlier, defense absorbs a relatively small share of the economy and the share is expected to shrink in future years even under the best of circumstances. Unfortunately, this does not stop the critics of the defense program from asserting that the direct burden it imposes on the economy is intolerably high; they are only too happy that sequestration imposes a disproportionately high share of funding reductions on defense.

By contrast, the major entitlements – Social Security, Medicare, and Medicaid – already absorb a much larger share of the economy now and will absorb increasing shares of the economy for decades to come. According to my colleagues at The Heritage Foundation who do economic and broader budget analysis, these three programs will outstrip projected economic growth so that by the middle of this century their share of the economy will almost double. They also forecast that these three entitlement programs will absorb 100 percent of historical levels of federal revenue by about the same time. Finally, they assess that even eliminating defense spending completely would not balance the budget, assuming other existing elements of their budget projections remain intact. This circumstance leads directly to the question: If defense expenditures impose an intolerably high burden on the economy, how is it possible to explain that entitlement expenditures will not do so to a much greater degree? In reality, defense is not now and in the future will not become the source of federal government's fiscal woes.

### **Does the Obama Administration Want Sequestration for Defense or Not?**

As I alluded to earlier, among the three options, the Obama Administration has publicly endorsed Option 1. In reality, however, I believe it has chosen Option 3.

Since the enactment of the BCA in 2011, the Obama Administration has consistently stated that it does not want sequestration cuts to apply, and the President's current defense budget proposal does not account for it. On the other hand, the White House has just as consistently opposed proposals from the House of Representatives to set sequestration aside by issuing veto threats. I believe it is becoming clear that President Obama's position against the application of sequestration to defense is being driven more by tactics and less by a genuine commitment to protecting his defense proposal. Specifically, it is entirely plausible that he and

Secretary Hagel are decrying the impact of sequestration on defense for the purpose of ramping up pressure on the House of Representatives to permit the further acceleration of the rate of growth in domestic spending, particularly for entitlements, and to raise tax rates. After all, Secretary Hagel called the defense budget “bloated” in 2011, and it is difficult to imagine that his view in 2011 was uninformed. Logic dictates that the about-face he has taken regarding the negative impact of further defense budget reductions in his July 10 letter stems from reasons other than a realization that his assertion in 2011 was wrong.

### **The Role of Congress**

Looking ahead, Congress should set aside the ongoing budget-driven exercise for defense in favor of proceeding with the Quadrennial Defense Review (QDR) through a strategy-driven approach. Further, it should demand that the QDR establish a national security policy that meets the needs of the nation and then recommends funding the defense program at the necessary level. More immediately, however, Congress should not sit by passively as the Obama Administration claims that it supports adequate funding for national security while behaving in ways that effectively block such funding. National security requires setting aside sequestration and imposing restraint on domestic spending, most particularly by adopting carefully planned reforms of the major entitlement programs, which is necessary to the purpose of accelerate U.S. economic growth.

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