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PROJECT ON DEFENSE ALTERNATIVES

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Continuing Resolution: Congress Goes Easy on DoD Rebalances Budget in Pentagon's Favor

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Bottom Line: The struggle over a full-year Continuing Resolution (CR) shows that both houses of congress are “going light” on DoD, pointing toward a discretionary budget balanced more heavily in favor of the Pentagon. Within the so-called “security basket,” International Affairs is set to be the big loser.

Setting aside war costs, the Pentagon budget constitutes about 50% of discretionary spending. The Pentagon accounted for an even greater proportion of the rise in discretionary spending during the past ten years of debt accumulation.

Nonetheless, both the House and Senate efforts to cut spending for FY-2011 allocate much less than 50% of the pain to DoD's base expenditures. The House allocates only 15% of its proposed cuts to DoD. The Senate, about 38%.

Discussion

Last year, the President's Fiscal Commission – the “Bowles-Simpson commission” – advanced the notion of “proportionality” as a key to a sensible bipartisan program of big cuts. Formally, this applied to a division of discretionary spending into “security” and “non-security” baskets. However, the commission's reports and proposals also lent credence to the idea that Department of Defense spending, specifically, could and should be dealt with in a proportionate manner. Notably, the commission outlined a set of “illustrative” DoD cuts amounting to \$100 billion for 2015, equal to the illustrative list for non-defense spending.

Apart from the Commission, a variety of deficit-reduction efforts (including the Sustainable Defense Task Force) developed options for substantial defense savings, garnering significant support from left, right, and center. If all of the defense savings programs were integrated they would constitute a menu of feasible cuts substantially exceeding \$100 billion per year.

Congress' initial effort to legislate budget cuts has focused on producing a full-year continuing budget resolution for FY-2011. So far, this effort has not paid much heed to the “defense savings” framework and proposals advanced last year by the Fiscal Commission, Sustainable Defense Task Force, and Domenici-Rivlin Task Force, among others.

The budget reduction goals of the House and Senate might be measured against the FY-2010 budget, which forms the basis for the Continuing Resolution. Or they might be measured against the FY-2011 request submitted by the Administration last year, which the CR effectively has replaced. In the analysis below, we use the President's FY-2011 budget request as the baseline for weighing the budget cuts sought by the House and Senate.

The House proposal for a full-year CR

The Republican-sponsored bill seeks to cut about \$30 billion from the security basket (as defined by the Administration and the Bowles-Simpson commission). Of this, approximately \$15 billion comes out of DoD, making for an FY-2011 Pentagon budget of about \$533 billion. Given a total roll back of \$100 billion from the President's FY-2011 request for discretionary spending, a proportional cut would have amounted to \$50 billion for the Defense Department.

- In effect, the House plan transfers \$35 billion from non-defense discretionary accounts to the Pentagon, significantly increasing the Pentagon's budget share.
- Under the House plan, overall discretionary spending for 2011 would be just about 10 percent higher than it was in 2007, four years ago. In real (inflation-corrected) terms this represents a 2% increase.
- Looking at just the DoD portion of discretionary spending under the House plan shows a 22.5% increase between 2007 and 2011, which in real terms is a 13% increase.
- By comparison, non-defense discretionary would be down about 9% in real terms from the 2007 level.

The Bowles-Simpson plan proposed dividing the discretionary budget into two baskets -- security and non-security -- and reducing each basket by the same percentage. This means that in dollar terms each basket would lose an amount proportional to its size.

Under the Bowles-Simpson plan, the security basket would comprise the national defense, homeland security, international affairs, and veteran services accounts. Defined in this way, the security basket accounts for 63% of the President's FY-2011 request. Thus, under Simpson-Bowles, it would account for 63% of the total dollars cut. And the non-security accounts would absorb 37% of the cuts.

How does the House plan stand up to this standard?

It almost reverses the percentages, cutting nearly \$30 billion from the security basket (with International Affairs taking the biggest proportional cut in that basket). From non-security, it cuts \$70 billion. (The House reports a different security/non-security split, but only because they define the "security basket" more narrowly than does the Administration and the Bowles-Simpson Fiscal Commission).

In effect, the House plan takes \$33 billion out of non-security spending and gives it to security. All of this amount can be thought of as being used to relieve a big part of the cut that DoD would have had to bear under a proportional arrangement. Within the security basket, DoD further benefits (as does Veterans Affairs) from disproportionately large cuts to International Affairs. As noted above, the total benefit to the Pentagon is \$35 billion.

The Senate alternative

The leading Senate alternative to the House Bill, an amendment advanced by Senator Inouye, seeks to roll back the President's FY-2011 discretionary spending request by only \$51 billion.

- It subtracts \$28 billion from the 2011 request for security funding and \$23 billion from the non-security basket.
- Although better balanced than the House bill, this allocation still falls short of proportionality, which for a \$51 billion rollback would trim \$32 billion from the security basket and \$19 billion from non-security.

Looking at just the base Defense Department budget (including military construction), the Senate alternative shows a greater disparity.

- DoD bears \$19.4 billion of the total cut – about 38%. However, as noted above, the Pentagon's proportion of discretionary spending in the FY-2011 budget request (not counting war costs) is approximately 50%.
- A proportional slice of the \$51 billion cut would be \$25.5 billion.

In effect, the Senate amendment transfers \$6 billion from non-defense accounts to the Pentagon. Of this, \$4 billion effectively comes from outside the security basket and \$2 billion from within – as International Affairs again takes a disproportionately large hit. The Senate version (like its House counterpart) also lightens the deficit-reduction load borne by Homeland Security and Veterans Affairs – again, at the expense of International Affairs.

What does it mean for the next round?

The fight over the CR, which from the start has been partisan in nature, is a poor vehicle for achieving a reasonable consensus on big cuts. Picking piecemeal over an existing budget, looking for “low-hanging fruit,” disfavors big changes in DoD budgeting. Looking forward, a more productive and balanced approach might seek a “grand bargain” on the DoD topline early in the process. Indeed, Senate Democrats might make this a prerequisite for closing the gap between the House and Senate on the overall size of the cut in discretionary spending.

An important insight is that the rationale for big cuts in DoD is different than that suited for going after fat, pork, and troubled systems in a piecemeal manner – although the two types of argument are complementary. Achieving big savings is about setting priorities, making choices, and clarifying the boundary between what is absolutely critical to our security and what is not. It is about compelling a re-evaluation of defense strategy, posture, organization, and management.

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