FY2013 Defense Budget Request: Overview and Context

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Summary

This report analyzes President Obama's FY2013 defense budget request and the long-term deficit reduction issues relevant to congressional discussion of that request. Congressional action on the FY2013 defense budget will be analyzed in a separate report.

The FY2013 Department of Defense (DOD) budget request includes a total of $613.9 billion in discretionary budget authority: $525.4 billion for the so-called "base budget" (excluding operations in Afghanistan and Iraq), and $88.5 billion for war costs or "Overseas Contingency Operations" (OCO). Overall, that request is $31.8 billion less than was appropriated for DOD in FY2012, with most of the reduction accounted for by the continuing drawdown of U.S. forces in Afghanistan (see **Table 1** and "Overseas Contingency Operations (OCO)").

Apart from declining war costs, the base budget request is $5.2 billion below the corresponding FY2012 appropriation, and it would mark the first decrease in Pentagon spending (excluding war costs) since FY1998. Moreover, the request is $45.3 billion lower than the amount the Administration had projected a year earlier that it would request for the FY2013 base budget (see **Figure 1**). That reduction reflects caps on discretionary spending that were established by the Budget Control Act (BCA) of 2011, enacted in August 2011. All told, funding caps established by the BCA are intended to reduce projected federal spending by more than $900 billion over the 10 years from FY2012-FY2021.

The FY2013 DOD base budget request incorporates some policy initiatives intended, at least in part, to anticipate future budgets which will be lower (because of deficit reduction efforts) than DOD had planned. The proposed departures from previous plans are congruent with a new strategic concept, unveiled in January 2012, which the Administration says is intended to reflect both lower budgets and a global security environment that is different from the past decade's focus on Iraq and Afghanistan. For example, the FY2013 budget includes

- the first increment of a three-year plan to reduce the size of the active-duty Army and Marine Corps by 102,400 troops—a 7.2% reduction (see **Table 4**); the Administration bases these reductions on the premise that new, large-scale, long-term ground force deployments, such as those in Iraq and Afghanistan, are unlikely (see "A Smaller but Ready Force");
- savings of $9.6 billion as a result of so-called "efficiency" initiatives (see "Reductions in Overhead and Support Costs");
- several actions intended to increase the focus of DOD operations on the Pacific region (see "'Pivot' Toward the Pacific"); and
- several initiatives intended to slow the growth of military compensation and health care (see "Personnel Costs").

Other long-term issues also may be matters of discussion in Congress. A key issue is whether additional cuts in defense spending, beyond those required by the initial limits on discretionary spending in the BCA, should be considered as a part of further deficit reduction measures. In addition to the $900 billion worth of deficit savings resulting from the BCA's spending caps, the act also requires additional deficit reduction measures totaling at least $1.2 trillion through 2021, (resulting in a total spending reduction through FY2012 of $2.1 trillion). Unless Congress either revises the BCA or agrees to an additional $1.2 trillion worth of reductions by January 2013, the

BCA mandates automatic cuts in spending, equally divided between defense and nondefense expenditures (see "Longer-Term Budget Issues").

In FY2013, the automatic cuts may be imposed through a process of sequestration in which an across-the-board percentage cut is imposed on each program in the budget, either (1) to yield the required $1.2 trillion worth of additional cuts or (2) to make up the difference between whatever lesser reduction Congress agrees to and the $1.2 trillion target. Senior DOD leaders have warned that sequestration would have a devastating impact on defense capabilities, and some members of Congress have argued for legislation that would exempt DOD from a sequester. President Obama has said he would veto any legislation that exempted defense, however. While few deny that sequestration would be disruptive, the prospect of automatic cuts in spending is seen by most as a vital incentive for Congress to reach a balanced deficit reduction agreement.

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Introduction

The Obama Administration's FY2013 budget request, submitted to Congress on February 13, 2012, includes $647.4 billion for national defense programs, including global operations of the Department of Defense (DOD), defense-related nuclear programs conducted by the Department of Energy, and other activities. For discretionary DOD budget authority, the request includes a total of $613.9 billion, of which $525.4 billion is for "base" defense budget costs that cover day-to-day operations other than war costs, and $88.5 billion is for "Overseas Contingency Operations" (OCO), which include military operations abroad—largely, now, in Afghanistan.

In addition to DOD funding, the Administration's overall national defense request for FY2013—which comprises the National Defense Budget Function (Function 050)—also includes $18.0 billion for Department of Energy defense-related programs (dealing with nuclear weapons and warship powerplants), $4.7 billion for FBI national security programs, and $2.4 billion for a number of smaller accounts, including the selective service and civil defense.

What is the 'Defense Budget'?

Unless otherwise specified, this report is focused on the Obama Administration's request for discretionary budget authority in FY2013 for the Department of Defense (DOD). However, DOD's budget is one element of two more inclusive budget aggregates that may become the subject of congressional interest:

- The "National Defense" budget function (Function 050) is one of 20 so-called "functions" into which all federal expenditures are aggregated by the Office of Management and Budget (OMB) and by the annual congressional budget resolution. In addition to the military activities of DOD (i.e., excluding civilian public works programs of the Army's Corps of Engineers), the "national defense" function includes the defense-related activities of the Energy Department and of other agencies including counterintelligence operations of the FBI.
- The "Security Agencies" category, coined by the Obama Administration in its FY2010 budget request, was included in the deficit reduction rules of the Budget Control Act of 2011. This includes funding for DOD (base budget only), the Energy Department's Nuclear National Security Agency (which accounts for about half of that part of the Energy Department budget included in the 050 budget function), the Departments of Homeland Security and Veterans Affairs, budget function 150 (International Affairs) which includes the State Department and the overseas operations of other agencies, and the Intelligence Community's management overhead.

Following is a comparison of discretionary budget authority for the Department of Defense, the 050 budget function, and the "security agencies" category in recent years.

	FY2011 Enacted	FY2012 Enacted	FY2013 Request
Department of Defense (DOD)	$687 billion	$646 billion	$614 billion
National Defense Budget Function (050)	$711 billion	$670 billion	$639 billion
"Security Agencies"	$688 billion	$684 billion	$686 billion

Source: Data for Department of Defense and National Defense Budget Function from DOD Comptroller, National Defense Budget Estimates for FY2013 ["The Green Book"], February 2012, Tables 1-1 and 1-9 respectively (accessed at http://comptroller.defense.gov/defbudget/fy2013/FY13_Green_Book.pdf.). Data for Security Agencies from OMB, Budget of the United States Government for Fiscal Year 2013, Table S-11 (accessed at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/tables.pdf).

If approved by Congress, the proposed DOD budget would result in the third consecutive year of decline in total defense spending (including war costs). The downward trend is due, in part, to the drawdown of U.S. troops in Iraq and Afghanistan. Compared with the amounts appropriated for

DOD in FY2012, the FY2013 budget request is highlighted by a drop of 23% in funding for war costs—a change reflecting the planned reduction in deployments to Afghanistan by the end of FY2012 (**Table 1**).

Table 1. DOD Discretionary Budget Authority: FY2012 Enacted and FY2013 Request

(in billons of current year dollars and percent)

	FY2012 Request Feb. 2011	FY2013 Request Feb. 2012	Difference ($)	Difference (%)
Base Budget				
Military Personnel	141.82	135.11	-6.71	-4.7%
Operation and Maintenance	197.21	208.76	+11.55	+5.9%
Procurement	104.53	98.82	-5.70	-5.5%
RDT&E	71.38	69.41	-1.97	-2.8%
Military Construction	11.37	9.57	-1.79	-1.6%
Family Housing	1.68	1.65	-0.03	-1.9%
Revolving and Management Funds	2.64	2.12	-0.52	-19.7%
subtotal: Base Budget	**530.62**	**525.45**	**-5.18**	**-1.0%**
Overseas Contingency Operations (OCO)				
Military Personnel	11.29	14.06	+2.77	+24.5%
Operation and Maintenance	86.78	63.99	-22.79	-26.3%
Procurement	16.05	9.69	-6.36	-39.6%
RDT&E	0.53	0.25	-0.28	-52.8%
Revolving and Management Funds	0.44	0.50	+0.68	+54.5%
subtotal: OCO	**115.08**	**88.48**	**-26.60**	**-23.1%**
TOTAL	**645.71**	**613.93**	**-31.78**	**-4.9%**

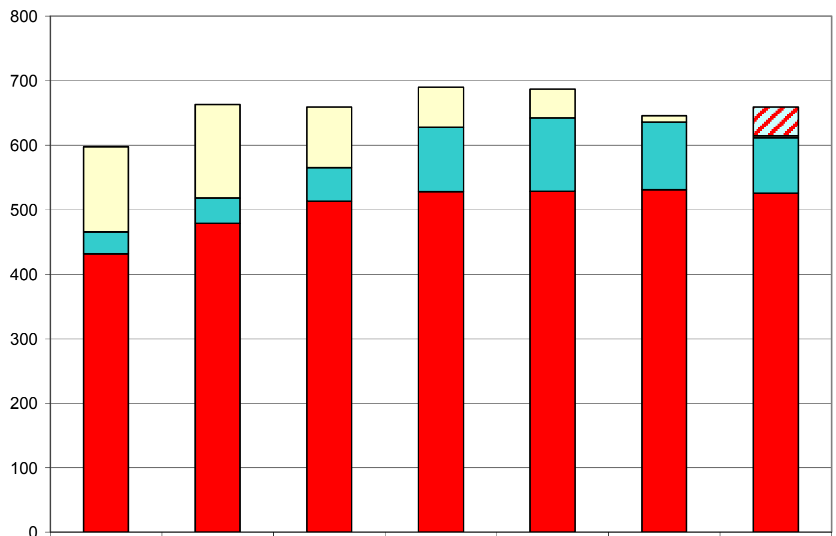
Source: DOD Comptroller, FY2013 Budget Request Overview, Table 8-1, at http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request_Overview_Book.pdf

Notes: The "Military Personnel" amounts include accrual payments into the budget account that funds TRICARE for Life, which is the program that allows 65-and-older military retirees to remain enrolled in DOD's TRICARE medical insurance program as a second payer to Medicare. Payments into the TRICARE for Life fund are not provided by the annual defense appropriations bills but, rather, are made under permanent law with amounts determined by calculations of DOD actuaries.

The proposed FY2013 DOD reduction also reflects the broad-gauged effort to reduce federal budget deficits that was embodied in the Budget Control Act (BCA) of 2011, enacted on August 2, 2011 (P.L. 112-25). The base budget request, which is $5.2 billion lower than the corresponding enacted FY2012 appropriation, would mark the first decrease in Pentagon spending (excluding war costs) since 1998. The FY2013 base budget request also is $45.3 billion lower than the amount the Administration had projected a year earlier it would request for the FY2013 base budget, reflecting mandatory caps on discretionary spending in FY2013 that were established by the BCA (see **Figure 1**).

Figure 1. Total DOD Discretionary Budget Authority, FY2007-2013

(in billions of dollars; numbers may not add due to rounding)



	2007	2008	2009	2010	2011	2012	2013 request
Reduction from 2011 Plan							45
Iraq	132	145	94	62	45	10	3
Afghanistan	34	39	52	100	114	105	86
Base Budget	431	479	513	528	528	531	525

Source: Department of Defense Comptroller, FY2013 Budget Request Overview, Figures 1-2 and 6-2, at http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request_Overview_Book.pdf.

In all, the FY2013 request for the National Defense Budget Function (Function 050) amounts to $639.1 billion in discretionary funding including war costs, and $550.6 billion excluding war costs. The latter amount is particularly significant because it is subject to limits on discretionary spending established by the BCA, if automatic cuts in spending are implemented beginning in January 2013[1](**Table 2**).

[1] The BCA, signed into law on August 1, 2011, establishes separate caps on "security" and "non-security" discretionary funding in FY2012 and FY2013 , and caps on total discretionary funding from FY2014-FY2021. If automatic cuts in spending are triggered, however, the discretionary spending caps are revised. In that case, separate caps on national defense funding and on nondefense funding would be established from FY2013-FY2021. In FY2013, the national defense amount is capped at $546 billion in discretionary funding for the base budget, which is $5 billion below the (continued...)

Table 2. FY2013 Request for the National Defense Budget Function (Function 050)

(budget authority in billions of dollars)

Discretionary Funding	
Department of Defense Discretionary	
Department of Defense Base Budget	$ 525.4
Department of Defense Overseas Contingency Operations	88.5
Subtotal, Department of Defense Discretionary Including OCO	**$ 613.9**
Other Agencies Discretionary	
Department of Energy Defense-Related	$ 18.0
FBI Defense-Related	4.7
Other Agency Defense-Related	2.4
Subtotal, Other Agencies Discretionary	**$ 25.1**
Total National Defense Discretionary Including Overseas Contingency Operations	**$ 639.1**
Total National Defense Discretionary Excluding Overseas Contingency Operations	**$ 550.6**
Mandatory Funding	
Department of Defense Mandatory	
Concurrent Receipt Accrual Payments	$ 7.0
Other DOD Mandatory	-0.6
Other Agencies Mandatory	
Department of Energy Occupational Illness Compensation Program/ Radiation Exposure Trust Fund	1.5
Payment to CIA Retirement Fund	0.5
Total National Defense Mandatory	**$ 8.4**
Total National Defense Discretionary and Mandatory Including Overseas Contingency Operations	**$ 647.4**
Total National Defense Discretionary and Mandatory Excluding Overseas Contingency Operations	**$ 558.9**

Source: All figures from Office of Management and Budget, Budget of the United States Government, Fiscal Year 2013: Analytical Perspectives, February 2012, Table 32-1, at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/32_1.xls.

The FY2013 DOD budget request reflects a dramatic turnaround in spending compared to trends in defense since the beginning of the last decade. For DOD's base budget, the request is $5.2 billion less than was appropriated for FY2012 and $45.3 billion less than the Administration had planned a year earlier to request for FY2013. That reduction—and planned reductions of more than $50 billion per year compared to DOD's February 2011 budget projections through FY2021—reflects the Administration's plan to reduce federal spending as required by the BCA. Compared with the long-range spending plan published by DOD in February 2011, the February

(...continued)

Administration request.

2012 plan would reduce DOD base budgets by $259.4 billion from FY2012 through FY2017 and by a total of $486.9 billion for the period covered by the BCA (FY2012-21) (see **Table 3**).

Table 3. DOD Projected Base Budget Authority (FY2011-21)

(In billions of current year dollars)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Total FY2013-FY2017	Total FY2012-FY2021
2/2011 Plan	528.2	553.0	570.7	586.4	598.2	610.6	621.6	2,987.5	6,140.6
2/2012 Plan	528.2	530.6	525.4	533.6	545.9	555.9	567.3	2,728.1	5,653.7
Reduction in 2012 Plan	--	-22.4	-45.3	-52.8	-52.3	-54.7	-54.3	-259.4	-486.9
Real Growth (2012 Plan)	-1.9%	-1.4%	-2.5%	0.0%	+0.8%	+0.2%	+0.2%	-0.3% average	-0.1% average

Source: DOD Comptroller FY2013 Budget Briefing, slide 4, at http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request.pdf.

As a result of the BCA, further reductions in DOD base budgets over the next 10 years may be in store. In addition to the $900 billion worth of deficit savings resulting from BCA's spending caps for FY2012 and 2013, the act also requires additional deficit reduction measures totaling at least $1.2 trillion through 2021 (resulting in a total spending reduction through FY2021 of $2.1 trillion). Unless Congress and the President either repeal BCA or enact legislation that would reduce deficits over that period by at least an additional $1.2 trillion, the BCA will trigger automatic reductions that would cut the Administration's current DOD base budget plan by whatever amount is needed to cover the defense share of the shortfall between whatever cuts Congress does agree to and the required total reduction of $2.1 trillion (i.e., the $900 billion reduction resulting from the FY2012 and 2013 spending caps plus an additional $1.2 trillion as a result of legislation yet to be enacted). If the automatic cuts are required to achieve the entire $1.2 trillion worth of additional reductions, they would cut upwards of $54 billion per year from the current DOD base budget plan.

Base Budget Highlights

The Obama Administration presented its FY2013 DOD base budget plan both as an effort to address both the spending limits set by the BCA and as an opportunity to refocus U.S. defense planning afforded by the winding down of large-scale deployments of U.S. troops in Iraq and Afghanistan. Accordingly, the administration preceded the announcement of its budget request with the publication on January 5, 2012 of new "strategic guidance," which, it said, took account of both the new budgetary and strategic environments.

One component of the new guidance with conspicuous budgetary impact is the decision not to maintain an active-duty Army and Marine Corps large enough to sustain over an extended period the sort of large, manpower-intensive counter-insurgency campaign that has been waged in Iraq and Afghanistan. On those grounds, the administration is proposing to reduce the active-duty force by a total of 102,400 personnel by the end of 2017, with most of the reduction coming from the Army and Marine Corps.

As a hedge against the possibility that some of the assumptions behind the new strategic guidance may be overtaken by events, the Administration says it is trying to preserve options to reverse some of its decisions. For example, if—contrary to the assumption underpinning the new strategic guidance—U.S. forces do get involved in a future large-scale counter-insurgency campaign, the Administration plans to mobilize reserve component units to take some of the burden of immediate deployments off active component forces while beginning to expand the size of the active component forces for the long haul. To facilitate such an expansion of the active-duty force, the Administration plans to retain through the coming draw-down—as a cadre for new units, should they be needed—a larger proportion of mid-rank officers and noncommissioned officers than the currently planned force would require. Similarly, the Administration says it is planning to retain key industrial capabilities in case of a future decision to expand the force.

New Strategic Guidance

For further analysis of the Obama Administration's new Strategic Guidance, issued in January 2012, see CRS Report R42146, *In Brief: Assessing DOD's New Strategic Guidance*, by (name redacted) and (name redacted).

Among the important elements of the Administration's new budget plan are the following: *(All estimates of "reductions" are in comparison with the Administration's long-range DOD budget plan published in February 2011.)*

Reductions in Overhead and Support Costs

Compared with its February 2011 plan, DOD's FY2013 request would save $9.6 billion in FY2013 and a total of $60.2 billion in FY2013-2017 by what it refers to as "efficiency initiatives," including reductions in printing, travel, and conference costs, deferral of some planned military construction projects, and an effort to "streamline management overhead and operations." These reductions are in addition to $134 billion that DOD cut from its earlier budget plans for FY2012-2016 that were included in the FY2012 DOD budget request.

Although the term "efficiencies" might be interpreted to mean that DOD plans to do the same work while spending less money, many of these initiatives reflect, instead, a decisions to forego—or defer temporarily—lower priority expenditures (i.e., doing less with less).[2]

A Smaller but Ready Force

The Administration's plan would reduce the size of the active-duty force—slated to be 1.42 million at the end of FY2012—by 21,600 personnel in FY2013 and by a total of 102,400 by the end of FY2017. Most of the multi-year reduction—92,000 personnel out of the 102,400 total—would come from the Army and Marine Corps. This reduction in ground forces reflects the Administration's new strategic guidance which assumes that active-duty forces no longer will be sized to conduct large-scale, prolonged stability operations. Such operations in Iraq and Afghanistan required a large active-duty force so that upwards of 100,000 troops at a time could be periodically deployed and then rotated back home for rest and retraining.

[2] The amounts cut from each appropriation account by each of the Administration's "efficiency" initiatives are compiled in DOD Comptroller, *More Efficient Use of Resources: Fiscal Year 2013 Budget Estimates*, March 2012, accessed at http://comptroller.defense.gov/defbudget/fy2013/fy2013_Efficiency_Justification_Book.pdf.

In effect, the Administration's plan would remove the 92,000 personnel that were added to the Army and Marine Corps beginning in 2007. Even after that reduction is completed in 2017 however, each of the two services would be larger than it had been before the terrorist attacks of September 11, 2001. (see **Table 4**)

Table 4. Active Military End Strength

	FY2001	FY2012	FY2013 proposed	FY2017 Proposed
Army	480,801	562,000	552,100	490,000
Navy	377,810	325,700	322,700	319,500
Marine Corps	172,934	202,100	197,300	182,100
Air Force	353,571	332,800	328,900	328,600
Total	**1,385,116**	**1,422,600**	**1,401,000**	**1,320,200**

Source: DOD Comptroller, FY2013 Budget Request Overview, Figures 4-2, http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request_Overview_Book.pdf

The Administration's plan also would reduce the number of members in National Guard and reserve component units from their authorized FY2012 end-strength of 847,100 by 9,700 in FY2013 and by a total of 21,500 through FY2017.

Among the units and major weapons systems the plan would eliminate or retire earlier than planned by FY2017 are

- At least eight of the Army's 43 active-duty brigade combat teams;
- Six of the Marine Corps' 41 battalion landing teams;
- Seven cruisers from among the Navy's current fleet of 101 surface warships;
- Two of the Navy's 30 amphibious landing ships;
- Six of the 61 fighter and ground-attack squadrons in the Air Force, Air Force Reserve, and Air National Guard;
- 27 early-model C-5A cargo planes, out of a total fleet of 302 long-range, wide-body C-5 and C-17 cargo jets.

On the other hand, the Administration says its plan would maintain the remaining force at a high level of readiness. Compared with the February 2011 plan, the Operation and Maintenance request for FY2013 was reduced by 3%, one-fifth the proportion of the 15% reduction imposed on the Procurement accounts. (see **Table 5**)

Table 5. Base Budget Changes from February 2011 Plan, by Title

(In billions of dollars and percent)

	Plan for FY2013 (2/ 2011)	FY2013 Request (2/ 2012)	Change from Plan to Request	% change in this Title from Plan to Request	% of Total Cut
Military Personnel	144	135	-11 (-5)a	-8% (-3%)	24%
Operation and Maintenance	215	209	-6	-3%	13%
Procurement	117	99	-18	-15%	40%
Research and Development	75	69	-6	-8%	13%
Military Construction and Family Housing	17	12	-5	-29%	11%
Revolving and Management Funds	1	2	+1	+100%	2%
Total	**571**	**525**	**-45**	**n/a**	**100%**

Source: DOD Comptroller FY2013 Budget Briefing, slides 21 and 22, at http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request.pdf.

Notes: Numbers may not add due to rounding

a. Compared with the FY2012 base budget, the Military Personnel account in the FY2013 base budget arguably is understated by $6.1 billion for Army and Marine Corps personnel who are funded in the OCO budget, although they are not currently deployed in combat operations. If that amount is added to the FY2013 base budget for the sake of comparability, the proposed reduction in base budget Military Personnel funding is 3%, not 8%.

'Pivot' Toward the Pacific

The new strategic guidance calls for DOD to put a higher priority on deploying U.S. forces in the Pacific and around Asia while scaling back deployments in Europe. For example, the Administration plans to withdraw and disband two of the four Army brigade combat teams currently stationed in Germany while stationing up to 2,500 Marines in northern Australia. It also plans to station littoral combat ships in Singapore and smaller patrol craft in Bahrain. Because of the distances from land bases on which U.S. forces could rely, operations in the Asia-Pacific region would rely heavily on air and naval forces. Accordingly, many observers expect a shift of DOD resources toward the Navy and Air Force at the Army's expense.

Some question the Administration's claim of a "pivot" toward Asia, citing its plan to retire some older, long-range cargo planes and to cut a total of $13.1 billion from projected shipbuilding budgets for FY2013-2017. But the Administration cites several Navy procurement programs as proof of its refocused commitment on the Pacific region where long operational distances are the rule:

- Although there had been speculation that the Navy would reduce its carrier fleet—currently 11 ships—the budget request for FY2013 includes $608 million of the $11.4 billion estimated cost of a carrier that has been incrementally funded since FY2007. Although the Administration plans to stretch construction of this ship over two years longer than had been planned, this would not result in the number of carriers in service dropping below 11 ships.[3]

- According to Navy briefers, Navy and Marine Corps leaders trying to accommodate a reduction in future shipbuilding budgets decided to delay an amphibious landing transport ship (designated LSDX) so they could meet the budget limits by delaying construction of a planned helicopter carrier (designated an LHA) by only one year.[4]
- The Navy has added to its long-range shipbuilding plan a so-called Afloat Forward Staging Base (AFSB) to be funded in FY2014 (for $600 million) that would serve as a floating base for personnel and helicopters deployed for minesweeping, counter-piracy patrols and other missions. The Navy also plans to modify for the same mission a similar ship that was funded in the FY2012 budget and an amphibious landing transport that was slated for retirement in FY2012.

'Pivot' to the Pacific

For additional analysis of the Administration's increased emphasis on Asia and the Pacific region as the focus of U.S. military and diplomatic attention, see CRS Report R42448, *Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia*, coordinated by (name redacted)

Modernization

Compared with the FY2013 budget that DOD projected in February of 2011, the actual FY2013 request for procurement and R&D accounts is 12.5% lower. Proportionally, that reduction is more than twice as large as the reduction in the combined accounts for military personnel and operation and maintenance (down 4.7%).

Measured in constant dollars, DOD's combined procurement and R&D budget in FY2010 was 60% higher than it had been in FY2001. Accordingly, some argue that DOD can afford to rein in its spending on acquisition while it lives off the capital stocks built up and modernized during the decade of budget increases that followed the terrorist attacks of 2001.[5]

But others contend that much of the procurement spending during that decade was for (1) items peculiarly relevant to the wars in Iraq and Afghanistan, (2) items needed to replace equipment destroyed in combat or worn out by the high tempo of operations in a region that is particularly stressful on machinery and electronics, or (3) modifications to existing planes, tanks and ships. While modifications can improve the effectiveness of existing platforms, they cannot nullify in the long-run the impact of age and design obsolescence.[6]

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[3] See CRS Report RS20643, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, by (name redacted).

[4] DOD News Transcript, "DOD News Briefing by Rear Adm. Mulloy from the Pentagon on the Fiscal 2013 Budget Proposal," accessed at http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4977. See also CRS Report RL32665, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, by (name redacted).

[5] See, for example, Stimson Center, "What We Bought: Defense Procurement from FY01 to FY10," by (name re dacted), October 2011.

[6] See, for example, American Enterprise Institute, "The Past Decade of Military Spending: What We Spent, What we Wasted, and What We Need." By Mackenzie Eaglen, January 24, 2012.

The Administration emphasizes that it is setting priorities among weapons programs in deciding where to make cuts in previously planned spending. It also is sustaining funding for high-priority programs, such as the development of a new, long-range bomber for which its plan budgets $292 million in FY2013 and more than $5 billion in additional funds in FY2014-2017.

Compared with DOD's February 2011 plan for procurement and R&D funding, the program it announced in February 2012 would save $24 billion in FY2013 and a total of $94 billion over the five year period FY2013-17. Procurement of some items would be terminated outright, before the originally planned total number was acquired (e.g., the Army's new 5-ton trucks—designated FMTV-- terminated for a total savings of $2.2 billion over five years; and a new Air Force weather satellite, terminated for a total savings of $2.3 billion).

DOD plans to achieve most of the savings in procurement, however, from "restructuring" programs, that is, from slowing the timetable for moving from development into production or slowing the rate of production. The department justifies some of its proposed reductions on grounds that particular programs have been delayed for technical or other reasons. In other cases, it contends that it is an "acceptable risk" to forego (or delay) acquisition of a particular capability.

Following are selected highlights of DOD's proposed acquisition plan (including some previously cited in this report):

Aircraft Programs

The largest reduction to the planned budget for a single program would take $15.1 billion from the previously projected FY2013-17 budgets for the F-35 Joint Strike Fighter, designed in three versions to be used by the Navy, Air Force and Marine Corps. DOD says slowing the planned production rate (by 13 planes in FY2013 and by 179 planes over the five-year period) would be a "manageable risk."[7]

The FY2013 request also proposes:

- Cancelling a program to update the electronics on C-130 cargo planes and replacing it with a less extensive and cheaper modification program;
- Cancelling procurement of the Block 30 version of the RQ-4 Global Hawk long-range unmanned surveillance aircraft for the Air Force (while continuing development of another RQ-4 version for the Navy);
- Buying the MQ-9 Reaper unmanned aircraft, equipped to attack ground targets, in smaller numbers than had been planned because the Air Force has changed its plan for using the aircraft, and plans to keep in service older Predator drones that some of the planned Reapers had been intended to replace;
- Restructuring the Air Force's effort to develop a new, long-range bomber to place more emphasis than there had been on using proven technologies.[8]

[7] See CRS Report RL30563, *F-35 Joint Strike Fighter (JSF) Program*, by (name redacted).

[8] See CRS Report RL34406, *Air Force Next-Generation Bomber: Background and Issues for Congress*, by (name red acted).

- Continuing development of a new mid-air refueling tanker at a lower funding level than had been planned to reflect the Air Force's contract with Boeing.[9]
- Slowing the planned production rate of V-22 Osprey tilt-rotor troop carriers, due to the planned reduction in the size of the Marine Corps.[10]

Shipbuilding

The Navy's shipbuilding budget includes $99.9 million to develop a new hull module, to be inserted in *Virginia*-class attack submarines beginning in FY2019, that would increase the number of long-range, land-attack cruise missiles the ship could carry.

The FY2013 plan also proposes:

- Continuing construction of an $11.4 billion aircraft carrier (for which $608 million is requested in FY2013) but slowing the pace of construction of the ship;[11]
- Delaying the purchase of one *Virginia*-class attack submarine that had been planned for FY2016 while adding funds to develop a cruise-missile module that would be inserted in subs funded from FY2019 onward;[12]
- Delaying by two years the design of a new ballistic missile-launching submarine (designated SSBN(X)) to replace the *Ohio*-class subs slated to retire beginning in 2027.[13]

Ground Combat Vehicles

For FY2013, the Army is requesting $640 million—$1.3 billion less than was projected in February 2011—to continue developing a new Ground Combat Vehicle to replace the Bradley troop carrier. DOD links the reduction to fact-of-life changes in the program schedule, including a contract award protest during 2011.[14]

The FY2013 plan also proposes:

- Continuing development of the Joint Light Tactical Vehicle (JLTV) to provide the Army and Marine Corps with a replacement for the venerable HMMWV ("Hum-vee");[15]

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9 See CRS Report RL34398, *Air Force KC-46A Tanker Aircraft Program: Background and Issues for Congress*, by (name redacted).

10 See CRS Report RL31384, *V-22 Osprey Tilt-Rotor Aircraft Program*, by (name redacted)

11 See CRS Report RS20643, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, by (name redacted).

12 See CRS Report RL32418, *Navy Virginia (SSN-774) Class Attack Submarine Procurement: Background and Issues for Congress*, by (name redacted).

13 See CRS Report R41129, *Navy Ohio Replacement (SSBN[X]) Ballistic Missile Submarine Program: Background and Issues for Congress*, by (name redacted).

14 See CRS Report R41597, *The Army's Ground Combat Vehicle (GCV) Program: Background and Issues for Congress*, by (name redacted).

15 See CRS Report RS22942, *Joint Light Tactical Vehicle (JLTV): Background and Issues for Congress*, by Andrew (continued...)

- Ending earlier than planned a program to refurbish the services' large fleets of HMMWVs.

Personnel Costs

The Administration maintains that budgetary limits require some reduction in military compensation in order to avoid excessive cuts in either the size of the force or the pace of modernization. However, it promises that no service member would be subjected to either a pay freeze or a pay cut. Moreover, proposed reductions in the size of the annual military pay raise would not begin until FY2015, thus allowing service members and their families to plan for the change.

According to DOD officials, although military compensation accounts for about one-third of DOD's budget, the savings that would result from the proposed changes in compensation would account for less than 10% of the total that the Administration's budget would slice from the February 2011 DOD budget projection for FY2012-2021.

The FY2013 budget request includes a 1.7% increase in service members' "basic pay," an amount based on the Labor Department's Employment Cost Index (ECI) which is a survey-based estimate of the rate at which private-sector pay has increased. After providing an equal increase in basic pay for FY2014, the Administration plan would provide basic pay raises less than the anticipated ECI increase in the following three years: 0.5% for FY2015, 1.0% for FY2016, and 1.5% for FY2017. Over the five year period (FY2013-17), the Administration projects a saving of $16.5 billion from this plan.

The Administration also proposed the creation of a commission to propose changes in the military retirement system. However, no changes were assumed in the FY2013 budget request.[16]

(...continued)

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[16] For analysis of the Administration's proposed military retirement commission, see CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by (name redacted),

Figure 2. TRICARE Beneficiaries

TRICARE Beneficiary Categories

• Active-duty member	1,481,144
• Active-duty dependent	2,057,969
• Activated Guard/Reserve member	209,958
• Activated Guard/Reserve dependent	329,465
• Inactive Guard/Reserve member	144,016
• Inactive Guard/Reserve dependent	220,900
• Retiree	2,144,642
• Retiree dependent	2,455,112
• Survivor	588,876
• Other	55,428
• **Total**	**9,653,513**

Source: DOD TRICARE Relationships Reports, at http://mytoc.tma.osd.mil/Enroll/toc/EnrollmentReport.htm

The Administration also proposes a variety of fee increases for the 9.65 million beneficiaries of TRICARE, DOD's medical insurance program for active-duty, reserve-component, and retired service members and their dependents and survivors (see **Figure 2**).

According to DOD, the FY2013 budget request assumes that the overall cost of the Military Health Program, which totaled $19 billion in FY2001, has more than doubled to $48.7 billion. That FY2013 request assumes $1.8 billion in savings as a result of the Administration's proposed fee increases, which are controversial and which Congress would have to approve in law.

Many of the proposed fees and fee increases would apply only to working-age retirees and would be "tiered" according to the retiree's current income. The package also includes pharmacy co-pays intended to provide an incentive for TRICARE beneficiaries to use generic drugs and mail-order pharmacy service. Future changes in some of the proposed fees and in the "catastrophic cap" per family would be indexed to the National Health Expenditures (NHE) index, a measure of escalation in medical costs calculated by the federal agency that manages Medicare.[17]

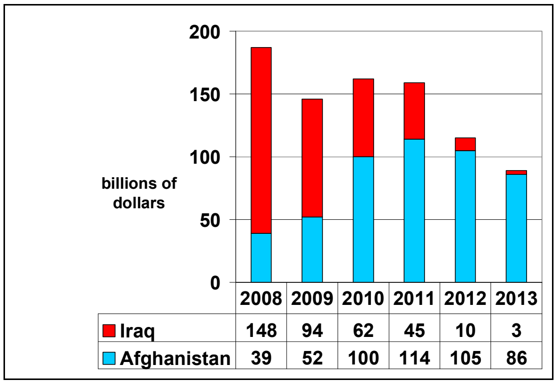
Overseas Contingency Operations (OCO)

The Administration's $88.5 billion request for war costs (OCO) amounts to $26.6 billion less than Congress appropriated for war costs in FY2012. This reduction reflects:

- the cessation of U.S. combat operations in Iraq by the end of the first quarter of FY2012; and
- the reduction of the number of U.S. troops in Afghanistan, by the end of FY2012, to 68,000 personnel, thus ending the "surge" into that country of 33,000 additional U.S. troops announced by President Obama on December 1, 2009 (see **Figure 3**, **Figure 4**)

[17] For additional background and analysis, see *Centers for Medicare & Medicaid Services Fact Sheet on National Health Expenditure*, at http://www.cms.hhs.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet.html.

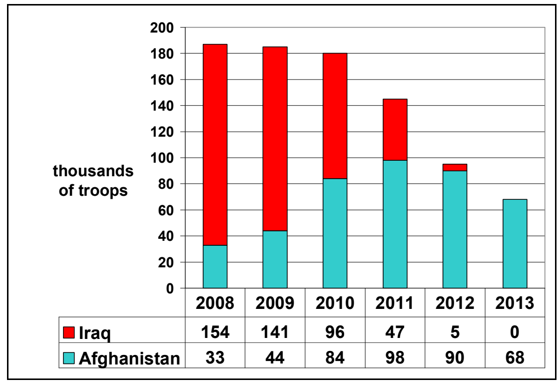
Figure 3. OCO Funding by Country



	2008	2009	2010	2011	2012	2013
Iraq	148	94	62	45	10	3
Afghanistan	39	52	100	114	105	86

Source: DOD Comptroller, FY2013 Budget Request Overview, Figure 6-2, accessed at http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request_Overview_Book.pdf

Figure 4. U.S. Troop Levels by Country



	2008	2009	2010	2011	2012	2013
Iraq	154	141	96	47	5	0
Afghanistan	33	44	84	98	90	68

Source: DOD Comptroller, FY2013 Budget Request Overview, Figure 6-2, accessed at http://comptroller.defense.gov/defbudget/fy2013/FY2013_Budget_Request_Overview_Book.pdf

The OCO budget request assumes that 68,000 U.S. troops will remain in Afghanistan through the end of FY2013, although President Obama has said that, after the number had been drawn down to 68,000 by the summer of 2012, it would continue to decline "at a steady pace." [18]

Longer-Term Budget Issues

Longer-term budget issues may be the focus of greater attention in Congress than the FY2013 DOD request itself, with debate being driven by efforts to reduce federal budget deficits. The BCA, enacted in August 2011, required at least $2.1 trillion of deficit savings over the 10 years from FY2012-FY2021. About half those savings are essentially on track, through enforceable caps on discretionary spending that the Congressional Budget Office (CBO) projects will save more than $900 billion if fully implemented.[19] An additional $1.2 trillion of savings also required by the BCA has not been agreed to, however. The BCA requires that those savings be enforced through automatic cuts in spending beginning in January 2013, unless Congress can agree on an alternative in the meantime.

The cuts in defense spending required by the BCA have set the stage for a debate in Congress about budget trends and also about changes in defense policy and plans over the next decade. Matters of debate—much of which is already underway—include

- $487 billion of cuts in projected defense spending over the 10 years from FY2012-FY2021 that the Administration has proposed, including a cut of $45 billion in FY2013;

[18] President Barack Obama, Remarks by the President on the Way Forward in Afghanistan, Washington, DC, June 22, 2011, available at http://www.whitehouse.gov/the-press-office/2011/06/22/remarks-president-way-forward-afghanistan.

[19] Congressional Budget Office, "Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act," September 14, 2011, 10 p., http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-12-BudgetControlAct.pdf.

- a potential sequester of defense funds in FY2013 followed by reduced defense spending caps in FY2014-21 required by the BCA either to enforce the additional $1.2 trillion of savings over the 9 years from FY2013-FY2021 (unless cuts totaling that amount are agreed on), or to make up the shortfall between whatever amount of savings Congress can agree on and the required $1.2 trillion total;
- the possibility of setting limits on funding for overseas operations, first, as a way of avoiding the erosion of deficit savings required by the BCA and, second, as a source of deficit savings to be claimed as part of a deficit agreement; and,
- cuts to the end-strength of the Army and Marine Corps as well as other changes in defense strategy that the Administration has articulated as a means of adjusting to proposed budget cuts.[20]

Going Beyond BCA

There may be a discussion in Congress, as well, of more far-reaching overall deficit reduction measures—and the issue could come up unexpectedly if efforts to achieve the additional $1.2 trillion of BCA-required savings falters. The President and Speaker of the House John A. Boehner discussed such a "Go Big" approach in the final days leading up to agreement on the BCA, but could not in the end agree on the parameters. Moreover, virtually all independent, long-term deficit reduction proposals—including the plan approved by a majority of the Simpson-Bowles Commission[21] and a somewhat different proposal by the Domenici-Rivlin deficit reduction task force[22]—have recommended savings of $4 trillion or more over 10 years as necessary to bring long-term deficit trends to heel.

If $4 trillion of savings is to be achieved, further defense cuts may be on the agenda. For its part, the Simpson-Bowles Commission recommended a cut of about $1 trillion in defense over 10 years, compared to the Administration plan, even though it also proposed that about 1/3 of the targeted $4 trillion of deficit savings be achieved through revenue increases. In general, in discussions of ways to achieve deficit savings beyond the BCA target, pressures for further cuts in discretionary spending, including both defense and nondefense budgets, will be affected by the extent of any agreement to limit mandatory spending and raise revenues.

In the absence of a "Go Big" budget agreement, Congress may follow the pattern of deficit reduction efforts in the late-1980s through the mid-1990s. During that period, Congress approved

[20] Department of Defense, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, January 5, 2012, http://www.defense.gov/news/Defense_Strategic_Guidance.pdf.

[21] Senator Alan Simpson and Honorable Erskine Bowles, Co-Chairs, The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth*, December 1, 2010, on line at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf. The co-chairs proposed a plan to achieve about $4 trillion of savings over 10 years. Eleven of the eighteen members of the Commission endorsed the plan, but the proposal did not receive the 14 votes needed for a formal recommendation to the President and Congress. For updated projections of the co-chair budget proposal, see, Senator Alan Simpson and Honorable Erskine Bowles, Co-Chairs, Moment of Truth Project, *Updated Estimates of the Fiscal Commission Proposal*, June 29, 2011, http://www.momentoftruthproject.org/sites/default/files/UpdatedEstimates6292011_0.pdf.

[22] Senator Pete Domenici and Dr. Alice Rivlin, Co-Chairs, The Debt Reduction Task Force, *Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System*, Bipartisan Policy Center, November 2010, http://bipartisanpolicy.org/sites/default/files/FINAL%20DRTF%20REPORT%2011.16.10.pdf.

several measures, beginning with the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act (BBEDCA) in November 1985, intended to lead to a balanced budget (each within the next five years). The initial BBEDCA was followed by amendments in 1987, 1990 (which made wholesale changes in the process), 1993, and 1997. But none of those efforts proved wholly successful until the economy expanded dramatically at the end of the 1990s.

With no effective overarching deficit agreement in place, Congress addressed the deficit issue mainly in annual budget debates that led to perennial limits on spending and occasional increases in taxes.[23] Between FY1986 and FY1998, (leaving aside funding for the 1991 Persian Gulf war, which was mainly financed by allies), defense spending declined, after adjusting for inflation, for 13 years in a row, ultimately falling by 35% compared to the peak in FY1985. A more comprehensive, long-term budget agreement in the early years of that period might have led to a smaller decline in defense.[24]

Sequestration in the FY2013 Budget

In the absence of an agreement by January 2013 to cut deficits by an additional $1.2 trillion through FY2021 (in addition to the $900 billion already cut by the BCA spending caps for FY2012 and FY2013), the BCA requires that the additional deficit savings be achieved through automatic cuts in spending modeled on the Gramm-Rudman-Hollings Deficit Control Act of 1985. In the event Congress agrees to additional deficit reductions totaling less than $1.2 trillion, the automatic cuts would be calibrated to make up the shortfall between what Congress had enacted and the BCA-mandated $2.1 trillion total.

The procedures for automatic cuts require that all of the required deficit savings—whether the entire $1.2 trillion or some lesser amount needed to bridge the gap between what Congress approved and the $1.2 billion target—be achieved through spending reductions and that one-half of the spending cuts be imposed on national defense.

In all, if no further agreement on deficit savings is reached by the beginning of next year, $600 billion of net savings would be required from cuts in defense over the next 9 years from FY2013-FY2021. The BCA assumes that outlay reductions will lead to a reduction in borrowing costs, and it directs that 18% of savings be assumed as a result of reduced interest costs. So the additional automatic cuts in spending required in defense programs would amount to as much as $492 billion over 9 years or $54.7 billion each year.

The total reduction to planned DOD spending could be somewhat greater if this automatic process goes into effect. The starting point for the $600 billion in additional defense cuts would be a series of revised annual caps on defense spending designed to ensure that the $1.2 trillion of additional deficit reduction is added to the $900 billion of savings that would result from the FY2013 spending caps imposed by the BCA. If the automatic cuts take effect, the revised FY2013 defense cap—established in law by Section 302 of the BCA—would be $546 billion, about $5 billion below the FY2013 request.

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[23] Substantial revenue increases were approved in 1983, 1986, 1990, and 1993.

[24] Increases in defense spending began in the later years of the Carter Administration, though inflation eroded the amounts, and accelerated substantially during the first four years of the Reagan Administration. The defense budget grew by about 40% above inflation between FY1980, the last Carter budget, and FY1985, which turned out to be the high point, even though DOD continued to request annual increases of 5% above inflation in the next few years.

In sum, if Congress approves the Administration's FY2013 defense budget request but does not agree on any additional reductions through FY2021, the amount automatically cut from the planned DOD budget for FY2013 would include $5 billion to meet the revised discretionary cap plus $55 billion for the FY2013 defense share of $1.2 trillion of additional deficit savings, for a total of $60 billion. Since these automatic reductions would be in addition to the cut of $45 billion that the Administration undertook to meet the initial discretionary targets in the BCA, the total reduction, compared with the FY2013 budget DOD had planned on early in 2011, would amount to $105 billion. This would amount to a cut of about 18% from the base budget and 16% from the total budget, including war funding.

If Congress approved some, but not all, of the required $1.2 trillion in reductions, the automatic cuts—by sequester for FY2013 and by reduced spending caps for FY2014-21—would occur as described, but at a reduced level calculated to achieve whatever additional reduction was needed to meet the BCA-required target of $1.2 trillion. In that case, however, the total impact on DOD would vary, depending on amounts enacted in partial fulfillment of the total $1.2 trillion cut.

A View from DOD

For their part, senior defense officials have warned that a sequestration of funds large enough to achieve the entire $1.2 trillion reduction, implemented through an across-the-board percentage cut on all parts of the DOD budget, would have effects on critical defense capabilities ranging from disruptive, to destructive, to devastating. A letter from Secretary of Defense Panetta to Senators Graham and McCain on November 14, 2011, laid out the Defense Department's concerns most fully.[25]

Secretary Panetta's letter assumed that Congress would agree to no additional deficit reduction measures before January 2013 and that, accordingly, sequestration would have to realize the entire $1.2 trillion in reductions. Further analysis of the letter suggests that:

- It overstated the maximum percentage cut required by a sequester, saying that cuts in each program could amount to 23% if, as is generally expected, the President exercised his authority under sequestration laws to exempt military personnel accounts from cuts. But that figure includes a share of the $45 billion in cuts (compared with earlier DOD plans) that had been incorporated into the Administration's FY2013 request and which, therefore, would not be included in the additional cuts imposed by a sequester.
- It appears to assume that all of the cuts would be applied to the base defense budget only. But the BCA and earlier laws governing sequestration make it clear that the baseline for cuts would include not only the base appropriation (for which $551 billion is requested), but also funding for overseas contingency operations (for which $88.5 billion is requested), plus any other defense emergency appropriations (for which no funds have been requested to date), plus

[25] Letter from Secretary of Defense Leon E. Panetta to Senator Lindsay O. Graham and Senator John McCain regarding "Effects of Sequestration on the Department of Defense," November 14, 2011, available at http://lgraham.senate.gov/public/_files/_pdfs/11%2014%2011%20Panetta%20McCain%20Graham%20Ltr.pdf. See also, Letter from Secretary of Defense Leon Panetta and Office of Management and Budget Director Jacob Lew, to House Armed Services Committee Chairman Howard "Buck" McKeon, September 15, 2011, http://hss-prod.hss.aol.com/hss/storage/industry/c3dc65526e9b30dea4f0db1c82cdb9a1/OMDirectorletter.pdf.

unobligated balances of funds provided in prior years (which DOD currently projects to total $81.6 billion at the beginning of FY2013[26]). Any sequester would be applied to the sum of those amounts ($721 billion) plus any defense emergency funds that may be provided later in the year. If, as CRS estimates, a sequester of $60 billion is required, the percentage cuts required would total 8.3% if military personnel accounts are not exempted. If the President exempts the $149 billion requested for personnel accounts, the percentage reduction applied to the rest of the budget would total 10.5%.

- DOD maintains that the automatic cuts would be irrational because equal percentage reductions would be required in each individual line item in defense appropriations bills—technically referred to as programs, projects, or activities (PPAs). That may or may not be the case, however, as a DOD fact sheet attached to the November 14 letter acknowledged. Under the sequestration provisions of the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985, as amended in 1990[27], the President has authority to propose to Congress a Joint Resolution that would reallocate cuts among PPAs, provided additions are offset by reductions that are equal both in budget authority and in outlays. Whether that provision applies to targets set by the Budget Control Act, however, is uncertain because of some ambiguities in the language of the statute, and the Office of Management and Budget—which would make the final legal determination –has not yet done so. Any Joint Resolution to reallocate across-the-board reductions would have to be approved by Congress and signed into law. Such a measure might, however, also be subject to objections on parliamentary grounds.

Other Sequestration Challenges

Assuming that mandatory cuts could be reallocated, a sequester of up to $60 billion in FY2013 could have the following consequences:

- A reallocation of funds may not be sufficient to protect readiness, for example, because the law requires that, if funding for one activity is increased above the sequester level, there must be cuts in other activities that offset the increase in both budget authority and outlays. Budget authority in readiness-related Operation and Maintenance (O&M) accounts typically lead to relatively large outlays in the first year whereas procurement accounts have small, first-year outlay rates. Accordingly, to offset a relatively small increase in O&M funding, it would be necessary to make disproportionately large cuts in procurement budget authority to yield the necessary reduction in outlays. It could be difficult, therefore, to avoid significant cuts in readiness-related operating accounts.
- Because a sequester would take effect at the start of the second quarter of the fiscal year, the required reductions would have to be made in those funds that had not been obligated in the first quarter. For activities in which funds are spent at a relatively constant rate over the course of the year, the reductions in the last three

[26] The estimate is from Department of Defense, *Financial Summary Tables, Fiscal Year 2013*, February 2012, Tab G, "Obligations and Unobligated Balances," http://comptroller.defense.gov/defbudget/fy2013/FY2013_Financial_Summary_Tables.pdf.

[27] The relevant provision is Section 258B of the BBEDCA.

quarters would have to be about 25% larger than if the reduction had been applied to the entire year's worth of funding.

- It could be difficult to find substantial savings in some parts of the defense budget, of which medical care is one example. In case of a sequester, DOD might have to use its legal authority to transfer funds among appropriations accounts (subject to various limitations) in order to restore funds sequestered from medical programs if Congress did not approve a reallocation of the required cuts among appropriations line items.
- It is unclear how DOD would manage a reduction in funding for procurement programs if the services had obligated all of the annual funding for a program during the first quarter of the year, before a sequester would take effect. In general, such an obligation would appear to have been legally made, and it would appear to be legally binding. If funding is subsequently reduced, it is not apparent how the services would be expected to implement the reduction.
- Certain procurement line-items—in the Navy's shipbuilding account, for example—typically fund the purchase of only one or two items in a given year. In those cases, funds remaining after a sequester might not allow any procurement (if only one item was planned) or might allow the purchase of only one item (if two were planned). Unless additional funds were transferred into the account, the procurement might have to be delayed until the following year, with potentially adverse effects on the contractor and/or with a resulting increase in the price of the items.
- If the President exempted military personnel funding from a sequester, it could be difficult to transfer significant amounts out of those accounts to offset the impact of sequestration on other parts of the budget. Enlistment contracts are binding for the duration of an enlistment unless personnel are dismissed from the service; and personnel who were dismissed could not necessarily be recalled to duty, later on.
- If civilian DOD employees are furloughed, either as the result of a sequester or for the purpose of transferring funds to offset a sequester in some other activity, force readiness could be adversely affected. Many civilians are employed in readiness-related activities, such as equipment maintenance and other key support activities. Deep cuts in readiness-related activities and in other support capabilities provided by civilians might be necessary. As a result, DOD might be compelled to pursue a policy of radically tiered readiness, in which designated early-deploying units are maintained at a high level of readiness, but levels of training and equipment maintenance in later-deploying units is allowed to erode considerably, with a resulting increase in strategic risk.

Getting Ready for Mandatory Cuts

Congress and DOD could take some measures to ameliorate the impact of a sequestration:

- The services could begin reducing military end-strength by limiting recruitment beginning as soon as possible—even in FY2012.
- Appropriations bills might provide a substantial increase in the total amount of money DOD may transfer among appropriations accounts—an amount regulated

by general transfer authority provided in the annual defense appropriations bill. This would provide DOD with more flexibility to manage reductions, particularly if a reallocation of cuts as proposed by the President is not legally permitted.

- Congress might also agree to increase funding for readiness in the FY2013 appropriations bill in anticipation of reductions when a sequester takes effect, although the BCA cap on FY2013 discretionary funding would require offsetting cuts elsewhere. Appropriators might also consider unprecedented approaches, such as providing contingent, higher levels of funding for some activities (for readiness or medical care, for example), in the event sequestration is triggered.

In principal, many believe that the sooner Congress and DOD act to buffer the impact of a sequester and subsequent automatic reductions, the better. In Congress, however, opposition to sequestration has been the main focus of attention, and legislators may not feel it useful to pursue measures that could marginally reduce the impact of a sequester.

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