

ISSUE BRIEF

No. 3916 | APRIL 18, 2013

Impact of Obama's Budget Proposal on Defense

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President Obama's overall budget request for fiscal year (FY) 2014 and beyond is all but certain to result in the continued application of sequestration to the defense account, which will lead to defense spending levels that are too low to permit the military to protect U.S. vital national interests. They will necessarily result in a force that either is too small, lacks modern weapons and equipment, or is not properly trained and ready—or most likely some combination of these three—to uphold various U.S. defense policies.

They will force the U.S. to abandon one or more of the security commitments that the federal government has made to the American people and America's allies around the world. They also mean that the federal government will abandon some of its commitments to properly train, equip, and compensate military personnel.

Obama's Proposed Defense Cuts. In FY 2010, the defense budget totaled \$721 billion in budget authority. By FY 2012, it fell to \$676.7 billion. As a result of both the Obama Administration's reductions and sequestration, the total defense budget for the current fiscal year (FY 2013) will likely be about \$590 billion. It will likely fall to roughly \$546 billion

in FY 2014 because the Administration is all but certain to pare back overseas contingency operation (OCO) funding to a level well below its "placeholder level" of about \$88 billion while permitting application of the spending caps to the discretionary portion of the base defense budget and sequestration to the overall defense budget, excluding the military personnel accounts.

The defense budget will likely reach its low point in FY 2015, when the Administration may phase out OCO funding altogether while continuing sequestration for the base defense budget. By this calculation, total defense expenditures in FY 2015 will be about \$520 billion—a drop of nearly 12 percent from FY 2010. Following FY 2015, the total defense will begin to edge up.

Fiscal year 2018 is the last fiscal year for which President Obama may propose a budget in his current term. In that year, the total defense budget will likely be about \$557 billion—well below the \$721 billion provided in FY 2010. Even more worrisome, these comparisons are in current dollars, which do not account for inflation.

Applying Efficiencies in the Defense Program. Some argue that these reductions will not harm national security because it is possible to eliminate waste at the Department of Defense (DOD). Indeed, it is possible to realize savings from applying efficiency measures in the DOD. These efficiency measures should be applied in the areas of personnel management, improving the logistical system, reducing bureaucracy in the acquisition system and reforming military compensation. They could produce \$250 billion in prospective savings for the DOD over five years (FY 2014 through FY 2018). Many of

This paper, in its entirety, can be found at
<http://report.heritage.org/ib3916>

Produced by the Douglas and Sarah Allison
Center for Foreign Policy Studies

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these options have already been identified, and portions are already being implemented.

However, the savings generated from these efficiencies should be kept within the defense program to permit greater investment in development and procurement of new weapons and equipment for the military. The problem is that the Obama budget will effectively take the savings away from the DOD.

While the damage to the military under the Obama budget plan would remain severe in the short run, implementing these efficiency measures would at least permit a larger portion of the budget reductions to be applied against areas that the military should not preserve even under better budgetary circumstances.

House and Senate Budget Resolutions. In contrast to the President's budget, the House budget resolution would fund defense at a level that is less damaging to the defense program and is significantly higher than the sequestration level of funding. It proposes to fund all defense programs at roughly \$6.590 trillion cumulatively for FY 2014 through FY 2023. It would provide \$645 billion in FY 2014—a relatively strong level of defense funding at almost 3.9 percent of gross domestic product (GDP). This is almost \$100 billion more than what will likely be permitted under sequestration.

The problem with the House proposal is that it reduces total defense spending in FY 2015 by dramatically reducing OCO funding from \$93 billion in FY 2014 to \$35 billion in FY 2015, not all of which is for defense. Further, total defense funding under the proposal is slated to shrink as a percentage of the economy for the remainder of the 10-year period. Under the House proposal, the total defense budget's share of the economy would decline to about 2.8 percent of GDP by 2023.

The Senate budget resolution would damage defense more than the House proposal. The exact scope of the damage is also uncertain in this case because the Senate proposal is unclear about OCO funding. The Senate Budget Committee Report accompanying its proposal states that it will provide \$50 billion for overseas contingency operations in FY 2014 and \$25 billion in FY 2015, compared with

the House proposal of \$93 billion and \$35 billion, respectively. However, the Senate proposal does not indicate the source of these funds. Budget Function 050 contains funding levels that appear consistent only with the base defense program, and unlike the House proposal, the Senate proposal contains no Budget Function 970.

The Senate proposal says that a reserve fund could be used to fund OCO after FY 2015, but it provides no specific amount and insists that such funding would be offset in other unspecified budget functions. Accordingly, the reasonable conclusion is that the Senate proposal would provide \$560 billion for all defense funding in FY 2014 and \$5.960 trillion cumulatively over the next 10 years.

Based on this conclusion, the Senate proposes to reduce the total defense budget to less than 2.5 percent of GDP. Relative to sequestration levels of funding for defense, the Senate proposal would ultimately arrive at a similar position by FY 2021 but in a somewhat less draconian way.

An Inadequate Defense Budget for an Increasingly Unstable World. The willingness to use the defense budget—and by extension the national security of the United States—as a political football to further budget priorities of preserving future growth in entitlement spending and of raising taxes will cause at least short-term damage to the defense program. If this damage is perpetuated by future Administrations, the military will become unable to protect the vital interests of the U.S. in a dangerous and increasingly unstable world.

If this makes the American people and U.S. allies nervous, it is with good reason. Aggressive adversaries have shown a knack for sensing when the forces for peace in the world are unwilling or unable to provide for their basic security.

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