THE NATIONAL SECURITY IMPLICATIONS OF A BALANCED BUDGET AMENDMENT

By
Bradley Bosserman

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Anthony H. Cordesman
Arleigh A. Burke Chair in Strategy
acordesman@gmail.com
Executive Summary

US fiscal policy and growing deficits have been at the center of the political and policy debate in Washington for much of 2011. The past several months have seen the creation of bipartisan fiscal commissions and groups, along with a wide range of deficit reduction plans from think tanks, party caucuses, and other sources. None of these plans, however, have managed to attract sufficient bipartisan support to allow for passage and implementation. In an attempt to tackle the country’s ongoing fiscal challenges, Congress passed the Budget Control Act of 2011. This law now sets the framework for Congress to consider modifications to its short and medium term fiscal policy.

The passage of the Budget Control Act (BCA) has broad implications for every program and agency that is funded through the Federal budget process, but consequences for the American defense and national security apparatus are both unique and important to analyze. There are three distinct mechanisms employed by BCA that affect national security funding.

- First, the legislation implements discretionary spending caps for both security and non-security spending.
- Second, it creates a Joint Select Committee on Deficit Reduction tasked with drafting a plan that reduces the deficit by 1.4 trillion dollars over ten years. Any deal that emerges from this “Super Committee” is likely to involve further defense cuts, and if a deal is not reached, $600 billion will be reduced from the DoD budget over the next decade—enforced by OMB sequestration.
- Finally, a little-discussed provision of the BCA requires that a Balanced Budget Amendment (BBA) be brought to the floor of both houses of Congress before the end of year. While both the initial caps and potential sequestration cuts would have dramatic impacts on short-term defense spending, the possibility of a Balanced Budget Amendment could prove to have much more extensive implications for medium and long-term defense spending, as well as the broader national security apparatus and the defense-industrial base.

The debate over a BBA should be taken very seriously by policymakers and members of the national security establishment, as any such proposal would have critical implications for the future funding of US national security and for the nation as a whole. It would dramatically reduce future funding levels and could create institutional structures that pose significant challenges to the effective management of the federal budget for years to come.

This is not the first time that a Balanced Budget Amendment has been proposed, and numerous different forms currently exist. There will likely be two different broad and significant consequences for the defense establishment, however, no matter which language is incorporated into the amendment that is ultimately brought before Congress. First, a practical ceiling will be placed over the growth of the national security base budgets—a ceiling that is likely to be lowered over time as entitlement spending consumes a growing share of the Federal budget. Second, a greater share of defense spending is likely to be shifted to emergency or supplemental appropriations. This increased reliance on less predictable and
stable sources of funding would have consequences for a wide range of operations, such as long-term policy planning, force alignment and sizing, procurement, as well as lasting effects on the defense-industrial base.

While these two broad consequences are likely, irrespective of the type of amendment that is written, the details are vitally important. As Congress—and potentially state legislatures—debate whether to adopt this type of Constitutional change, they will need to consider the implications of the different possible structures, arrangements, and mechanics available within the framework of a BBA.

This report analyzes these options in light of their likely impact on the American national security and defense apparatus and concludes that:

- If the BBA cap falls below the recent trend in federal spending, real and substantial changes will have to be made to the scope and scale of government in American life. In particular, rising healthcare and entitlement costs will mean that defense and discretionary budgets will not simply be growth-constrained, but will steadily shrink—in real dollars—over time.
- A supermajority requirement for approving new revenue or reconciling end-of-year deficits will likely become highly politicized and result in a parliamentary hurdle that is nearly impossible for a majority party to clear—even when economic or national security conditions make such a move necessary.
- A BBA would result in major acquisition reductions, eliminating the development and procurement of weapons systems for all services and potentially causing irreversible loss of development capability within the US Defense-Industrial Base.
- While some effort to reform military health care and retirement programs is probably inevitable, a BBA is likely to dramatically increase the scale of those changes and accelerate their implementation in ways that may not be able to spare current beneficiaries.
- A BBA would require immediate downsizing of the Defense Industrial Base, releasing a large number of unemployed workers into an economy unlikely to be able to fully absorb them for quite some time. If the BBA regime has the effect of delaying or reversing the current economic recovery, this unemployment effect would be further compounded.
- Any proposal will require a fundamental realignment of our end strength, forward basing, equipment, and strategic force-projection capabilities. Policymakers would be wrong to think that they can continue to maintain the current defense posture, troop levels, and mission capacity under the fiscal restraints imposed by a Balanced Budget Amendment.
# Table of Contents

## CONTENTS

Introduction: The Current Fiscal Situation ......................................................................................... 1

Legislative History and Possible Mechanisms ......................................................................................... 4

  - Aggregate Spending Caps ............................................................................................................. 6
  - Limits on Raising Revenue ........................................................................................................... 8
  - Use of Estimates .......................................................................................................................... 9
  - Presidential Requirements .......................................................................................................... 11
  - Exemptions and Waivers ............................................................................................................ 12
  - Supermajority Requirements ..................................................................................................... 13
  - Limitations on Judicial Authority ............................................................................................. 14

Trends in National Security Funding ...................................................................................................... 14

  - Trends in Total Spending .......................................................................................................... 14
  - Defense Procurement Issues ...................................................................................................... 17
  - OCO and O&M Funding ............................................................................................................. 21
  - Distribution of Funding by Service ............................................................................................. 21
  - Strategic Realignment ............................................................................................................... 23
  - Other Areas of National Security Spending ............................................................................... 24

Implications for National Security ......................................................................................................... 26

  - Impact on Procurement and Modernization ............................................................................. 27
  - Budget Instability – Emergency / War Funding ......................................................................... 29
  - Playing OCO Off Against the Baseline ...................................................................................... 31
  - Total National Security Spending: Smaller and Shrinking Budgets .......................................... 32
  - Personnel Costs: Reforms to Military Retirement and Healthcare ............................................ 33
  - Defense Industrial Base .............................................................................................................. 34
  - Distribution of Cuts by Service .................................................................................................. 35
  - State Department and Diplomacy Budgets .................................................................................. 36

Conclusion ............................................................................................................................................. 36
INTRODUCTION: THE CURRENT FISCAL SITUATION

The current US fiscal environment is influenced by three main drivers. First are long-developing domestic trends in demographics, revenues, and program costs—with healthcare at its center. Second, the temporary—though very sizable—drop in GDP and corresponding increase in deficit spending that was a consequence of the deepest US recession in 70 years. Finally, and largely as a reaction to the aforementioned realities, is the surging political momentum in favor of budget austerity.

Figure 1 highlights the historical Federal Debt levels, along with the recent and projected levels that are fueling some of the drive for fiscal consolidation. Without policy changes, the US debt level is projected to top 80 percent within the next ten years, and surge to over 300 percent of GDP by 2050.ii

Despite much of the rhetoric, however, there is no crisis with the current debt levels in the short-term. The fundamental drivers of growing budget deficits will, however, need to be addressed in order to ensure the long-term growth of the US economy and those programs that rely on Federal appropriations. There are myriad combinations of possible policy adjustments that address both the spending and revenue sides of this equation, and it is important to keep in mind that a Balanced Budget Amendment is merely a rigid framework—not a substitute for Washington making the difficult policy decisions needed to ensure the long-term prosperity of the nation.

**Figure 1: Federal Debt Held by the Public – Previously, in CBO’s Baseline, and with a Continuation of Certain Policies**

![Graph showing Federal Debt over time](image)

Source: Congressional Budget Office.

Note: The projected debt with the continuation of certain policies is based on several assumptions: first, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare’s payment rates for physicians are held constant at their 2011 level.
While the recent deficits do not significantly jeopardize the long-run health of the American economy in and of themselves, it is important to understand the scale of the recent economic contraction and the level of associated deficits. As Figure 2 indicates, the annual deficits, which have been common throughout much of the last 30 years, shot up significantly in the wake of the financial crash and 2008 recession.

There were four key drivers behind these deficits. First was the emergency spending—or stimulus—that was approved by Congress to boost short-term economic growth. Second was the spike in counter-cyclical demand for Federally supported unemployment benefits and social services—the “automatic stabilizers” designed to temporarily expand during economic downturns. Third, the rescue of Fannie Mae and Freddie Mac—in conjunction with the Troubled Asset Relief Program (TARP).

Finally, the severity of the economic contraction significantly reduced Federal tax revenue. Figure 3 highlights this drop in Federal receipts.

**Figure 2: Federal Deficit/Surplus in Current Dollars**

![Graph showing Federal Deficit/Surplus in Current Dollars](image)

*Source: OMB Historical Tables for the FY2012 Budget. Table 15.6 and Table 16.1*
While it is important to understand the key spending and revenue issues that have fueled the recent enthusiasm for fiscal restraint, it should be understood that—aside from rigid spending caps—the most significant constraint on future national security spending will be the pressure exerted on the Federal budget by an aging population and unsustainable health care costs. If these long-run costs are not contained, Figure 4 illustrates the degree to which Medicare and Medicaid will crowd-out other spending over the next 40 years.
These broader fiscal realities have already led to constituencies within Congress and the White House putting significant defense cuts on the table for the first time in nearly two decades. Former Secretary of Defense Gates began implementing a $400 billion savings plan and President Obama recently endorsed a Senate plan to freeze the DoD base budget at FY2011 levels.\textsuperscript{v}

It is now essential for those interested in defense and national security funding to become engaged with the policy debates shaping other aspects of the Federal budget picture. The choices that are made about revenue and tax policies, along with entitlement programs and health care, will have real ramifications for the level and type of national defense strategy we can continue to afford. Resource constraints will exist with or without a balanced budget amendment, but a BBA would force these trade-offs to become more extreme, phase-in within a shorter time frame, and shrink the overall budget pie.

**Legislative History and Possible Mechanisms**

Proposals for a Balanced Budget Amendment are not a new phenomenon, although the recent deficit debates have driven interest to its highest point in over a decade. In fact, the history of the BBA proposal can be traced all the way back to 1798 when Thomas Jefferson wrote that a Constitutional amendment prohibiting the country from incurring debt would be the only way to rein in the spending of John Adams.\textsuperscript{vi}
Since then, BBA legislation has made it to the floor of the House four separate times and the floor of the Senate five times. None of those bills garnered the requisite super-majority in both houses of Congress, however, to move on to the state legislatures. VII Figure 5 tracks this sustained interest in a Balanced Budget Amendment, as represented by recurring Senate hearings on the topic stretching back to 1956.

**Figure 5: Senate Judiciary Committee Hearings on Balanced Budget Amendments**

<table>
<thead>
<tr>
<th>Congress</th>
<th>Measure(s)</th>
<th>Date</th>
<th>Publication Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>84th</td>
<td>S.J.Res. 126, 133</td>
<td>June 14, 1956</td>
<td>printed (no doc. number)</td>
</tr>
<tr>
<td>94th</td>
<td>S.J.Res. 55, 93</td>
<td>September 23, Oct. 7, 1975</td>
<td>printed (no doc. number)</td>
</tr>
<tr>
<td>96th</td>
<td>S.J.Res. 2, 4, 5, 6, 7, 9, 10, 11, 13, 16, 18, 36, 38, 45, 46, 56, 76, 79, 86, 93</td>
<td>March 12, May 23, July 25, Oct 4, 11, November 1, 1979</td>
<td>96-41</td>
</tr>
<tr>
<td>97th</td>
<td>S.J.Res. 126</td>
<td>January 14, Feb. 22, 1980</td>
<td>96-67</td>
</tr>
<tr>
<td>98th</td>
<td>S.J.Res. 9, 43, 58</td>
<td>March 11, April 9, May 20, 1981</td>
<td>J-97-45</td>
</tr>
<tr>
<td>100th</td>
<td>S.J.Res. 5</td>
<td>December 12, 1983</td>
<td>J-98-88 (S.Hrg. 98-1084)</td>
</tr>
<tr>
<td>103rd</td>
<td>S.J.Res. 41</td>
<td>March 16, 1993</td>
<td>J-103-4 (S.Hrg. 103-384)</td>
</tr>
<tr>
<td>104th</td>
<td>S.J.Res. 1</td>
<td>February 15, 16, 17, 1994</td>
<td>J-103-41 (S.Hrg. 103-996)</td>
</tr>
</tbody>
</table>


a. Field hearings conducted by the full committee in Mobile, AL.
b. Field hearings conducted by the full committee in Salt Lake City, UT.
c. Field hearings conducted in Phoenix, AZ.
d. Field hearings conducted in Los Angeles, CA.
e. Hearings conducted by the full committee.

This evolving legislative track record can be viewed as a sort of menu of different BBA provisions, allowing analysis of likely mechanisms to be employed by a new Balanced Budget Amendment—and the issues they are meant to address. Though the specific political and economic contexts were different during each of these BBA debates, there are persistent and recurring themes—as well as a finite number of tools at Congress’ disposal.
**Aggregate Spending Caps**

The motivation behind a Balanced Budget Amendment is not simply one of arithmetic and ledger balances. In fact, most proponents believe a Constitutional amendment is needed not simply to synchronize revenues and outlays, but to limit the size and scope of the Federal government. In order to support this goal, many of the BBA proposals have historically included aggregate caps on Federal spending as a percentage of the economy. The specific metrics and percentages change, but small-government advocates are likely to continue to succeed in incorporating these types of limits into any future Balanced Budget Amendment.

An amendment to the 1992 BBA, considered by the House, would have limited expenditures to 19% of Gross National Product. The Cut, Cap, and Balance Act, which passed the GOP-controlled House in 2011, set a spending glide path down to 19.9% of GDP within ten years. H.R. 2041 and H.R. 1848, introduced by Republicans during the 112th Congress, would both limit Federal outlays to 18% of GDP. Similarly, H.J. Res. 56—a BBA proposal introduced by several Republicans in April of 2011—included language stating that:

> Total outlays for any fiscal year shall not exceed 18 percent of the gross domestic product of the United States for the calendar year ending before the beginning of such fiscal year, unless two-thirds of the duly chosen and sworn Members of each House of Congress shall provide by law for a specific amount in excess of such 18 percent by a roll call vote.

It is difficult to overstate the impact a cap like this would have on the Federal budget in general, and discretionary and national security budgets in particular. The level of government that most Americans have come to expect over the last 40 years simply exceeds 18% of GDP. Figure 6 demonstrates that the actual level of Federal spending is substantially greater than the amount specified by any of the aforementioned caps. Figure 4 has shown that as the US population continues to age and health care costs continue to escalate, there is good reason to believe that medium and long-term entitlement commitments will increase rather than decline.

In this context, an aggregate cap would have the effect of squeezing a lower and lower ceiling over discretionary spending, including all national security and defense budgets. Honoring these types of caps would require far more than eliminating waste, fraud, and abuse. It would require real and fundamental changes to the scope, scale, and nature of the Federal government.
The Budget Control Act of 2011, which is the current statutory framework for deficit reduction, specially refers to H.J. Res 56 as the type of Balanced Budget Amendment that is required to be brought to a vote this year. A closer look, then, at the specifics of that proposal should shed some light on likely legislative language.

The mechanism employed by H.J. Res. 56 does not use estimates of Fiscal Year GDP, instead it uses a limit of 18 percent of the previous calendar year’s GDP. This avoids some of the pitfalls associated with estimation, but because GDP normally grows annually, it also functionally lowers the effective cap to 16.6 percent. Andrew Fieldhouse, of the Economic Policy Institute, describes the likely result:

Measured against this baseline, the balanced budget amendment would slash noninterest spending by $10.0 trillion over 2016-21, with annual cuts escalating from $1.4 trillion in 2016 to $2.0 trillion in 2021. Total outlays would fall 31.9% over 2016-21, and primary outlays (excluding net interest) would face much larger across the board cuts if everything were immediately on the chopping block (including sacrosanct items like veterans’ pay—also highly unlikely). By 2017, the requisite cut to noninterest spending would exceed the entire discretionary budget (including emergency supplemental appropriations for overseas contingency operations). Entire cabinet agencies, such as the departments of Education and Energy, and all of their programs, would have to be abolished.

Even if the cap ultimately incorporated into the Balanced Budget Amendment is higher than the one found in H.J. Res 56, the fundamental nature of the impact will remain the same.
cap falls below the recent trend in federal spending, real and substantial changes will have to be made to the scope and scale of government in American life. In particular, rising healthcare and entitlement costs will mean that defense and discretionary budgets will not simply be growth-constrained, but will steadily shrink—in real dollars—over time.

**LIMITS ON RAISING REVENUE**

There are obviously two components to a balanced Federal budget: spending and revenues. Advocates of Balanced Budget Amendments, however, are rarely indifferent to which side of that equation they seek to adjust. To be more specific, reducing the size of the Federal government is a priority for most proponents of a Balanced Budget Amendment. It is this motivation that often leads to aggregate spending caps as well as many BBA proposals integrating limits on generating revenue. These limits can take multiple forms, but by prohibiting (or adding onerous parliamentary barriers to) raising revenue, all have the effect of proscribing larger and larger cuts to Federal budgets.

One mechanism that was proposed during the debate over the 1992 BBA was a limitation on the growth of Federal revenue that was tied to the growth of national income. These types of proposals either rely on backward-looking data—which are very slow to adapt to changing economic conditions—or on forward-looking estimates which are difficult to forecast accurately. These issues have led others to simply propose annual revenue caps; although even hitting a stable target is notoriously difficult, given the multitude of highly sensitive variables that effect tax receipts.

A final tactic is one employed by H.J. Res 56—the BBA legislation suggested by the Budget Control Act—which constructs parliamentary hurdles to raising revenue. H.J. Res. 56 requires a 2/3 vote of both houses of Congress to approve “any bill that imposes a new tax or increases the statutory rate of any tax or the aggregate amount of revenue.” The practical effect of such hurdles, given the highly polarized nature of Congressional politics, would be to freeze the level of revenue at current levels.

**Figure 7** highlights the fact that Federal revenue, as a share of the economy, is currently at its lowest level since 1950. The deep economic contraction of 2007-2008, combined with the two rounds of tax cuts in 2001 and 2003, has led revenue to plummet. In the medium and long term, Federal receipts will have to rise to match the desired level of government spending. As legislators draft Balanced Budget Amendment language, it is important to keep in mind the innate connection between taxes/revenues and spending/outlays.

A revenue cap of 18 percent—along with a balanced budget mandate—will have the same effect as an aggregate spending cap of 18 percent. This may seem redundant, but the connection should be made explicit because it is often obscured during debates about deficit reduction. **If sufficient revenue is not made available to cope with the demographic and cost-growth forces that will lead to steadily increasing demands on the Federal budget, the result will be the same deep and growing cuts to discretionary and defense spending that would result from aggregate spending caps.**
Some BBA proposals do not actually require the budget to be in balance at the end of the fiscal year. Instead, they rely on forward-looking estimates of revenues and require a budget submission and annual appropriations that do not exceed those estimates. Nine states currently have balanced budget requirements that function in this way and, therefore, do not actually prohibit end-of-year deficits. These procedures can be appealing because they not only free the system from the confines of the previous year’s growth and revenue levels, but also allow for more flexibility and legislative control (often a supermajority vote to approve end-of-year deficits or carry-over borrowing).

Mechanisms that rely on estimates, however, also present a number of potential pitfalls. The most obvious of these is the inherent difficulty associated with accurate forecasting. Even when operating in good faith, myriad variables affect the economy, tax revenues, and demand for outlays in unpredictable ways.

Figure 8 highlights this problem by tracking the difference between OMB’s estimated Federal deficit (as articulated in the President’s annual budget submission) and the actual end-of-year deficit. Clearly, miscalculation is far more common than accurate estimation over the last three decades. In fact, the 30-year average of estimation errors is nearly $140 billion per year. That represents missing the mark by a magnitude equal to the budgets of multiple entire Federal Agencies.
FIGURE 8: DIFFERENCE BETWEEN ACTUAL AND ESTIMATED DEFICIT/SURPLUS

Source: Figures for projected deficit are obtained from the budget message of the President in the Budget of the United States Government for each fiscal year as submitted in January of the previous calendar year. Figures for actual deficit are obtained from Budget of the United States Government FY2012. Historical Tables. Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits: 1789-2016. Figures for FY1965-1968 are for the consolidated administrative and trust fund budgets. The figures for FY1969-1991 are for the unified budget. Figures for FY1992-2010 are for the total budget including Social Security, which was placed “off-budget” by the Budget Enforcement Act of 1990.

The difficulty of accurate estimation is further complicated by the fact that the process is influenced by competing and self-interested parties. Analysts from the Congressional Research Service highlight this problem:

The reliability of estimates is crucial, especially in cases where the proposed amendment would require adherence to a standard of balance based on actual outlays rather than projected outlays. Under a variety of circumstances either the President, or Congress, or both would have an incentive to skew estimates of receipts in the same or opposite directions. If one branch favored spending cuts, it would have an incentive to estimate receipts at a relatively lower level (and thus restrain spending). Alternately, if one branch favored relatively higher spending, it would have an incentive to estimate receipts at a correspondingly higher level. These incentives could have profound implications for enforcement.

If a Federal Balanced Budget Amendment is proposed that relies on estimates, these inherent problems will need to be structurally addressed. Growing polarization and dysfunction within Congress would likely lead to competing—and ideologically motivated—estimates.
Additionally, the super-majority votes that many State legislatures require to address end-of-year discrepancies would probably become extremely politicized and nearly impossible to exercise at the Congressional level.

**Presidential Requirements**

Most Balanced Budget Amendments that have been proposed have included a provision requiring the President’s annual budget submission to be constructed so that outlays do not exceed receipts. This seemingly simple mandate actually requires navigating and codifying the highly complex budget relationship that exists between the executive and legislative branches. This relationship has evolved a great deal over time, and implementing a BBA would involve both branches coordinating substantive, as well as timing, estimation, and bureaucratic issues.xix

For example, outlays are generally controlled by executive agencies, but Congress appropriates budget authority. A BBA that limited outlays, then, may require enhanced statutory authority for the Executive to exercise rescission, impoundment, or sequestration. The Nixon-era debates over limiting Executive authority on this front would suggest that Congress would be reluctant to construct a statutory means of actually implementing a Balanced Budget Amendment.

Additionally, analysts at the Congressional Research Service explicate potential hurdles surrounding asymmetric estimates and timing issues:

> Because of the timing of the President’s budget submission, the estimates of receipts and outlays used in this proposal would not necessarily be the same as those used by Congress. This could mean that the President would be able to use a unilateral estimate to fashion his proposal, while Congress might have to base its spending actions on an estimate more agreeable to both branches. Also, the President’s proposal would have to balance estimated outlays against estimated receipts, while under most proposed amendments Congress would ultimately have to balance actual outlays against actual receipts. This distinction is likely to revive a problem highlighted during the Reagan Administration and especially under the Balanced Budget and Emergency Deficit Reduction Act. Differing estimates and projections of the economy and the budget by Congress and the President could make it difficult to achieve budgetary goals.xx

Any realistic attempt to craft a Balanced Budget Amendment, therefore, must address the logistical issues of Executive enforcement, multi-branch timing and estimate synchronization, and agree upon a statutory framework.
EXEMPTIONS AND WAIVERS

Any sound proposal will have to decide how to handle at least two types of exemptions: Categorical exemptions and triggered waiver periods. The approach to these issues has far-reaching consequences and both have historically been central to debates over Balanced Budget Amendments.

As for categorically decisions, any BBA proposal will have to confront the issue of unified budgeting. Currently, some aspects of Federal spending (namely Social Security, the Post Office, and implicit guarantees to GSEs) are considered “Off-Budget” or non-budgetary. It is possible to craft an Amendment that excludes these categories, but language that applies to “all Federal outlays” would probably have the effect of bringing these expenses “On-Budget.” Commonly suggested categorical exemptions are the Social Security Trust Fund, the Post Office, Federal debt service, as well as capital investments. Many states have balanced budget requirements that balance the operating budget while incorporating these types of exclusions, and their experiences may well be instructive in this regard. It is also worth noting that creative legislators and executives are likely to find ways to manipulate Off-Budget exceptions in order to find ways around the BBA restrictions and advance their chosen priorities.

Situational waivers have also been a regular feature of debates over Balanced Budget Amendments. Even BBA proponents, for the most part, acknowledge that deficit spending should be allowed in some situations. The debate centers around which situations justify a waiver from the BBA requirement and how those situations are defined.

One oft-suggested proposal is to allow exemption during times of economic recession. A consensus of macroeconomic thought—first articulated by John Meynard Keynes—holds that expansionary fiscal policy is the best response to many bouts of economic stagnation, especially those stemming from lack of aggregate demand. Many policymakers have argued that a Balanced Budget Amendment would constrain the government’s ability to respond to recessions, increasing economic instability, and exacerbating boom-and-bust cycles. A recession exemption to address this problem was considered during Senate hearings in 1992 and proposed as an amendment to pending BBA legislation in the Senate in 1993.

Even if adopted, however, executing a recession exemption would present myriad problems. There is no absolute definition of an economic recession, so an exemption would have to specify a definition or empower a particular body with definitional authority. Nearly all of these definitions, though, are backward-looking—making timely response to recessions virtually impossible.

A proposal meant to grapple with this problem might resemble language that was proposed by some Senators in 1994, that “suspended the requirement for a balanced budget for any fiscal year, and the following fiscal year as well, if the Congressional Budget Office (CBO) estimates that real economic growth has been or will be less than one percent for two consecutive quarters during the period of those two fiscal years.”
Other policymakers have sought to approach the problems a BBA poses to economic stability by drafting language that would waive the balanced budget requirement in times of acute spikes in unemployment. Representative Major Owens proposed an—ultimately failed—amendment to BBA legislation in 1995 that would exempt any fiscal year wherein national unemployment was over 4 percent. A target such as this would address some of the lag-time issues associated with recession calculations, but introduce new debates over unemployment definitions and maximum levels of acceptable unemployment.

The least controversial exemptions have historically been for times of declared war. The specific standard that would be incorporated into a Balanced Budget Amendment, though, is important.

Three types of relevant declarations could be codified in a BBA proposal: declarations of war, statutory authorizations for use of force, or declarations of a state of national emergency. Declarations of war would be the highest standard, the last such declaration being prompted by World War Two. Using the standard of “authorizations for use of force” would more closely align with current practice, but presents the problem of being largely open-ended. No formal armistice usually signifies the end of a force-authorization so it is unclear how long such a BBA exemption would be in effect. Finally, a declaration of national emergency would be the lowest standard and broaden the exemption for years in which major non-military emergencies occurred, namely natural disasters or major infrastructure disruptions.

SUPERMAJORITY REQUIREMENTS

A common feature of many modern BBA proposals is a supermajority voting requirement to either increase revenue or approve end-of-year deficits. Proponents of this move often argue that a 3/5 majority in both houses could be rallied if a reasonable consensus existed that the vote served the national interest. The recent increases in Congressional partisanship, minority obstruction, and procedural brinksmanship, however, cast significant doubt on this theory.

Political scientists have long documented growing polarization in Congress over the last 40 years. This growth in party-wide ideological coherence has been supplemented by recent parliamentary innovation and minority empowerment tactics to create a legislative system wherein it is very difficult to reach broad Congressional consensus on any substantive vote—even for “must pass” legislation.

The negotiations over the latest debt-ceiling vote, which ultimately resulted in the Budget Control Act of 2011, are a prime example. A vote to raise the debt ceiling—deemed essential by nearly all independent analysts—was held hostage by House and Senate Republicans in order to extract a growing list of both related and non-related policy concessions. These tactics pushed the country to the brink of default and there is no reason to think that it was an isolated occurrence. In fact, Senate Majority Leader McConnell suggested that it was the new norm, telling the press that “It set the template for the future...no president—in the near future, maybe in the distant future—is going to be able to get the debt ceiling increased without a re-ignition of the same discussion.”
This suggests that a supermajority requirement for approving new revenue or reconciling end-of-year deficits will likely become highly politicized and result in a parliamentary hurdle that is nearly impossible for a majority party to clear—even when economic conditions make such a move necessary.

LIMITATIONS ON JUDICIAL AUTHORITY

The issue of court enforcement is often featured in BBA debates, with proponents increasingly attempting to legislate the terms of judicial review. In order to preempt Federal courts from interpreting the Balanced Budget Amendment in ways not desired by its authors, some BBA proposals have featured language that clearly limits judicial authority. The 1994 effort barred all Federal courts from undertaking any “remedies other than declaratory judgment,” which would have the effect of preventing court enforcement through injunctions or writs of mandamus. Language in the recent H.J. Res 56 was even more specific, stating that “No court of the United States or of any State shall order any increase in revenue to enforce this article.” These types of restrictions would have effects on the balance of power between branches by constraining the judiciary’s ability to enforce provisions of the Constitution. The courts have traditionally served as a check on Congressional over-reach, a function that could be threatened by legislating away judicial review.

TRENDS IN NATIONAL SECURITY FUNDING

In order to analyze the possible impact of the long-term budget constraints posed by a Balanced Budget Amendment, it is necessary to take account of the current status of our defense infrastructure. This, in conjunction with looking at some key trends over the last ten years, will shed light on the likely national security implications.

TRENDS IN TOTAL SPENDING

As the wars in Afghanistan and Iraq wind down and the Defense Department comes under increasing pressure to “do its part” for deficit reduction, major decisions about strategy and resource allocation will need to be made in the very near future. The last 10 years of procurement and modernization, however, should allow the Services to strategically build down from a position of strength, even under the framework drafted by Secretary Gates. Testimony by the Vice Chiefs at a recent House Armed Services Committee hearing argued that the planned budget reductions would be “tough...but doable,” while also highlighting the dangers posed by deeper and more haphazard cuts.

The past decade has seen defense spending steadily increase, both in real dollar terms and as a percentage of GDP. The demands of the global war on terror along with two major theater wars—as well as the subsequent COIN operations—have certainly been driving forces behind this increase. The Department of Defense, however, has seen significant growth in its base budget in addition to robust appropriations for Overseas Contingency Operations (OCO). Figure 9 displays these trends.
*FY 2009 non-war supplemental was appropriated through the ARRA of 2009.
Source: Department of Defense Appropriations Acts, FY2001 – FY2010; FY2011 President’s Budget Documents; OMB Historical Tables, FY2011

**DEFENSE PERSONNEL COSTS**

One of the most underappreciated trends within the defense budget over the last several years has been the tremendous growth in personnel costs. Secretary Panetta has described the path of these costs as “unsustainable,” noting that compensation and healthcare expenses have expanded by nearly 80 percent since 2001, despite a comparatively small 5 percent increase in force size.xxxiv

**Figure 10** shows the projected growth of military health care and **Figure 11** shows the projected growth in expenses associated with retirement benefits. Some savings can and should be found by adjusting procurement and RDT&E priorities, but personnel and O&M are much larger costs and will continue to grow as a share of the defense budget. Ultimately those categories are the trend lines that will need to be trimmed in order to fit under a spending ceiling.
FIGURE 10: COSTS OF DOD’S PLANS FOR MILITARY HEALTH CARE

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: Supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, is included for 2011 and earlier but not for later years.

Before 2001, pharmaceutical costs were not separately identifiable but were embedded in the costs of two categories: "Purchased Care and Contracts" and "Direct Care and Other." In 2001 and later years, most pharmaceutical costs are separately identifiable, but some of those costs may be embedded in the category "TRICARE for Life Accrual Payments."

The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories.

FYDP period = 2012 to 2016, the years for which the Department of Defense’s (DoD’s) plans are fully specified.

a. Each category shows the CBO projection of the base budget from 2012 to 2030. That projection incorporates costs that are consistent with DoD’s recent experience.

b. For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD’s plans using the department’s estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

Source: CBO’s Long-Term Implications of the 2012 Future Years Defense Program. June 2011, Figure 2.
**Figure 11: Military Retirement Trust Fund Projections**


**Defense Procurement Issues**

The last decade has also seen costs sky-rocket and delivery schedules delayed for numerous key weapons systems. This has led to some procurement plans being scaled back, as smaller orders have had to make up for growing program costs. The GAO recently found that:

Half of DOD's major defense acquisition programs do not meet cost performance goals agreed to by DOD, the Office of Management and Budget, and GAO. Further, 80 percent of programs have experienced an increase in unit costs from initial estimates; thereby reducing DOD's buying power on these programs. GAO continues to find that newer programs are demonstrating higher levels of knowledge at key decision points, but most are still not fully adhering to a knowledge-based acquisition approach, putting them at a higher risk for cost growth and schedule delays.xxxv

The DoD recently announced that it would cancel five of its planned F35A purchases from the next contract cycle in order to pay for cost overruns.xxxvi While RDT&E is often unpredictable, most of these cost over-runs have developed after production has started and costs should have stabilized.xxxvii Figure 12 shows this growth in portfolio-wide costs as well as delivery
delays. If this type of unexpected cost growth is not curbed, it will continue to be paid for out of reduced procurement.

**FIGURE 12: CHANGES IN DOD’S 2010 PORTFOLIO OF MAJOR DEFENSE ACQUISITION PROGRAMS**

<table>
<thead>
<tr>
<th>Fiscal year 2011 dollars in billions</th>
<th>Last 2 years (2008 to 2010)</th>
<th>Last 5 years (2005 to 2010)</th>
<th>Since first full estimate (Baseline to 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in total research and development cost</td>
<td>$15</td>
<td>$29</td>
<td>$102</td>
</tr>
<tr>
<td>Increase in total procurement cost</td>
<td>$121</td>
<td>$185</td>
<td>$287</td>
</tr>
<tr>
<td>Increase in total acquisition cost</td>
<td>$136</td>
<td>$217</td>
<td>$402</td>
</tr>
<tr>
<td>Average delay in delivering initial capabilities</td>
<td>5 months</td>
<td>9 months</td>
<td>22 months</td>
</tr>
<tr>
<td>8 percent</td>
<td>16 percent</td>
<td>35 percent</td>
<td></td>
</tr>
</tbody>
</table>


Many of the forces contributing to this problem are systemic issues with procurement management at DoD. These have been exaggerated over the last several decades as resources, staff, and expertise were drained away from the Defense Contract Management Agency (DCMA), although efforts to reverse this trend are underway. The GAO recently concluded that:

After undergoing significant shifts in its workforce, structure, and policies and procedures over the past 10 years, DCMA has taken steps to rebuild its capacity. As the workforce declined, the agency experienced significant erosion of expertise in some areas, such as the cost and pricing function, such that it could not fulfill all of its oversight functions. A shift to a substantially decentralized, customer-oriented approach in the mid-2000s, intended to mitigate the impact of this workforce imbalance, resulted in unintended consequences such as inefficiencies in how work was done at the CMOs. DCMA has since begun to rebuild workforce expertise and has instituted new, centralized policies and procedures. \(^{xxxviii}\)

This investment in DCMA capacity-building will be essential in driving down long-run acquisition costs, but it is exactly the type of administrative expense that tends to get cut during budget crunches. A Balanced Budget Amendment, then, may lead to a self-defeating process of cost-overruns and procurement cuts, as efficiency measures are systematically defunded.

The procurement picture, however, is not all bad. The conventional wisdom within defense circles holds that the demands of the last decade have led to equipment and procurement neglect, with substantial funding still needed for “resetting,” in order to avoid a hollow force. Objective analysis of the nearly $1 Trillion dollars of procurement money spent over the last ten years, however, tells a different story.

A recent report by the Stimson Center notes that: “Each of the services has followed a different approach in allocating its procurement funding, but they share a similar result of successfully modernizing their forces, especially the major weapons programs that constitute the heart of the services’ capabilities.” \(^{xxxix}\) This study finds that all branches have come quite close to meeting or surpassing their ten-year procurement plans articulated in FY01.
The Army, which often argues that it has shouldered the largest burden of the recent wars, has effectively modernized nearly its entire fleet of ground combat vehicles, acquired two entirely new systems, completed acquisition of the humvee support fleet, and dramatically increased its stock of small arms. Specifically, they have upgraded 4,372 Bradley Fighting Vehicles—nearly 2,500 of them to the most advanced A3 variant—far in excess of the planned upgrade of 1,800 vehicles as of FY01. Similarly, by FY12 they will have completed the Abrams modernization program, having upgraded 1,200 to the most advanced SEP configuration. This, in addition to meeting 95% of their procurement goal for Humvees and adding thousands of MRAPs and 4,000 Strykers. The Army’s inventory of small arms has also benefited from the boon in OCO and procurement dollars:

In the FY01 budget justification, the Army said it intended to buy 140,309 of its newest rifle, the M4 carbine. By the FY12 budget justification, that plan had grown to 658,606 rifles (three and a half times the original plan), with 487,284 (nearly 75 percent) already purchased. The original target for the light machine gun, the M249 Squad Automatic Weapon was 79,848. By 2011, the Army had acquired 117,547. The target for the medium machine gun, the M240, was 63,471; by 2012 110,830 had been acquired. Both machine gun programs have already reached more than 1.5 times their original goal. For the Army’s .50 caliber sniper rifle, first fielded in 2002, the Army planned to buy only 392. Ten years later, the Army had bought 3,396 — nearly nine times more than the original goal.

The Navy has also largely met their ten-year procurement plan, despite the fact that it was underfunded when initially proposed. Figure 13 demonstrates that they ended up short on acquisition of Destroyers and SSNs—systems that remain in the pipeline—but they also developed and procured a new LCS program and both of their planned $8 billion Carriers.
The Air Force has a stronger case for needed systems procurement, but not for lack of funding. They have spent $347 Billion over the last decade on procurement, but have only procured a fraction of the fighters they anticipated. This, however, is largely due to a conscious decision to develop high-end technology rather than upgrade existing platforms. The enormous cost growth of the F-22 and F35 programs steadily eroded the number of aircraft that the Air Force could afford to procure. This suggests that analyzing the future US air defense strategy as well as reforming the procurement management process within those fighter programs is more important than simply boosting procurement dollars for the Air Force.

While procurement funding sufficient to support strategically constructed acquisition plans will always be important, Figure 14 helps illustrate that the narrative of deferred investment appears less accurate than that of a force that is prepared to build down strategically from a position of relative strength—given reasonable expectations and an appropriate time horizon.
One of the most important recent defense budget trends has been the nearly $1.2 Trillion dollars in OCO funding that has been made available over the last decade. While the majority of this money has gone toward O&M as well as personnel costs directly attributable to major combat operations, these appropriations also helped fund base construction and general procurement. This surge in non-base budgetary authority has given the branches a cushion, allowing them to achieve underfunded modernization priorities that were not directly related to overseas operations.

Ending the wars in Afghanistan and Iraq will turn off the spigot of OCO funding, forcing the DOD to not only operate under new budgetary constraints, but also removing the “OCO buffer” they have become accustomed to using in order to shore up force acquisition and construction. This will require heightened discipline and pose an additional challenge as defense planners cope with austerity budgeting.

**Distribution of Funding by Service**

The relatively equal distribution among the three services is another long-standing trend in defense funding that will have important implications for any cost-cutting regime. Figure 15 demonstrates how strong the inertia is behind the “one third doctrine,” suggesting that any major cost constraint is likely to be applied relatively equally to all three services.

This type of “salami slicing” is suboptimal when it comes at the expense of strategic and threat-based resource allocation decisions. It is unlikely, however, that this system of even cuts will be
avoided in the short term. It is worth nothing, though, that the Grow the Army Initiative (GTA) that began in 2007, temporarily altered these iron clad service ratios. The addition of 75,000 soldiers—in support of the two active wars and a new basing alignment—led to the Army picking up a larger piece of the pie over the last few years.

Figure 16 shows this growth, but also demonstrates that the GTA is being rolled back as the wars come to a close—with the Obama Administration committed to returning Active Duty Army end strength to 2001 levels. xlvii

**FIGURE 15: HISTORICAL SERVICE SHARES OF BUDGET AUTHORITY**

(Excluding OCO and Supplementals for FY01-FY10)

Source: DOD Comptroller FY2012 Budget Briefing Book. Tables 2-1 and 6-10
**Figure 16: Recent Service Shares of Budget Authority**
(Including OCO and CRs)

![Bar chart showing service shares of budget authority from 2010 to 2012.](image)

*Source: DOD Financial Summary Tables for FY12. Pg. 2*

**Strategic Realignment**

The existing agreement over $450 Billion in cuts, spread over ten years, provides the current framework—*to the extent one exists*—for mid-term defense budget planning. Secretary of Defense Panetta has attempted to demonstrate that the Pentagon is taking on this mandate aggressively, announcing that DoD is planning on implementing at least $250 Billion of those reductions within the next five years.

The existence of this build-down framework is important because it means that many of the “efficiency savings” are already being wrung out of future defense budget plans.

Figure 17 displays the possible spending paths under the current reduction framework. Further budget reductions, whether they stem from sequestration, a new Congressional deficit agreement, or a Balanced Budget Amendment, will not be able to chop away much low hanging fruit. Further cuts will entail substantive modification to our defense strategy, capabilities, and force structure.

This is not inherently troublesome. In fact, this type of reevaluation is long over-due. There are many different types of forces capable of keeping the country safe and promoting our interests abroad. Policymakers, however, need to be aware that they cannot simply continue to purchase the existing force at a fire-sale price.
**Figure 17: Potential DoD Budget Paths, As a Percentage of GDP**

The Department of Defense is the highest profile, though not only, agency responsible for ensuring American national security. The Department of State has traditionally played a vital role in marshalling diplomatic, development, and economic assistance resources in order to prevent and respond to global conflicts. Over the last decade, however, they have expanded their capabilities to contribute to COIN and low-intensity military operations. The 2010 Quadrennial Defense Review highlighted the importance of this developing role:

> Years of war have proven how important it is for America’s civilian agencies to possess the resources and authorities needed to operate alongside the U.S. Armed Forces during complex contingencies at home and abroad. As our

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*OTHER AREAS OF NATIONAL SECURITY SPENDING*

The Department of Defense is the highest profile, though not only, agency responsible for ensuring American national security. The Department of State has traditionally played a vital role in marshalling diplomatic, development, and economic assistance resources in order to prevent and respond to global conflicts. Over the last decade, however, they have expanded their capabilities to contribute to COIN and low-intensity military operations. The 2010 Quadrennial Defense Review highlighted the importance of this developing role:

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a. The base budget funds the normal activities of the government for national defense, including the development and procurement of weapon systems and day-to-day operations of the military and related civilian workforce. Base-budget data include supplemental and emergency funding unrelated to operations in Afghanistan, Iraq, and the war on terrorism.

b. For 2001 to 2011, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.

c. The CBO projection of the Department of Defense’s (DoD’s) Future Years Defense Plan for 2012 (without funding for overseas contingency operations) incorporates costs that are consistent with DoD’s recent experience. It also assumes that the non-DoD portions of defense discretionary funding remain at 2011 levels, adjusted only for inflation.

d. Assumes proportional reductions in defense and nondefense discretionary budget authority subject to the caps as set in the Budget Control Act of 2011.

e. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense and nondefense budget authority. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.
experiences in Afghanistan and Iraq have shown, sustainable outcomes require civilian development and governance experts who can help build local civilian capacity... A strong and adequately resourced cadre of civilians organized and trained to operate alongside or in lieu of U.S. military personnel during a variety of possible contingencies is an important investment for the nation’s security. This is an urgent requirement for ongoing operations in Iraq and Afghanistan, and will remain an enduring need in the future security environment—both to prevent crises and to respond to them.xlix

Despite these expanded responsibilities, the trends that have doubled the Defense budget over the last decade have not had a significant effect on funding for the State Department. Figure 18 shows these funding levels as a percentage of the overall Federal budget.

While the Defense budget has commanded roughly 20 percent of Federal outlays during the last decade, the State Department’s budget has hovered around half-of-one percent. For FY12 that means an annual authorization request for just shy of $50 billion.1 The State Department has, however, received a small share of OCO funding to cover their contribution to the ongoing combat operations. In FY12, State requested $8.7 billion worth of the $126 billion OCO appropriation.ii

Going forward, US security strategy in the Middle East and Central Asia will rely even more heavily on State Department efforts as they replace military personnel in the theater. This should make legislators conscious of potential zero-sum trade-offs that could reduce needed funding for State Department operations. These trade-offs are more likely if Defense is made to compete with State over a finite pool of resources, resulting from either aggregate discretionary spending caps, a balanced budget amendment, or a unified security budget that combined 050 and 150 budget functions.
FIGURE 18: DEFENSE FUNDING VS. STATE DEPARTMENT FUNDING, HISTORICAL*

Source: National defense funding from National Defense Budget Estimates for FY 2012. Table 7. State Department funding from OMB's Historical Tables for the FY12 Budget. Table 4.2

* The National Defense Function (function 050) includes: DoD military activities (subfunction 051); the atomic energy defense activities of the Department of Energy (subfunction 053); and defense related activities of other federal agencies (subfunction 054). Includes enacted war and supplemental amounts, as do all years 2007 and prior.

IMPLICATIONS FOR NATIONAL SECURITY

After examining recent trends in national security funding as well as the likely construction of a Balance Budget Amendment, it is possible to analyze the likely and potential impacts such an amendment would have on the American National Security apparatus. Some of these ramifications—procurement holidays and smaller defense budgets—are predictable, but there are others that could be even more significant, but less obvious.

The most over-arching effect of a Balanced Budget Amendment is likely to be its powerful implications for reducing the growth, size, stability, and flexibility of the American economy. CBO Director Doug Elmendorf explained in 2011:

Amending the Constitution to require this sort of balance raises risks. . . . The fact that taxes fall when the economy weakens and spending and benefit programs increase when the economy weakens, in an automatic way, under existing law, is an important stabilizing force for the aggregate economy. The fact that state governments need to work ... against these effects in their own budgets — need to take action to raise taxes or cut spending in recessions — undoes the automatic stabilizers, essentially, at the state level. Taking those away at the federal level risks making the economy less stable, risks exacerbating the swings in business cycles.
This position was also expressed by CBO Director Robert Reischauer during BBA debates in 1992. As recent events have demonstrated, DoD is not immune to broader economic contexts, in fact they are often called to draw down and cut during times of acute economic trouble. So if a BBA results in slower average economic growth and increased economic instability, it is almost assured that long-run Defense and national security budgets will end up being significantly smaller than currently planned.

**IMPACT ON PROCUREMENT AND MODERNIZATION**

Even if a BBA is scheduled to take effect several years down the road, the multi-year timelines that RDT&E and acquisition planning requires will mean that immediate changes to procurement plans will be necessary. As previously discussed, a GDP cap of 18 or 19 percent would so dramatically constrain discretionary budgets that procurement would have to be zeroed-out without massive structural changes to the force structure.

Assuming, however, that a BBA was implemented that allowed revenue and spending to remain near the recent trend line, acquisition adjustments would still have to be made. The optimal response to such budget restriction would be a full reevaluation of strategy, threats, and needed capabilities. The history of the last two decades, however, indicates that a more likely response by the Pentagon would be simply scaling back existing plans. A survey of current acquisition plans and recent modernization, then, can shed some light on likely program casualties if a BBA regime is ushered in.

**Figure 19** shows that the bulk of near-term and projected procurement costs originate from the Navy, Marine Corps, and Air Force. This reality, along with the fact that the Army has already modernized nearly all of its major forces over the last ten years, suggests that most of the procurement cuts would fall on the shoulders of those three services.
For the Marine Corp these cuts would likely come from the tilt-rotor/vertical take-off capabilities that they plan to develop and acquire. These programs have fallen prey to sustained cost over-runs, delays, and performance issues—and significant limits on procurement would seriously endanger the V-22 Osprey program as well as the planned order of 340 F-35B Joint Strike Fighters.\textsuperscript{liv}

The Navy is planning on expanding the fleet from 287 to 320 ships. That growth would certainly be restricted under a balanced budget amendment. Surface combat ships make up the bulk of that planned expansion, and procurement restrictions would probably mean substantially fewer Littoral Combat Ships (LCS) and fewer and/or less sophisticated versions of the DDG-51 Destroyers.\textsuperscript{lv}
The Air Force would be put in a particularly difficult position. Their current plans would cost an average of $19 billion a year over the next two decades, with roughly half of that going toward the development and acquisition of F-35A Joint Strike Fighters and KC-46A airborne tankers. The Air Force not only has very expensive procurement plans wrapped up in a few key programs, but they are less able to sacrifice future aircraft acquisition because they are still well below their FY01-FY11 procurement target for number of aircraft. This is due largely to choices made to acquire high-end, next generation F-22 systems with a much higher marginal cost than upgraded F-18s. While this situation is largely of their own design, it places them at a disadvantage when dealing with deep and lasting budget cuts.

**Budget Instability – Emergency / War Funding**

Some policymakers may believe that one of the advantages of a Balanced Budget Amendment would be more stable budgets. While this may seem intuitive, a BBA would actually make discretionary budgets in general, and Defense/Security budgets in particular, much less stable and predictable. This is true for three main reasons. First, DoD, the State Department, and the Department of Energy would have to constantly fight for a zero-sum share of national security dollars. There would also be a de facto shift to annual zero-based budgeting—with changing aggregate ceilings over discretionary spending making baseline budgeting virtually impossible. Finally, historical analysis indicates that a likely response to a Balanced Budget Amendment would be an increased reliance on ad hoc Emergency Appropriations, with a steadily decreasing share of national security funding coming from the base budgets.

The Budget Enforcement Act of 1990 established hard spending caps and strict PAYGO requirements. This framework placed a spending ceiling over discretionary budgets for much of the 1990s and an analysis of the defense build down during that time reveals that gradual reductions in defense spending occurred alongside a growth in emergency appropriations. Figure 20 displays the year-over-year reductions in the defense base budget during this time frame and Figure 21 displays the emergency spending. The dramatic reduction in the FY91 base budget was accompanied by a large emergency defense appropriation bill. Much of the increase for that year was driven by Operation Desert Storm, but the trend of using emergency spending to fill holes in the base budget continued for the rest of the decade.
**Figure 20: Annual Percentage Change in the DoD Base Budget**

Source: Department of Defense Greenbook for FY12, Table 6-8

**Figure 21: Emergency Spending, 1991-2000**

Source: Congressional Budget Office, "Emergency Spending under the Budget Enforcement Act: An Update. 6-8-1999."
PLAYING OCO OFF AGAINST THE BASELINE

More recent evidence also suggests that the DoD would respond to limits by shifting away from the base budget. Todd Harrison describes how billions of base funding has already been shifted into the war budget in order to avoid Budget Control Act caps:

The Budget Control Act specifically exempts war-related funding from sequestration. This creates an incentive for the Pentagon to move items from the base budget to the war budget in order to avoid the budget caps in future years. While it is not clear how much of this maneuvering Congress will be willing to tolerate, it is notable that Senate appropriators moved some $10 billion of funding requested in the base budget to the war budget in their markup of the FY 2012 defense appropriations bill.\textsuperscript{viii}

An increased reliance on emergency appropriations would have a number of detrimental effects on the sound functioning of our defense and national security institutions. Even under a build down, long-range planning for contingency operations, force-structure, strategy, and procurement all depend on the ability to make the kind of reasonable budget projections made possible by the traditional appropriation process and baseline calculations budgeting. As a larger share of funding migrates to emergency appropriations, more and more of the budget will remain unknown until the last minute, allowing for significant and unpredictable budgetary swings.

These unpredictable swings will have enormous impacts on the relationship between DoD and planners and the contractors that make up the Defense Industrial Base (DIB). As an example, cost-plus contracting—historically a key to developing breakthrough technology—will be very difficult to continue in a world where procurement and RDT&E dollars have to be regularly extracted from Congress through ad hoc supplemental bills. Contractors will have to self-finance much more R&D as well as build up capital to fund projects that collapse due to funding shortfalls. This instability will lead to lasting changes in the contracting process and the Defense Industrial Base.

This move is also likely to increase the effect of mounting Congressional polarization on Defense funding, requiring more legislative votes and providing more opportunities for politicization. The current Defense re-authorization legislation, for instance, has been held up over unrelated detainee issues.\textsuperscript{lix} The formally bipartisan nature of Defense appropriations has faded, with national security dollars now functioning as yet another political battlefield. Subjecting large portions of the National Security budget to this process by requiring regular votes on emergency funding bills would actively inject more instability into the budget process.
TOTAL NATIONAL SECURITY SPENDING: SMALLER AND SHRINKING BUDGETS

A Balanced Budget Amendment, by design, would have the effect of dramatically shrinking government spending. The steady growth of entitlement spending—health care costs in particular—over the next several decades will mean that a BBA regime will require more and more money will have to be carved out of the discretionary budget accounts. Figure 22 shows the CBO’s estimate of entitlement versus discretionary growth, and imagining a functional cap, like those suggested in various House proposals, would make the trade-off explicit.

FIGURE 22: CBO ESTIMATE OF ENTITLEMENT GROWTH CROWDING OUT DISCRETIONARY SPENDING

The cuts required, both short and long-term, would be far deeper than those under the sequestration “doomsday scenario.” Even if the $600 Billion in sequestration cuts take effect, the bulk of the real-dollar reductions would occur between FY12 an FY13. After those years, the base budget would return to a steady rate of growth. Figure 23 reveals the likely path of Defense spending if those cuts were made. Reductions of that scale would force very significant changes to US defense strategy, force structure, and procurement, but to be
clear—they would pale in comparison to the level of permanent, sustained cuts, that would be required to comply with a Balanced Budget Amendment. Even under sequestration, the defense base budget would surpass current levels, in real dollars, by 2019 and continue to grow. Under a BBA, on the other hand, defense spending would have to constantly shrink, in real dollars, well into the out-years.

**Figure 23: Defense Base Budget Projects-Baseline, Caps, and Sequestration**

Source: CSIS, “The Implications of the Budget Control Act,” The Defense and Industrial Initiatives Group, derived from CBO data. 11-3-2011.

**Personnel Costs: Reforms to Military Retirement and Healthcare**

This report has noted earlier—in Figures 10 and 11—that health care and military retirement costs are escalating dramatically. These factors will continue to drive per-soldier costs far higher, forcing Personnel and O&M to grow as a share of the DoD budget. This means that the type of permanent cuts necessitated by a Balanced Budget Amendment would likely require dramatically curtailing the number of active duty service members as well as reforming the retirement and healthcare benefits provided to military veterans and their families.

When a fairly moderate retirement reform was proposed recently by the Defense Budget Board, however, a key member of the House Armed Services Committee decried the possibility of reducing the costs of these programs, suggesting that changes would have “immediate negative consequences for morale and combat readiness.”

Obviously there are many possible ways to reform military health care and retirement programs in ways that bring down per-soldier costs—a move that is probably inevitable—but a BBA is likely to dramatically increase the scale of those changes and accelerate their implementation in ways that may not be able to spare current beneficiaries.
The burden of the cuts required by a Balanced Budget Amendment will be shouldered not only by military personnel, but also by the companies and contractors that make up the US Defense Industrial Base (DIB). The important and symbiotic relationship between the Department of Defense and the modern DIB must be considered when analyzing the impacts of a permanent reduction in defense budgets.

Army Secretary John McHugh has recently said that to adapt to further reductions, “you’d probably have to take some 50 percent of that out of modernization...That’s kind of the formula we’re using for the cuts to this point.” This report has already analyzed some of the likely impacts of these cuts on procurement and modernization, but impact on the size, capabilities, and expertise of the DIB are also essential.

The DoD shifted away from an arsenal system after the Second World War and into a DIB relationship with private for-profit defense contractors. This relationship has led to the development and fielding of the most advanced military force in the world, but if large reductions in weapons development are instituted and poorly managed, the ability of our DIB to develop some essential future capabilities may be permanently lost or seriously set back.
The British Navy, for example, began developing a new nuclear powered attack submarine in the late 1990s, only to discover after three years that their defense industry had lost the design and production skills to complete the program.\textsuperscript{lxii}

Some non-essential capabilities will always atrophy as the industry develops, but it is important to manage which skills are lost and maintained—in a forward looking and strategic way—and to recognize that the acquisition reductions resulting from a Balanced Budget Amendment may require permanently sacrificing our DIBs ability to develop many capabilities.

Recent testimony by the Marine Corp Commandant, General Amos, highlighted the unique tilt-rotor and vertical landing capabilities being developed for the V-22 Osprey and F-35B programs, and suggested that major budget cuts that endangered those systems would seriously hinder our ability to redevelop those capabilities in the future.\textsuperscript{lxiii} OSD is currently putting together a strategic plan for managing the DIB during budget austerity, but preserving key functions amid shrinking Federal dollars will probably require significantly reforming statutory restrictions on global arms sales.\textsuperscript{lxiv}

Another side effect of DIB constriction is layoffs and decreased employment, industry-wide. Secretary Panetta has suggested that DoD models project that the national unemployment rate could rise as much as 1 percent if the sequestration cuts take effect.\textsuperscript{lxv} This number certainly represents a worst case scenario, and in the medium term it is reasonable to assume that many of those workers would find new employment. CBO projects, though, that the economy will not return to a full level of output—and realize the accompanying reduction in systemic unemployment—until at least 2017.\textsuperscript{lxvi}

This means that a Balanced Budget Amendment would require immediate downsizing of the DIB, releasing a large number of unemployed workers into an economy unlikely to be able to fully absorb them for quite some time. If the BBA regime has the effect of delaying or reversing the current economic recovery, this unemployment effect would be further compounded.

**DISTRIBUTION OF CUTS BY SERVICE**

In an ideal world, significant defense cuts would serve as a catalyst for planners to reevaluate the US defense posture, strategic goals and capabilities, force structure, and personnel and equipment needs. That has not been the case during the recent round of austerity, however, and it would be naïve to assume that deeper cuts would result in a new, forward-looking grand strategy that would guide force reductions, rather than institutional inertia and parochialism. We should expect that cuts will be fairly evenly distributed between the three departments, with accounts within those departmental budgets being “salami sliced”—trimming an even percentage from everyone. This is not an optimal strategy, but the Service Chiefs’ planned response to the current $450 billion in cuts is illustrative of what policymakers should expect. All of the Chiefs said that they would reduce personnel in roughly equivalent numbers—A reduction of 20,000 Marines, over 27,000 soldiers, and 10,000 Airmen.\textsuperscript{lxvii} Similar across-the-board cuts to procurement funds have also been announced. The “one third doctrine” that has historically driven the service shares of budget authority will continue under a balanced
budget amendment, and policymakers are fooling themselves if they believe that objective strategic vision will suddenly displace this methodology.

**STATE DEPARTMENT AND DIPLOMACY BUDGETS**

As severe as the defense cuts will be under a BBA, the cuts to Foreign Operations, Foreign Aid, diplomacy, and broader State Department budgets will be even more dramatic. The State Department budget has traditionally hovered around .5 percent of Federal outlays—as opposed to the 20 percent commanded by DOD—so every dollar of reduction to the 150 account has a much larger impact on their overall budget picture. As the BBA caps and rising mandatory spending force deeper and deeper reductions in discretionary spending, there is no reason to believe that Foreign Ops would be spared. Rather, there is evidence that as Defense spending gets squeezed, the DoD and defense appropriators will increasingly siphon money from the 150 account in order to bolster the 050 budget.

That leaves the Defense and State-Foreign Operations appropriations remaining. Senate appropriators freeze defense at last year’s value, $513 billion, and find most of the $4 billion in savings required by the BCA from a $3.5 billion cut to State-Foreign Operations. In contrast, the House partly financed a $17 billion defense increase on the back of a $9 billion hit to State-Foreign Operations.

Marginal changes to the other four accounts could relieve a bit of this friction but, for the most part, appropriators have created a direct trade-off in which every new dollar for defense will come from State and Foreign Operations. The House isn’t likely to get the full $17 billion increase for defense, but neither is the Senate likely to keep State and Foreign Operations from paying a little bit more. Congressional negotiators will not be able to escape the now-stark question: exactly how much are we willing to take from diplomacy and development in order to keep giving to defense?

This means that the type of interagency collaborative security missions outlined in the QDR and QDDR will be extremely difficult, as each Agency competes for each scarce dollar and both State and DOD are forced to consolidate their operations in order to focus on core competencies. The State Department’s in-country presence—and it’s associated aid and advisory capacity—is much more cost effective than military force in promoting US interests abroad, preempting conflicts in destabilizing regions, and building partner capacity in post-conflict areas. The ability to effectively conduct these operations, however, will be crippled in a world where a Balanced Budget Amendment forces entitlement spending and Defense spending to crowd out the relatively small Foreign Operations budget.

**CONCLUSION**

The medium and long-run budget picture will make fiscal reform necessary. The most prudent course is for policymakers to agree on a level of revenue and spending which is roughly equal
and is designed to realistically provide the level of government spending that the nation has come to expect. Proposals that have the effect of limiting government spending or revenue to a level below recent trends will result in deep and lasting cuts to the defense and national security budgets. These cuts will have far reaching effects, and policymakers are mistaken if they believe that they can impose a balanced budget amendment while sparing the national security establishment.

Predicting the exact impacts such a dramatic fiscal policy change are impossible, but policymakers should understand that it is certain that the long-term reductions in national security spending resulting from a Balanced Budget Amendment will require a new grand strategy and force structure. It will be very difficult to continue to purchase the current force, capabilities, and strategy at a price that is much lower than what will be achieved after the $450 billion in planned cuts. With cuts on the scale necessitated by a BBA regime, it would be impossible.

Strategy, though, should develop to meet changing needs, and as we exit Iraq, drawdown in Afghanistan, and look toward the Pacific—it may be a good time to update US strategy. President Obama has, in fact, recently called “for a fundamental review of America's missions, capabilities, and our role in a changing world.” Any new strategic posture should be based on a real, threat-based, and resource-constrained analysis.

There are many possible frameworks for a new American grand strategy that cost significantly less than current projections. The Center for New American Security has a proposal that saves up to $850 billion over 10 years, the Sustainable Defense Task Force’s vision saves $960 billion, the Roosevelt Institute’s strategy saves over $600 billion, and the Center for American Progress advances a plan that purports to shave $109 billion from FY15 alone.

All of these strategies, and others put forward, make key concessions to resource constraints. Realignment like this may well keep America prosperous and safe, but it will do so with end strength, forward basing, equipment, and strategic force-projection capabilities that are fundamentally different than those of today. Policymakers would be unwise to think that the US government could continue to fund the current defense posture, troop levels, and mission capacity under the fiscal restraints imposed by a Balanced Budget Amendment.

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