

Post-Election Update: Defense

November 12, 2012

The Department of Defense (DOD) and the Armed Services face uncertain times heading into 2013. The decisions made during the debt limit fight of 2011 led to the Budget Control Act and the ill-fated "Super Committee." In November 2011, after the Super Committee failed to create a path forward with respect to the nation's revenue and spending habits, the defense industry was introduced to the now infamous term: sequestration. Facing budget cuts of approximately \$500 billion over the next 10 years, including \$55 billion in FY2014, the world of defense must prepare for leaner times.

After more than a decade of expanding budgets, DOD faces some tough decisions regarding procurement and end-strength. Fortunately, the one item both parties can agree on is that sequestration would be a disaster for our national security priorities and the defense industrial base. Unfortunately, the divergence of opinions begins shortly after that at how to address sequestration.

Executive Branch

The first term of the Obama Administration is credited with drafting a strong foreign policy based on successful withdrawals from Iraq, the death of Osama Bin Laden, a 2014 exit from Afghanistan, and supporting the overthrow of Libyan leader Muammar Gaddafi without committing U.S. troops. Furthermore, Obama has expanded the use of Unmanned Aerial Vehicles (UAV) in Pakistan, Yemen, and the Horn of Africa. The President has pledged to reduce the overall number of ground forces to pre-Bush Administration numbers while expanding the use of Special Forces and cooperation with other federal agencies. The President has also focused on streamlining acquisitions and procurement as well as reducing the overall reliance of the Department of Defense on contractors.

Additionally, during the campaign, the Obama team emphasized reprogramming Overseas Contingency Operations (OCO) funding for domestic initiatives such as infrastructure development. The major initial effort will focus on avoiding sequestration, which would impose drastic cuts across the board to the Department of Defense. Even if the Administration and congressional Republicans are able to work out a compromise, currently referred to as a "bridge," the struggle for defense dollars will be a difficult one. However, it will not be unlike others seen in post-war drawdowns in the past and the military will likely scale back large outdated programs and emphasize a leaner and more agile force.

Legislative Branch

The Republicans, as predicted, have held onto control of the House of Representatives but were unable to secure a majority in the Senate. With a 44 Member majority, a strong national defense will remain a priority. However, the defense industry will not maintain the sacred position it once held. With a stream of retirements amongst the senior members of the Armed

Services and Appropriations subcommittees, a plurality of Members, led by fiscally conservative members of the Tea Party, have agreed that the continued expansion of the defense budget is unsustainable. Additionally, Members of Congress, on both sides, agree that defense cuts should be made with a scalpel and not with the axe of sequestration. A crucial aspect of the discussion will involve the interplay between budgetary cuts and constituent interests, as Members of Congress maneuver to preserve projects in their districts.

Outlook in the House

There has been significant turnover on the House Armed Services Committee, with Roscoe Bartlett (R-MD) losing his seat to challenger John Delaney (D-MD). Additionally, Todd Akin (R-MO) lost his Senate race and freshmen Bobby Schilling (R-IL) and Allen West (R-FL) lost their reelection bids. In the minority, long-time defense stalwart Silvestre Reyes (D-TX) has left the House after losing his primary bid. Additionally, Larry Kissell (D-NC), Mark Critz (D-PA), and Betty Sutton (D-OH) also lost their reelection campaigns. Martin Heinrich (D-NM) will now join the Senate after a successful run in New Mexico. The Committee will be led by Buck McKeon (R-CA) while Adam Smith (D-WA) will serve as Ranking Member.

Republicans have referred to the Obama plan as a "hollowing" of the armed services and will push back against any downsizing. The Committee will likely focus on an effort to minimize hardships related to personnel budgets of the Army and Marine Corps. Operation and maintenance budgets will also face scrutiny, specifically related to overhaul and refurbishment, and the equipment and fleet demands of the Army, the Marine Corps, and the Navy, respectively.

The one bright spot that exists seems to be in UAV procurement. The UAV-based economy has grown significantly and with an emphasis from the Administration on covert/drone driven action, we expect the UAV market to expand and receive exceptional support in Congress.

On the House Appropriations Committee, Subcommittee on Defense retirements have claimed some of the top spots on both sides of the aisle. Representatives Jerry Lewis (R-CA) and Norm Dicks (D-WA) have stepped down as well as long-time defense advocate Maurice Hinchey (D-NY). This opens the door for either Rodney Frelinghuysen (R-NJ) or Jack Kingston (R-GA) to take the helm. On the minority side, Pete Visclosky (D-IN) is in line for the Ranking Member position.

The Appropriations Committee will play a large role in the effort to avert sequestration and avoid the significant cuts to defense spending. Furthermore, there has been discussion surrounding the return of earmarks, so the Committee may return to its once sought-after status but this remains doubtful.

Outlook in the Senate

In the Senate, the Democratic Party maintained control by successfully expanding their majority to 55 seats. On the Senate Armed Services Committee, retirements by Joe Lieberman (I-CT), Daniel Akaka (D-HI), Jim Webb (D-VA), and Ben Nelson (D-NE) have claimed four top spots. There is a lot of room on the Committee for newer members but this creates uncertainty about Committee priorities. With Claire McCaskill (D-MO) defeating Todd Akin (R-MO), she will have her choice of Chairmanships with perhaps Airland being her preference. Senator Carl Levin (D-MI) is expected to retain the Chair of the full Committee. Jim Inhofe (R-OK) is in line for Ranking Member, and Senator John McCain (R-AZ) is term-limited.

The Committee will focus on sequestration and working with the Administration in an effort to head off deep cuts, but unlike the House, the Committee will work with the Administration to achieve various reductions.

On the Senate Appropriations Subcommittee on Defense, the only movements in membership were the retirements of Herb Kohl (D-WI) and Kay Bailey Hutchison (R-TX). Senator Daniel Inouye (D-HI) is expected to retain the Chair of the full Committee and the Defense Subcommittee. However, Thad Cochran (R-MS) is expected to turn over the gavel to Richard Shelby (R-AL). Unfortunately, in 2012, not one of the Senate's Appropriations bills made it to the Senate floor. This track record does not bode well for the defense industry.

Additionally, without Overseas Contingency Operations, supplemental spending, and with the impending sequestration, the fight for defense dollars requires the Appropriations Committee to work more efficiently.

Overall, the Subcommittee's priorities will fall subject to the larger budget issues that rule the day.