

Statement of

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before the

House Armed Services Committee

September 20, 2012

Embargoed until released
by the House Armed Services Committee

We appreciate the opportunity to testify today regarding the effects of the potential sequestration triggered by the failure of the Joint Committee to reduce the deficit. We will discuss the report recently issued in response to requirements in the Sequestration Transparency Act (STA) of 2012.

Secretary Panetta has emphasized for many months that sequestration would have devastating effects on the Department of Defense (DoD) and virtually every other federal agency. While we can discuss the STA report and provide assessments of the effects of sequestration, we cannot create a plan that eliminates these consequences, or even mitigates them substantially. The reason is that sequestration was designed to be an inflexible policy that was never intended to be implemented. Instead, it was enacted as a prod to Congress to devise a comprehensive package to reduce the federal deficit. All of us continue to urge Congress to pass a deficit reduction plan that the President can sign and that halts sequestration.

Sequestration Transparency Act report

The STA report provides insight into the size of the cuts to the FY 2013 DoD budget that would occur under the Joint Committee sequestration. The report assumes that discretionary appropriations are funded based on a continuing resolution that provides a rate of operations as in FY 2012. Based on this and other assumptions, the report estimates that reductions in the national defense function would total \$54.7 billion for discretionary and direct spending; about \$52.3 billion of these reductions would apply to the DoD budget.

In the report the DoD budget cuts are allocated proportionally among all non-exempt budget accounts in the defense budget, with each such account absorbing a reduction of 9.4 percent of its sequesterable resources. The report reflects the exemption for military personnel funding. Based on authority granted by the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the President has indicated his intention to exempt military personnel from sequestration, and the STA report reflects this decision. With the exception of the military personnel accounts, the Administration cannot choose which programs to exempt or what percentage cuts to apply. The exempt and non-exempt determinations are based on requirements in the law.

The STA legislation also included a requirement to show reductions at the program, project, and activity (PPA) level. Because of the STA's reporting deadline of 30 days, the large number of PPAs across all agencies and budget accounts, and inconsistencies in the way PPAs are defined, the STA report states that additional time is necessary to identify, review, and resolve issues associated with providing information at this level of detail.

The STA report also notes that its estimates are preliminary. If sequestration were to occur, the actual reductions would differ based on changes in law and ongoing legal, budgetary, and technical analyses. Joint Committee sequestration would be governed by the Balanced Budget and Emergency Deficit Control Act of 1985, including the amendments in the Budget Control Act of 2011.

Implementation of Sequestration in DoD

For purposes of this testimony, we assume that a sequestration of the sort described in the STA report actually occurs starting on January 2, 2013. Non-exempt resources in each discretionary account in the DoD budget would be reduced by 9.4 percent. The basic across-the-board nature of the cuts would leave us with limited flexibility.

We could try to offset the across-the-board nature of sequestration by using techniques such as reprogramming – a method used by DoD to shift funding from lower to higher-priority projects during the year when funds are being executed. However, it is important to note that reprogramming at most offers a limited ability to moderate the effects of sequestration. Under current law, the amount of funds that can be transferred is limited. Moreover, any reprogramming that adds funds to a program or project must be offset by a cut to another program or project, which may be difficult because, as a matter of policy, we seek congressional approval of reprogramming actions. Reprogramming is also often a time-consuming process. While reprogramming might be used to mitigate some effects of sequestration, realistically it would not offer a means for making wholesale revisions. However, in some cases, our analysis assumes some ability to reprogram to mitigate serious problems.

Effects on Training Readiness

The reductions described in the STA report would apply to Overseas Contingency Operations (OCO) funding – which pays for the added costs of wartime activities. Supporting our warfighters in combat is DoD's highest priority. If sequestration were actually to occur, we would endeavor to protect wartime operating budgets as much as possible by making disproportionately large cuts in the base-budget portions of the operation and maintenance (O&M) and other accounts affected by sequestration. For example, the Army and Marine Corps would give priority to wartime operating budgets and, to do so, their other O&M programs would need to be reduced by a significantly greater percentage than the overall sequestration rate.

We would try to minimize the effects of these base-budget reductions on readiness. For example, we would consider imposing disproportionate cuts in funding for facilities sustainment, restoration, and modernization except for those funds related to safety and critical missions. We would also consider disproportionate cuts in selected administrative costs and in base operating funding. We might consider limited reprogramming. However, we would not be able to avoid some cuts in funding for direct readiness, which would result in reductions in training. Under some circumstances, this reduced training could impact our ability to respond to a new contingency, should one occur.

Civilian Personnel Effects

Sequestration would almost certainly force us to reduce funding for civilian personnel. Although it is premature to describe in detail how sequestration would affect the DoD civilian workforce, it might be necessary to impose a hiring freeze (though we would seek to exempt certain critical positions), consider unpaid furloughs, and take other actions. These actions would reduce our capability in important ways: fewer people to fix our weapons including those damaged in war; less expert time and attention available to enter into well-crafted contracts, including those affecting war zones, and to handle financial transaction and audit efforts; and less support for other critical functions that benefit the warfighter and the taxpayer.

Effects on Modernization

Sequestration would generally not affect prior-year funding already obligated on contracts. But it would nevertheless have substantial adverse effects on DoD's investment programs. Under the assumptions required in the STA report, there would be a 9.4 percent reduction in each of the discretionary budget accounts that fund procurement; research, development, test, and evaluation; and military construction projects. In many cases we would have to buy fewer weapons in order to accommodate the budget reductions, which would drive up unit costs. In cases where we cannot feasibly reduce the quantity of items bought – ships come immediately to mind – we would have to delay projects. Thus there could be delays in ship deliveries for vessels such as the new CVN-78 class aircraft carrier. While we would attempt to mitigate effects, sequestration would in many cases have adverse effects on the industrial base supporting DoD.

Impact on Forces

In this statement, we focus on sequestration's immediate and drastic effects in FY 2013. However, sequestration and the lowering of the discretionary caps would reduce DoD budgets by \$50 to \$55 billion in each year from FY 2013 through FY 2021. The required reductions beyond FY 2013 would not have to be implemented through across-the-board cuts. But the cuts would still be large, in effect doubling the reductions already imposed by the Budget Control Act. Even though the President has indicated his intent to exempt military personnel funding from any FY 2013 sequestration, the outyear cuts would force the Department to make substantial reductions in military personnel and units in the years beyond FY 2013. Otherwise, we would end up with too many units and not enough funds to train and equip them. While specific decisions would need to be made carefully, it is clear that sequestration and the lowering of the defense topline would, over time, lead to fewer of many types of forces, possibly including aircraft carriers, brigade combat teams, and fighters.

Sequestration, and lowered budget caps, would also affect our forces in ways other than just size. Our senior military leaders assess that sequestration would mean fewer day-to-day global military activities, notably exercises and training. We would have fewer options for responding quickly to emerging crises, and our ability to deter potential adversaries would be diminished. We anticipate that we would have to reduce exercises and training with partners, which may affect political and physical access when we need it in the future. Over time, the total Joint Force would become less capable to respond across a range of missions, less adaptable to emergent challenges, and less modern relative to the forces of potential adversaries, particularly those with anti-access/area denial capabilities. With a smaller force, we would need to increase end strength rapidly when committing to a major contingency, and we would face greater risk in how fast and how well our National Guard and Reserve forces are able to respond.

Impact on Strategy

Significant cuts in military units and their readiness caused by sequestration and the lowering of the discretionary caps in the outyears would, in turn, require that we revisit the national security strategy that the President put in place last January. While it is premature to outline specifics, sequestration would force DoD to revise a strategy that was carefully crafted and designed to meet current national security needs.

Impacts on Morale and Health of the Force

Our senior military leaders are also concerned that the morale of the force will be affected in ways that are unpredictable. We could face recruiting and retention problems, particularly among the most talented in the force. While we will attempt to ensure that reductions do not cause us to break faith with our troops, potential reductions to family and retiree programs could undermine our ability to recruit and retain an all-volunteer force and to keep families supported. Our senior military leaders are committed to keeping the force in balance as the best trained, best led, and best equipped force on the planet. In their assessment, sequestration risks driving the force out of balance.

Military families and retirees would also be adversely affected by sequestration. While we would make every attempt to preserve quality-of-life and family support programs, we could be forced to cut back on base support services, facility maintenance, and maintenance of government owned family housing. Commissary hours might have to be reduced. Funds for the Defense Health Program -- which provides health care for retirees and military dependents -- would be sequestered, resulting in delays in payments to service providers and, potentially, some denial of service.

Next Steps

While we can foresee the harmful impacts of sequestration that we have just described, we cannot devise a plan that eliminates, or even substantially mitigates them. We are working with the Office of Management and Budget (OMB) to understand this complex legislation, and we are assessing impacts. Congress still has the time to enact a deficit reduction plan that the President can sign and that halts implementation of this inflexible law. In the unfortunate event that sequestration is actually triggered, we will work with OMB and – like all the federal agencies affected by the law – we will be ready to implement.

While the Administration will be ready for sequestration if it occurs, we are equally worried about a different type of problem. This would occur if sequestration does not happen but we end up triggering some of its bad effects anyway. For example, we do not want to alarm our employees by announcing adverse personnel actions or by suggesting that such actions are likely. We do not want to hold back on the obligation of funds – either for weapon projects or operating programs – that would have been obligated in the absence of a possible sequester, since this would introduce inefficiency and waste and delay receipt of needed military capabilities. Nor do we want to cut back on training, which would harm military readiness in a period when we face a complex array of national security challenges. In the charged budgetary environment in which we are operating, the risk of triggering adverse effects early is real. To avoid these problems, and consistent with OMB's guidance issued on July 31, we will continue normal operations unless sequestration is actually triggered.

Finally, we understand that private companies that serve the Department of Defense and constitute important members of our national security team will be making decisions on issues related to sequester. They face many of the same dilemmas we do, and many of these companies have expressed alarm about the potential effects of sequestration. The best thing that can happen for private companies is for Congress to take steps to stop sequestration.

Conclusion

In sum, sequestration and the lowering of the discretionary caps would result in a less-capable, less-modern, less-ready force and risks creating a hollow military. It would also require a change in our current national security strategy, which we believe is the right one.

In an era of multiple national security crises and challenges, this is a particularly unfortunate time to allow such deep and mechanical cuts to take effect. We very much hope that Congress will pass a deficit reduction plan that the President can sign and that avoids sequestration.