

**DEPUTY SECRETARY OF DEFENSE ASHTON B. CARTER
PREPARED TESTIMONY
HOUSE ARMED SERVICES COMMITTEE
WEDNESDAY AUGUST 1, 2012**

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I appreciate the opportunity to join with the Acting Director of the Office of Management and Budget (OMB) in testifying today regarding the effects of sequestration.

Secretary Panetta and I have been emphasizing for many months that sequester would have devastating effects. While I will focus on the impact on the Department of Defense (DoD), Acting Director Zients' testimony makes clear that the effects on non-defense agencies would be equally devastating. We urge Congress to avoid sequestration by devising a comprehensive and balanced deficit reduction package that both the House and Senate can pass, and that the President can sign. Back in February, the President's Budget for FY 2013 in fact contained a proposal for such a balanced reduction. Secretary Panetta and I strongly urge that the Congress enact a balanced deficit reduction plan to avoid sequestration.

Acting Director Zients already described the mechanism by which sequester would work. In my statement today, I describe some impacts specific to DoD. But much of what I say would be echoed by managers in other federal agencies and by industry leaders who furnish critical goods and services to the federal government. And, while I can describe many of sequester's impacts on DoD, I cannot describe a "plan" that somehow eliminates these consequences, or even mitigates them substantially. The reason for this is that sequester was designed to be an inflexible and mindless policy. It was never designed to be implemented. Instead, it was enacted as a prod to Congress to devise a comprehensive package to reduce the federal deficit.

As I illustrate some of the impacts of sequester, it will be clear that it is a policy that should never be implemented. It introduces senseless chaos into the management of more than 2,500 defense investment programs, waste into defense spending at the very time we need to be careful with the taxpayer's dollar, inefficiency into the defense industry that supports us, and causes lasting disruptions even if it only extends for one year. Sequester in FY 2013 would seriously disrupt our forces and programs. Over the longer term, the lower caps in FY 2014 through FY 2021 would require that we substantially modify and scale back the new defense strategy that the DoD leadership, working under the guidance of the President, so carefully developed just a few months ago.

How Sequester Would Work in DoD

If sequestration occurs, it would be governed by the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985, as amended by the Budget Control Act (BCA) of 2011. Congressional report language also specifies some of the detailed procedures for DoD.

Sequestration requires that national defense programs be reduced by almost \$55 billion in FY 2013, and the lowering of the discretionary caps would result in reductions of the same amount in each year from FY 2014 through FY 2021. The DoD budget would bear more than 95 percent of this reduction.

While sequestration and lowering of the discretionary caps could have important effects for each of the next nine years, I will focus today mostly on the effects in FY 2013. In FY 2013 special rules govern the sequester and require an across-the-board application of the cuts that is designed to be inflexible. To determine the size of the sequester by project and account, a percentage will be calculated based on the prescribed dollar cut (almost \$55 billion) and the total of the FY 2013 appropriation and unobligated balances from prior years. Obviously, that percentage cut cannot be estimated precisely until we know the level of FY 2013 appropriated funds and the level of prior-year unobligated funds.

Sequester would apply to all of the DoD budget, including the wartime or Overseas Contingency Operations (OCO) portions of the budget – with only one potential exception that is significant. Under the 1985 Act, the President has the authority to exempt all or parts of military personnel funding from sequestration. If the President chooses to utilize this authority for FY 2013, he must notify the Congress by August 10, 2012, about the manner in which he will exercise the authority. If the President exempts military personnel funding from sequester in FY 2013, then other DoD budget accounts must be cut by larger amounts to offset the military personnel exemption. DoD estimates that the percentage reductions under sequester could range from 8 percent for all DoD accounts (if military personnel funding is fully sequestered) to 10 percent for accounts other than military personnel (if “milpers” funding is fully exempt from sequestration). These estimates assume that Congress provides funds for FY 2013 equal to the President’s request and reflects DoD’s best estimate of unobligated balances from prior years.

OMB will eventually calculate the sequester percentage and will use the percentage to calculate reductions in dollar terms for each budget account. How these reductions are applied in DoD varies between the operating and investment portions of the budget, as specified in law and applicable Congressional report language. Cuts to the operating portions of the DoD budget must be equal in percentage terms at the level of budget accounts. (Examples of budget accounts in the operating budget include Army active operation and maintenance, Navy reserve operation and maintenance, and Air Force Guard operation and maintenance.) Within each budget account in the operating portion of the budget, DoD can determine how best to allocate the reductions based on management judgments. For the investment portions of the budget, the dollar cuts must be allocated proportionally at a lower level of detail identified as “program, project, and activity (PPA)”. More than 2,500 programs or projects are separately identified and must be reduced by the same percentage. Absent a reprogramming action, the inflexible nature of the sequester law

means that DoD would have no authority to vary the amount of the reduction. Within a PPA, however, managers can decide how best to allocate the reductions.

It is important to note that reprogramming – a method used by DoD to shift funding from lower to higher-priority projects during the year when funds are being executed – would at most offer a limited ability to modify the effects of sequester. 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 might be used to offset some effects of sequester but, realistically, it would not offer a means for making wholesale revisions.

To close this description of sequestration, let me say what sequestration would NOT do. Sequestration would generally not affect funds already obligated as of the date the sequester cuts are calculated.

Impacts of Sequester

Acting Director Zients discussed some of the potential effects of the sequester on non-defense programs. Just as in non-defense agencies, sequestration would have devastating effects on DoD and its personnel both because of the size of the sequester cuts and because of the mindless way the law requires that they be allocated. Although we strongly believe that Congress should enact a balanced deficit reduction package and avoid sequestration, we have reviewed the law and identified some of the key impacts sequestration would have on the Department.

As noted earlier, OCO funding – which pays for the added costs of wartime activities – is subject to sequester. Supporting our warfighters in combat is DoD's highest priority. We would therefore endeavor to protect wartime operating budgets as much as possible, including the key operation and maintenance (O&M) accounts. The O&M accounts contain OCO as well as base-budget funding, and these two categories of O&M funding merge together during execution of DoD budgets. We could reduce the base-budget portions of O&M disproportionately and spare the OCO portions. We could take similar steps as needed in other accounts that include OCO funding.

However, especially in the Army and the Marine Corps, this action would lead to large cuts in base-budget O&M. We would seek to minimize effects on training and readiness of units deploying, but we could probably not do so fully. As a result, some later-deploying units (including some deploying to Afghanistan) could receive less training, especially in the Army and Marine Corps. Under some circumstances, this reduced training could impact their ability to respond to a new contingency, should one occur.

Sequestration could also affect training in the other military services. We will seek to minimize effects on readiness. However, Air Force flying hours for pilots could be reduced by several hours a month and Navy steaming days could decline by several days a quarter. The result will be reduced training and lower readiness.

The sequester would force us to reduce funding for civilian personnel, and I would join other senior federal managers in making difficult personnel decisions that will harm all of our departments. Although it is premature to describe in detail how sequester would impact the DoD civilian workforce, it might be necessary to impose a partial hiring freeze or unpaid furloughs. 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 and handle financial transactions, and less support for other critical day-to-day operations.

Military families and retirees would be adversely affected by sequestration. For example, 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.

These various sequestration actions, taken together, would represent a major step toward creation of an unready, “hollow” military force. Military readiness would be added to the list of programs in other departments harmed by sequestration including nutrition assistance for low-income women, education for young students, and research projects designed to improve American lives.

Sequestration would also inevitably lead to universal disruption of DoD’s investment programs. Under current rules that govern the sequester process, every one of our more than 2,500 procurement programs, research projects, and military construction projects would each be indiscriminately reduced. Those who manage these programs would be forced to join many other acquisition managers in non-defense agencies as they seek to accommodate the reduced funding for FY 2013, three months after the fiscal year starts.

Some military managers would be forced to buy fewer weapons. For example, assuming proportional cuts and DoD’s current estimate of the size of the sequester, we would buy four fewer F-35 aircraft, one less P-8 aircraft, 12 fewer Stryker vehicles, and 300 fewer Army medium and heavy tactical vehicles compared with the requests in the President’s Budget for FY 2013. Reductions in buy sizes will cause unit costs of weapons to rise, which will in turn

demand further cuts in buy sizes. In cases where we cannot feasibly reduce the quantity of items bought – ships come immediately to mind – we would have to delay projects. There could be a delay of several months in the new CVN-78 carrier along with delays in the Littoral Combat Ship program and DDG-51 destroyer procurement. Some military construction projects could be rendered unexecutable by sequester. We could be forced to delay fixing schools, defer construction of new medical facilities, and delay environmental cleanup.

I have focused on the effects of sequestration on DoD. But much of the Intelligence Community's funding is within the DoD budget and is also subject to sequestration. As it would in DoD, sequestration would have devastating effects on the Intelligence Community. If sequestration occurs, senior managers in the Intelligence Community would join me and leaders in all affected non-defense agencies as we strive to meet the needs of American citizens while operating under a law that was purposely designed to be inflexible.

While I have focused on effects in FY 2013, sequestration and lowering of the discretionary caps reduces DoD budgets by \$50 to \$55 billion in each year from FY 2013 through FY 2021. The cuts beyond FY 2013 would not have to be implemented in the across-the-board manner that I have just described. But the cuts are still large. Even if the President elects to exempt military personnel funding in FY 2013, the outyear cuts would force the Department to make substantial reductions in military personnel and units in the years beyond FY 2013. Otherwise we will end up with too many units and not enough funds to train and equip them. Significant cuts in military units 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.

Next Steps on Sequester

While we can foresee the harmful impacts of sequester, as I have described, we cannot devise a “plan” that eliminates, or even substantially mitigates them. Sequester defies rational “planning.” It was designed to be irrational. We are working with OMB to understand this complex legislation, and we are assessing impacts. Because we are still five months from implementation, Congress has the time to enact a balanced deficit reduction plan and halt 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 this law – we will be ready to implement.

But we are equally worried about a different type of error. 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 unnecessarily 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. 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, this type of error is very real.

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 a number of them have expressed to me their alarm at such a wasteful and disruptive way of managing the taxpayers' money and the talents of their employees. The best thing that can happen for private companies is for Congress to enact a balanced deficit reduction plan that halts implementation of this inflexible law.

Summary

I believe that my testimony today makes clear that sequester would be devastating to DoD, just as it would to every other affected federal agency. It is important to remember that sequester was not a policy designed to be implemented. It was enacted as a prod to Congress to act on the federal deficit.

Congress needs to deal with the debt and deficit problems in a balanced way and avoid sequestration. The men and women of this Department and their families need to know with certainty that we will meet our commitments to them. Our partners in the defense industry, and their employees, need to know that we are going to have the resources to procure the world class capabilities they can provide, and that we can do so efficiently. Allies, partners, friends, and potential foes the world over need to know that we have the political will to implement the defense strategy we have put forward.