



The Daily Dish

Policy Risks in a Budget Crunch

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Eakinomics: Policy Risks in a Budget Crunch

A central issue in the near-term policy outlook is the fate of the caps and sequester mechanism under the Budget Control Act (BCA). In the absence of a deal and accompanying legislation, the BCA will dictate sharp cuts to both non-defense and defense discretionary spending. The president's [budget](#) accepts the cap on non-defense spending, but utilizes a budget gimmick (the Overseas Contingency Operations, or OCO, account) to add back \$170 billion in defense spending. In contrast, the Senate Budget Committee passed a [budget](#) that accepts both caps, but embodies a mechanism to allow higher spending on both categories if the increases are offset.

That outlines the budgetary dimensions of a deal. But there is a risk that the dollars become divorced from the policy needs. Indeed, the BCA caps themselves are a tribute to this very risk. While they made the 10-year deficit smaller on paper, they were not built on a real policy foundation. Commenting on this defect in Simpson-Bowles, which featured similar caps, former Secretary of Defense Robert Gates once [put it](#), “‘The truth of the matter is when it comes to the deficit, the Department of Defense is not the problem,’ he said. ‘I think in terms of the specifics they came up with, that is math not strategy.’” Nothing has changed in the interim.

Following the strategy of the president's budget, for example, means that the \$98 billion is in OCO. That means the budget isn't scaled to anything like the budget caps. This exposes needed acquisition and modernization funding to funding risks. The National Defense Strategy (NDS) prioritized threats from near-peers (Russia and China) that will involve modernization to the nuclear triad. That means expensive systems such as the B-21 long-range bomber (\$3 billion for FY2020), the Columbia-Class (\$2.2 billion for FY2020), as well as improvement to ground-based weapons (\$570 for FY2020), and nuclear command, control and communications systems (\$2.5 billion for FY2020).

There are risks that are less high-profile, but not less important. For example, the current fleet is the smallest and oldest in the history of the U.S. Air Force and needs to purchase at least 72 tactical aircraft per year to support the NDS. Studies indicate the need for a future force structure that has equal parts of the latest generation (F-35 and modernized F-22) and previous generation fighters. The latest version of the F-15 (the F-15X) is the most economical way to make up the latter part of the force structure, as well as contribute to the homeland defense mission. These are often the jets “scrambled” to protect our cities, our major events and our people, coast to coast. One of the many issues facing Congress is funding the procurement of capabilities like the F-15X.

Policy decisions are rich with tradeoffs in the face of multiple threats. But those decisions should not be dictated strictly by budgetary considerations.