



September 20, 2013

Letter from Washington

Here in the United States we have just lived through an astounding display of how not to conduct foreign or domestic policy.

In the short term the outcome appears to have been a win for President Obama in that he did not have to endure a crippling defeat in the Congress for his Syria military force resolution. The fact that Vladimir Putin created the pathway that allowed him to escape another disaster of his own making should give him great pause.

Even before his election in 2008 the President has always appeared to think that the world is populated by men of good will and honest intentions, and that there are no enduring conflicts, just misunderstandings. In the conduct of foreign affairs, which is seen as a global morality play, we must not only do well but also do good in the process, and that democracy is the default position in human affairs.

This happy outlook has created some unhappy results, and even if the United States has no vital interests at play in Syria that would justify military action, the President has outsourced his policy to Putin and given away any freedom of action that he might have had.

Russia's abiding interest in Syria has been the preservation of the Assad regime as a long-term client and customer. Our erstwhile allies in the Middle East have seen this administration not hesitate to jettison long and short-term friends, and must be impressed by the Russians' constancy of purpose and loyalty.

The President's "success" is likely short-lived. The party line is that it was the threat of US force that brought the Russians around, and that this has all played out to the US's lasting benefit. In reality, it hasn't even begun to play out, and the President has positioned himself to have to accept the Russian's word on the size and location of the Syrian's chemical weapons stocks. At some point in this process Assad is bound to make the moral equivalence argument that his chemicals only exist as a hedge against the Israelis' nuclear weapons, and that he will happily give up his WMD if Israel does the same.

Functionally, Assad has been rewarded for the use of chemical weapons, and the President has been able to avoid a military action he was desperate to avoid. The key issues of a regime killing its own people in a destabilizing civil war have been pushed aside by the focus on chemical weapons. Assad has never needed chemicals to brutalize the population, and the count of civilian deaths due to chemicals has been less than 2% of the total.

A Middle Eastern observer commented that in the bazaar in Damascus there has always been a good living to be made by leading tourists into the labyrinth of small shops and stalls and winding alleyways. When they are thoroughly disoriented, the helpful guide then demands additional payment to lead them back to familiar ground. Mr. Obama has just been led into the bazaar by Vladimir Putin.

While there is a respite from the Syrian situation, the US Congress can now focus on the real business at hand, appropriating funds for FY-2014. The House has generated a Continuing Resolution that would fund government activity until mid-December, but none of the regular appropriations bills have been passed.

There are a series of key dates rapidly approaching, each one of which has significance:

- **Sept. 30:** FY-2013 Continuing Resolution expires.
- **Oct. 1:** FY-2014 begins. The government shuts down absent a last minute deal.
- **Oct. 15:** The Treasury runs out of flexibility under the current debt ceiling limit and defaults. This date is not precise, and may be plus or minus a week.
- **Dec. 15:** The House Appropriations Committee has initiated a CR that would fund the government from Oct. 1 through Dec. 15. If a deal is not in place to fund the government by then there will be another shut down.
- **Jan. 15:** Sequestration reductions take effect for fiscal 2014, unless Congress averts the across the board cuts.
- **Feb. 3:** The President submits his FY-2015 budget to Congress.

As of this moment, with 10 days to the end of FY-2013 there is no deal in sight that will prevent a government shutdown. We have seen this movie before, but this time there are some significant differences.

October 1 is the key implementation date for the Affordable Healthcare Act (Obamacare). The conservative wing of the Republican Party hates Obamacare with a white-hot passion, and has consistently tried to move for its repeal or delay. This is a quixotic crusade because in order for the law to be repealed it would have to pass the Democrat-controlled Senate, and be signed by the President. Clearly, neither of those things will happen.

The strategy of the Tea Party wing in the House is to pass a ten-week Continuing Resolution, but attach an amendment to it that prevents the administration from spending any money on Obamacare implementation. In other words, fund every activity of the government at 2013 levels except Obamacare. This clearly has no chance of passing the Senate or being signed by the President either. The normal legislative process calls for the Senate to pass its version of a CR and then to meet with the House to iron out differences.

The conventional wisdom is that if the Republicans force a government shutdown for ideological reasons they will pay heavily in 2014, losing any chance at retaking the Senate and possibly losing the House in the process.

Speaker Boehner has derided this strategy as courting disaster for Republican hopes, but has been over-ruled by his own caucus and forced to bring it forward as a plan. Boehner can't handle more than 20 Republican defections on any issue, and there are about 50 Tea Party members in his caucus. While they are a small minority of the Republican House, they wield power beyond their numbers and can effectively drive the agenda.

The Tea Partiers mainly represent Congressional districts that voted overwhelmingly against Obama, and many of them ran specifically on a platform of repealing Obamacare. Not only do they have nothing to fear politically in pushing the leadership to pursue defunding, they would be inviting primary challenges from the right if they do not. They emphatically have no confidence and no respect for the current leadership, and they tend to view the establishment Republicans like Boehner and McCain as much of the problem as Obama himself.

According to Boehner, the next step after the probable loss of the vote on defunding Obamacare via the Continuing Resolution will be to attach it to the debt ceiling increase. The logic of that strategy seems to be that if the public will punish the Republicans for a government shut down, they will be perfectly OK with a credit default. Clearly the Speaker is playing for time and hoping for something to happen that will avoid both a shutdown and a default.

Obama has his own problems within the Democratic ranks, beyond having been repudiated by his own party on the Syria question. This week also his choice for Federal Reserve Chairman, arguably the second most important position in the government, was forced to withdraw due to Democratic opposition. We have commented before that no one fears Barack Obama, either home or abroad, but an insult of this magnitude from an incumbent President's own party is unimaginable.

All of this just shows that the President has lost control of his caucus as well, and it begs the question whether he and Boehner have the juice within their

own parties to sell a deal to their respective members, in the event that one should ever be agreed.

The dissolution of the traditional centers of political power in Washington maybe reflects what is happening in the country at large. Many people have lost trust and confidence in their government, and believe that they are routinely lied to. The Congress and the administration appear to be leaderless and helpless to perform even the most basic functions of governing, and the Congress has a popularity rating only a point or two higher than North Korea.

As just one more example of the dysfunctionality between the House and Senate, on Monday of this week when the shooting was taking place at the Washington Navy Yard, the Senate went into lockdown mode while the House remained open for business as usual. The two sides that have 10 days to avert a government shutdown couldn't even develop a coordinated response to what appeared at the time to be a terrorist incident.

Given this backdrop of conflicting agendas and nonfunctioning institutions, what is the likely outcome for Defense in 2014?

Assuming no prolonged government shutdown, the best-case scenario would have the House and Senate agree on a CR that would provide funding through mid-December at FY-2013 sequestration levels. If by mid-December the parties can agree on a regular defense appropriation, the starting point would be the President's Budget amount request of \$527B. Since that amount exceeds the Budget Control Act caps, \$52B will be sequestered from it in January, leaving a DoD topline of around \$475B.

Sequestration will have a more negative effect in 2014 since the start date is earlier, and the full amount withheld will be about 40% higher than 2013. Additionally, all of the one-time budget gimmicks have been used and the prior-year balances that were available to offset sequestration in 2013 have been depleted. Ultimately the adjusted DoD topline will be about \$15B below 2013, with another \$10B taken from the Overseas Contingency account as the Afghanistan drawdown goes forward.

Assuming the President will exempt military pay accounts from sequestration again in 2014, that results in a 15-20% reduction in DoD acquisition spending.

The service chiefs have all testified in the last several weeks regarding the damage that is being inflicted on their organizations by sequestration, and their inability to perform their assigned missions under the National Military Strategy. Neither side likes sequestration, but it appears to be in place for another year unless an overarching deal on taxes and entitlement spending can be reached. Stand by for another chaotic year.