



August 14, 2014

## **Letter from Washington**

*(**Author's Note:** Faithful readers of the Letter from Washington may have noticed its absence since this past spring. The reason for the hiatus was the realization that the letter had in some ways strayed from its original purpose, and instead of attempting to explain the intersection of American national politics and Defense and Homeland Security policy and appropriations, it had become a regular anti-Obama administration rant. While there may have been a certain satisfaction in recounting the serial failures of the administration, it did not make for enlightening or insightful reading. It was hoped that taking a break from a regular production schedule for a time would give events and their associated bad news an opportunity to slow down, and that things would look brighter in hindsight. Intelligent and informed readers understand how naive that may have been, so we resume publication with even more concern for the direction of the country, the lack of a coherent strategy and how that will affect military readiness and the defense industry.)*

As a candidate in 2008, Barack Obama espoused a non-interventionist foreign policy, based on the belief that if the US stepped back from its traditional leadership role of the democratic nations, that others would step up to fulfill that function in various situations. The underlying assumption was that many of the world's problems were caused by American arrogance and overreach, and that if we just disengaged from the world that everything would right itself. Obama's focus was to be on "nation building at home", and the world would learn to operate for itself and solve its own problems without US interference.

The lesson that has been brought home from six years of that approach is that disengagement is entirely possible, but at significant cost to American interests and to our allies.

The interesting dichotomy in American politics is that while a majority of Americans still do believe that we should be less involved in the world and more concerned with our own internal issues, they disapprove of the President's handling of foreign affairs by a wide

margin (36% approve/60% disapprove in the August 3 NBC/WSJ poll). In other words, they agree with the policy but don't approve of the results.

The President's attempts to calibrate and fine tune his nuanced responses to Russian provocations in Ukraine and elsewhere have made him appear weak and without a strategic objective. All this has led to more provocative behavior from Russia and others, and relegated the US to bystander status in the latest Israeli-Palestinian conflict. As the ultimate insult, Secretary of State Kerrey is reported to have learned of the Israeli-Hamas ceasefire on Twitter after the Egyptians and Saudis brokered it without US knowledge or participation.

The President apparently believes that he is playing a long game and that he will be proven right eventually: Putin will ultimately fail, the Iranians will give up their nuclear program, the Chinese will not use force to settle their territorial disputes, and radical Islam will not be a threat to western civilization.

During the 2008 campaign and frequently since, Obama has blamed the Bush administration for driving the economy off the road and into the ditch. History will likely view Mr. Obama as sleepwalking American influence and credibility in foreign affairs off a cliff, and it will take the focused effort of another administration to regain it.

Meanwhile, the President's party is facing what may be decisive mid-term elections in November, leading up to the next Presidential cycle in 2016.

The mood of the country continues to be sour, with a large majority believing that the US is on the wrong track. America is having a populist moment with the same theme being picked up by both the left and right. Both sides believe that the deck has been stacked against the average person and that the playing field is no longer level, but disagree on the cause and the solution. The left tends to believe that government intervention is required to bring things back into balance, stoking resentment of "income inequality". The right believes that the problem is that government has over-regulated business and stifled individual initiative. The solution is to deregulate American life, providing incentives for creativity and entrepreneurship which will benefit all of society. One side of the argument requires resentment and envy; the other side requires optimism and individual

responsibility. Thus far, no politician on either side has been able to seize the moment and create a message for the 2016 election.

The Republicans go into the midterms holding a comfortable majority in the House, and with fewer seats in play in the Senate. At this point they will clearly hold the House and most likely win a majority in the Senate as well. If that comes to pass, the Obama Presidency will effectively have ended. All the initiative will shift to the Legislative branch, and the President's only option will be to veto Republican-passed legislation. The Legislature can defang the administration by eliminating funding for its priorities, and the potential for continuing gridlock is high, although shifting from the Democrat-controlled Senate versus the Republican House to the Republican Legislative Branch versus the Democrat Executive Branch.

In past divided government scenarios the Legislative branch usually holds the upper hand since it can bundle its priorities with must-pass appropriations legislation that the President will be reluctant to veto. For a President to succeed while dealing with a hostile Legislative branch he must be a masterful politician and skilled user of the "bully pulpit" that only the President possesses. Mr. Obama has demonstrated over the past six years that he is neither.

Mr. Obama's poll numbers also reflect a growing belief on the part of many that he has become tired of the job, since nothing seems to be turning out the way he thinks it should, and that his main interest now is in golf and fundraising with friendly audiences in vacation spots. Even some in his own party have criticized the President for heading off to vacation on Martha's Vineyard after authorizing air strikes in Iraq, but rather than just tone-deaf politics it may be more evidence that he has indeed lost interest.

What does this portend for Defense and Homeland Security funding for 2015 and beyond?

The Budget Control Act, which was enacted in August 2011, averted a government shutdown but established deep cuts in government spending through FY 2021. In January 2012, the DoD announced that the reduction in defense spending would amount to \$487B between FY 2012 to FY 2021, with \$259B taken out between FY 2013 to FY 2017. In March 2013, the mandatory sequestration of government spending in accordance with the provisions of the Budget Control Act began. The Congress passed the Bipartisan Budget Act in December 2013 which lessened the impact of sequestration FY 2014 and 2015. The

administration's FY 2015 budget request included \$495 to fund base defense programs, and \$58B for Overseas Contingency funding, reflecting \$21B in savings from the Afghanistan drawdown.

Major program effects inherent in the budget request include a reduction of Army end strength from 520,000 to 450,000 troops, while maintaining 11 aircraft carriers and the F-35 development and procurement program, offset in part by the retirement of the A-10 and U-2 fleets.

The 2014 QDR states that while the forces will become smaller under the administration budget request, they will be modernized with higher readiness spending. However, unless the Congress and the President agree to a revised budget bill or repeal the Budget Control Act, sequestration will begin again in FY 2016 and onward. If that occurs, then all major programs are back on the chopping block again, and modernization and readiness will be curtailed severely.

Chairman Dempsey has testified numerous times, and stated publicly at every opportunity, that risks are barely manageable through 2015, but that if sequestration is allowed to occur again that real damage will be done to the force and that risk rises to unacceptable levels.

So far his blunt statements have fallen on deaf ears in the Congress. The dire predictions for 2013 and 2014 did not come to pass, partly because the DoD oversold the effects of sequestration, and partly because industry has continued to post impressive profits, largely through productivity increases, consolidations and shedding overhead.

For the House and Senate to agree on anything leading up to the mid-terms in November would be amazing in itself, but to expect there to be some bi-partisan agreement on mitigating sequestration for the DoD is out of the question. Each side will want to be able to blame the other, so nothing will be done to prevent the disaster that is coming.

If the Republicans gain control of the Senate in November there is the potential that a legislative fix for Defense sequestration could be passed, but the President would have to sign the bill and he might not.

More likely, a Republican-controlled Legislative branch sets the table for government shutdown scenarios between November 2014 and the Presidential elections in 2016. The best hope for Defense is that the 2016 elections result in one party control of the White House and the Legislative branch, again an unlikely outcome.