Traditionally, Congress passes an annual Budget Resolution specifying overall goals for federal spending, but leaves final allocations and agency-specific decisions to the 12 annual appropriations bills. In this way, Congress can react to changing circumstances and needs on an annual basis. However, in 2011 the Congress took a radically different approach. In exchange for increasing the federal debt ceiling, the Budget Control Act of 2011 (BCA) set strict 10-year statutory caps on federal programs that are subject to annual appropriations (often called discretionary programs). Within the overall limit, the BCA set separate caps for defense and non-defense programs and imposed automatic, across-the-board cuts under an enforcement procedure known as sequestration.

Over the first four years, the taste of BCA’s medicine has been bitter. Public outcry over the effects of sequestration led Congress to pass the American Taxpayer Relief Act of 2012 and the Bipartisan Budget Act of 2013, each of which took steps to provide relief between fiscal years 2012-2015. Although welcome, that relief expires in September 2015, and the BCA’s austerity will return with a vengeance unless Congress takes action again.


At the end of this month, the sequester clock will once again reach zero—just as it did in the spring of 2013, when across-the-board budget reductions were imposed. In December of that year, Congress passed the so-called “Ryan-Murray” agreement, which provided significant fiscal relief for two years. With the presidential campaign taking center stage in national affairs over the next year, AIA believes it is prudent for Congress and the Administration to once again provide two-year relief. This will provide a measure of stability for federal agencies until the next Administration can formulate its budget priorities.

“There’s nothing in our deficit prospect that should make us distort our defense planning in the near term...There’s no reason to be taking draconian steps right now that will have long-run, costly implications for our defense posture just for deficit reasons.”

— Ben Bernanke, Former Chairman, Federal Reserve Bank, August 2015

The Aerospace Industries Association (AIA) represents U. S. aerospace and defense manufacturers, who employ over one million workers and contribute more to our national trade balance than any other manufacturing sector. Aerospace companies provide stable, relatively high-wage jobs that sustain American families. It is an industry known for technological innovation and global competitiveness in both defense and commercial markets. Our industry directly serves government customers such as the Department of Defense, the Federal Aviation Administration, the National Aeronautics and Space Administration, and the National Oceanic and Atmospheric Administration. However, civil aviation and other sectors of our economy also depend on sustained and reliable government investment in air traffic control infrastructure, aircraft certification streamlining, aeronautics research, and hazardous weather prediction and modeling. Investments in each of these areas are threatened by sequestration.
According to estimates released by the Congressional Budget Office (CBO), discretionary programs will account for only 9.4% of the growth of the federal budget over the next decade, while mandatory programs will account for 73%. AIA believes the current BCA caps require disproportionate austerity in this small but critical part of the federal budget, and that a more comprehensive, multiyear solution is needed to protect America’s economic prosperity. The chart above shows the significant decline in federal discretionary spending, as a percentage of GDP, that will continue if the BCA caps are not raised.

**SEQUESTRATION’S THREAT TO OUR NATIONAL SECURITY**

Compared to previous estimates, our nation’s investment in national security has been falling for the past five years. After five years of declining investment, our Air Force is fielding the smallest and oldest force of combat aircraft in its history, and our Navy is headed towards a fleet of 260 ships when well over 300 are required to meet a renewed emphasis on Asia. These cuts caused military leaders early in 2015 to testify several times before Congress about the serious decline in our military readiness around the globe.

“We currently have 12 fleets of aircraft that qualify for antique license plates in the state of Virginia…Air Forces that fall behind technology fail and joint forces without the full breadth of air, space, and cyber capabilities that compromise modern airpower will lose.”

— General Mark A. Welsh III, Air Force Chief of Staff

Despite these warnings, unless the BCA is modified, discretionary spending on our nation’s defense will fall to a new low of 2.8% of GDP by 2019, 2.5% in 2020 (the lowest level since World War II), and will continue this freefall through the year 2025. Looking at the long-term effects of this decade of austerity, the Congressionally-chartered National Defense Panel2 concluded in 2014 that the BCA provisions “constitute a serious strategic misstep on the part of the United States”. The following chart shows this disturbing trend over the life of the BCA.
The United States today confronts an array of threats that were not contemplated or well understood when the Budget Control Act was signed into law. Since 2011, we witnessed the rise of an emboldened Russian Federation and the invasion of Ukraine; the rise of powerful, transnational terrorist organizations such as ISIL and Boko Haram in the Middle East and Africa; sophisticated cyber attacks on U.S. infrastructure attributed to foreign governments; territorial assertiveness in China and North Korea; and concerns over nuclear proliferation in North Korea and Iran. These powerful trends call for a rethinking of arbitrary defense budget caps set over four years ago.

"The United States has not faced a more diverse and complex array of crises since the Second World War."

— Dr. Henry Kissinger, January 28, 2015

While our NATO allies cut back and we reduce weapon system investments to comply with the BCA, other nations are moving in the opposite direction.

"My assessment today, Senator, is that Russia presents the greatest threat to our national security...If you want to talk about a nation that could pose an existential threat to the United States, I’d have to point to Russia. And if you look at their behavior, it’s nothing short of alarming."³


"In my mind, ISIS is a ten to twenty year problem, it’s not a two year problem."

— Gen. Mark Milley, Army Chief of Staff

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In addition, as projected future quantities of weapons go down, the defense industrial base becomes more fragile, and unable to respond quickly to a crisis. Further reductions to modernization accounts threaten both the ability of our industrial base to maintain affordable unit costs for new systems, and the high level of competition among suppliers today that encourages innovation and efficiency.

**UNDER THE BCA, KEY DOMESTIC PROGRAMS ARE FALLING BEHIND**

The BCA has placed a disproportionate burden on government programs that advance our economic competitiveness, improve our transportation infrastructure, and ensure public safety.

The Federal Aviation Administration is expected to achieve significant milestones over the next ten years in the development and implementation of key technologies improving air safety and expanding capacity. These include the implementation of NextGen, integration of unmanned aircraft into our national airspace, and the facilitation of a commercial space transportation industry.

“Sequestration will force the Army to reduce end strength, readiness, and nearly halt modernization. The consequences of these forced actions would degrade our ability to provide the trained and ready forces that the U.S. government requires and increase risk to the point where the U.S. Army could not fulfill the missions assigned to us in our National Security strategic guidance documents. In short, our ways and means will be significantly out of balance with our stated ends, which will increase risk to an unacceptable level for the Nation.”

— Gen. Mark Milley, Army Chief of Staff
According to the FAA, over the next 20 years air passenger traffic will climb by 66 percent and the number of miles traveled will nearly double. To provide this additional capacity, FAA will need new NextGen technologies and the training to use them. Since 2010, Congressional appropriations for Facilities and Equipment have been 25% below what is needed just to keep up with inflation.5 Unfortunately, these cuts have forced FAA to defer maintenance on aging radars, towers, and other facilities, resulting in a “bow wave” of deferred maintenance and causing the agency to embark on a “get well” plan that will compete against NextGen for funding. In 2009, before the BCA was enacted, the agency planned to ramp up its capital expenditures to an average of $3.5 billion a year over FY2012-2014. Because of the BCA, the agency only averaged $2.6 billion in each of those years. The chart below shows the decline in FAA capital investment since 2010.

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FAA’s Facilities and Equipment (F&E) Budget Authority

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Authority (In billions of dollars)</th>
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<td>2014</td>
<td>2.60</td>
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In 2013, sequestration cut the Federal Aviation Administration’s (FAA) budget by over $600 million. These cuts forced the FAA to furlough air traffic controllers in April of that year, delaying thousands of arriving and departing airplanes at airports across the country. To ease air traffic congestion, Congress passed legislation that permitted the FAA to retain all of its traffic controllers.4


The National Aeronautics and Space Administration (NASA) is another vital agency facing budget cuts that have chronically challenged its ability to execute its programs. NASA’s share of non-defense discretionary spending has fallen by two-thirds since FY1995, to 3.2 percent in FY2015 (see chart below). Sequestration will only compound these trends.

Currently, NASA pays the Russian Federation approximately $80 million a seat to fly American astronauts on the Russian Soyuz launch vehicle, a situation that many of our political leaders—and our industry—finds unacceptable. Although NASA wants to discontinue this practice, this August the agency announced it had awarded a $490 million contract to continue purchasing Soyuz seats, due to budget cuts in the commercial crew program. By undercutting the long-term prospects of NASA’s budget, the BCA caps jeopardize the agency’s superiority in space research and exploration and make it more difficult to deliver complex technological solutions.

“...The gap is going to get bigger. I’m just being very blunt about it. Anybody who thinks this is no big deal—it’s a big deal.”

— NASA Administrator Charles Bolden, February 2013

CONCLUSION

While the goal of debt and deficit reduction is a laudable one, it’s clear that risking our national security and damaging vital investments in our economic strength is not the way to go about it. BCA caps have had an enormously detrimental effect on our military’s readiness and a disproportionate impact on defense modernization. They are also slowing investments in our aviation infrastructure and leaving us reliant on the Russians for trips to low Earth orbit to man the International Space Station for far too long. AIA strongly urges Congress to enact a two-year budget deal to provide relief from the budget caps in fiscal years 2016 and 2017.

With a new administration entering office in 2017, there will be an opportunity for new leadership to take on the task of crafting a long-term budget deal that addresses the real drivers of our debt and deficit issues without constraining the very investments America needs to make us secure and economically strong not just today, but in the future.