

What Has the Budget Control Act of 2011 Meant for Defense?

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[Five Years of the Budget Control Act: What It Means for Defense](#) from CSIS on [Vimeo](#).

Q1: What is the Budget Control Act?

A1: The [Budget Control Act of 2011](#) (BCA) was signed into law five years ago on August 2, 2011. It is a resurrection of a much older law, known as [Gramm-Rudman-Hollings](#), originally enacted in 1985. The BCA reinstates budget caps for a 10-year period ending in FY 2021 with separate caps for the defense and nondefense parts of the discretionary budget. For defense, the budget caps represent a reduction of roughly \$1 trillion over 10 years compared to what the president had proposed in his FY 2012 budget request earlier in 2011.

The law delayed full enforcement of the budget caps until January 2013 to give Congress time to find an alternative. It also created a bipartisan joint committee, known as the Super Committee, and gave it special one-time authority to propose a deficit-reduction package subject to a simple up-or-down vote in both chambers. This was Congress's best chance to avoid the cuts imposed by the BCA. In November 2011, however, the [Super Committee announced it was unable to reach an agreement](#), leaving the BCA in effect.

Q2: Why was the BCA enacted?

A2: In early 2011, federal spending was soaring and revenues were plummeting, mainly due to the Great Recession and the stimulus package Congress enacted in 2009. As a result, the deficit was projected to peak at a record level of [\\$1.5 trillion](#) in 2011—although it never actually got that high. Republicans, led by Speaker John Boehner, had just taken control of the House of Representatives and were refusing to increase the debt ceiling unless Democrats agreed to dollar-for-dollar cuts in spending. Both sides refused to yield, forcing a fiscal standoff that came to a head in August of that year. The BCA emerged from that standoff as a forcing function for a broader budget deal by ensuring that painful spending cuts would occur if no deal could be reached.

Q3: What is sequestration?

A3: Sequestration is the automatic process of making across-the-board cuts if the budget caps are exceeded. To be clear, sequestration and the budget caps are not the same thing. The budget caps set the level of the budget, and sequestration is the enforcement mechanism. The BCA did not create sequestration—it was part of Gramm-Rudman-Hollings and was used several times in the 1980s and 1990s. To better understand how sequestration works, imagine if you had to cut your personal budget by a certain percentage. If given the flexibility to choose how these cuts are allocated, you would probably cut back on nonessential things, like going out to dinner or buying the latest cell phone. But under sequestration rules, you would be forced to cut each item in your budget by the same percentage—even things like rent payments and insurance premiums. That kind of cutting can create a lot of problems and end up costing more in the long run.

Sequestration was triggered in 2013, but it has not been triggered since then. Under current law, sequestration will only be triggered again if the budget caps are exceeded. In other words, Congress would have to appropriate more than the budget caps allow knowing that the additional funds it is appropriating will be automatically cut. Moreover, the president would have to sign this bill into law knowing it would trigger a sequester and all of the problems that come with across-the-board cuts. For these reasons, it is unlikely sequestration will occur again.

Q4: What types of defense funding are exempt from the BCA?

A4: The most notable exception in the law is for war-related funding, also known as Overseas Contingency Operations (OCO) funding. Technically, the law says the budget cap is automatically increased by the amount of war-related funding Congress enacts, which means that OCO funding is effectively uncapped. The law does not, however, provide a robust definition of what constitutes OCO funding. In practice, this means that OCO funding is whatever Congress enacts and the president signs into law—a loophole both Congress and the Department of Defense (DoD) have used to get around the budget caps since 2013.

Another important exception in the law is for military personnel (MILPERS) funding. MILPERS accounts are used for pay, allowances, and some benefits service members receive. If sequestration is triggered, the president can exempt MILPERS accounts from the automatic across-the-board cuts. Unlike the OCO exception, the MILPERS exception does not reduce the total amount of cuts for defense or alter the level of the budget caps. It merely protects one set of accounts from cuts and causes all other defense accounts to be cut by a greater percentage to compensate. The president exempted military personnel accounts from sequestration in 2013, and if sequestration ever occurs again it is likely this exception would be used.

Q5: Is the BCA still in effect?

A5: Yes, but it has been modified three times since it was enacted. Just before the budget caps went into enforcement in January 2013, Congress passed a last-minute deal known as the American Taxpayer Relief Act of 2012. Among other things, this law raised the budget caps slightly for FY 2013, with equal increases on the defense and nondefense sides of the budget caps. But it paid for these increases in part by lowering the caps in FY 2014.

In December 2013, Congress modified the BCA for a second time with the Bipartisan Budget Act of 2013. This two-year deal raised the budget caps for FY 2014 and FY 2015, again with equal increases for the defense and nondefense sides of the budget. Both Congress and the administration stuck to this deal, appropriating funding at the revised budget cap levels in both years, thus avoiding sequestration being triggered.

As FY 2016 got underway, the budget caps were still at their original level because the previous deals only adjusted the caps through FY 2015. Congress passed a third modification to the BCA in November 2015 known as the Bipartisan Budget Act of 2015. Like the previous deal, it raised the budget caps for two years (FY 2016 and FY 2017) with equal increases for defense and nondefense. Unlike previous deals, however, it included additional OCO funding as part of the deal. It added \$8 billion in OCO funding for defense and \$8 billion in OCO for nondefense. The nondefense OCO funding was used primarily by the State Department to offset costs in its base budget, which in turn freed up funding under the nondefense budget caps that could be used by other agencies. As of this writing, the BCA budget caps remain at their original level for FY 2018 to FY 2021, but it is possible Congress will again modify the caps for these future years.

Q6: Why weren't the effects of the BCA as devastating for defense as some predicted?

A6: In the weeks and months leading up to the budget caps going into full enforcement in 2013, defense leaders described it with increasingly colorful metaphors, such as “a doomsday mechanism,” “a gunshot to the head,” “a goofy meat ax,” and “fiscal castration.” Not to be outdone, many defense companies joined in these warnings by decrying the jobs that would be lost, and one company [threatened to send out layoff notices](#) just days before the 2012 presidential election. The Aerospace Industries Association projected that more than [1 million jobs](#) would be lost due to the BCA. And in congressional testimony just days before sequestration took effect in 2013, then–Deputy Secretary of Defense Ash Carter warned “[the wolf's at the door.](#)”

This rhetoric may have led some to conclude that the military was crying wolf. In reality, the effects were never going to be as immediate and visible as these statements implied. One of the main reasons is that the budget caps apply to budget authority—money that Congress has approved but the executive branch has not yet obligated or spent. It takes time for budget authority to work its way through the system—in some cases several years—before it becomes actual spending (outlays) that has an economic impact.

Another important reason the effects of the BCA have not been as severe as originally predicted is that the defense budget has not actually been cut to the level originally prescribed in the BCA. The three budget deals enacted since 2011 have raised the budget caps for FY 2013 to FY 2017. Moreover, Congress and DoD have used the OCO funding loophole to supplement the base budget at a level of roughly \$25–\$30 billion annually according to [my analysis](#). These last minute deals and budget maneuvers have largely protected defense from the full effects of the BCA.

The mechanism by which the cuts are implemented is also an important consideration. While sequestration was triggered in 2013, the reductions that have occurred since then have not been through sequestration. In FY 2014, FY 2015, and FY 2016, Congress enacted appropriations at the revised budget cap level, so Congress was able to decide how to target reductions rather than the “goofy meat ax” approach of sequestration. Even in 2013 when the budget was actually sequestered, DoD followed up with a [massive reprogramming request](#) to Congress that allowed it to move money between accounts to fix some of the problems sequestration created.

Q7: Who’s to blame for the BCA?

A7: Since the BCA was enacted, both sides have attempted to blame the other. For example, during this election season, both parties have included statements on the BCA in their party platforms. The [Republican Party Platform for 2016](#) says, “We support lifting the budget cap for defense and reject the efforts of Democrats to hold the military’s budget hostage for their domestic agenda.” And the [Democratic Party Platform for 2016](#) says, “We support a smart, predictable defense budget that meets the strategic challenges we face, not the arbitrary cuts that the Republican Congress enacted as part of sequestration.”

In truth, the BCA passed with bipartisan majorities in both chambers. In the House, [174 Republicans and 95 Democrats voted for it](#); in the Senate, [28 Republicans and 45 Democrats](#) voted for it; and President Obama ultimately signed it into law. Without bipartisan support, this bill would not have become law. Both sides share responsibility for enacting the BCA—and finding a way out of it.

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