

# ‘Restrained Empire’?: The Fiscal Cliff and the US Rebalancing Strategy, January 2011–May 2013

Takeshi Sakade

*Associate Professor, Graduate School of Economics, Kyoto University, Japan*

*E-mail: sakade@econ.kyoto-u.ac.jp*

Nobuki Kawasaki

*Associate Professor, Faculty of Policy Studies, Kansai University, Japan*

*E-mail: kawasaki@kansai-u.ac.jp*

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## ABSTRACT

This study focuses on the connection between the budget deficit reduction plan and national security strategy in the Obama administration. The US budget deficit reduction requires reductions in defense spending, because defense occupies the biggest portion of the budget. This reduction of the defense spending must be guided by a new national security strategy. The new security strategy of the White House is the rebalancing strategy announced in the fall of 2011. This strategy aims to minimize military commitment in other countries (e.g. Afghanistan and Iraq) that was greatly expanded during the Bush administration and instead concentrate on the Asian-Pacific region in response to the rise of China. These actions bolster the image that the White House wishes to project of a ‘Restrained Empire.’ This ‘Restrained Empire’ is in stark contrast to the imperialistic stance of the Bush administration. This paper analyzes the budget deficit reduction plan and its impact on the Obama rebalancing strategy between the Budget Control Act of 2011 and sequestration on March 1, 2013. Factors are also examined that have influenced Obama’s foreign policy since the start of sequestration.

**Keywords:** Fiscal cliff, Sequestration, Rebalancing strategy, US fiscal policy, US national security strategy

**JEL Classification Numbers:** H30, H56, H63

## 1 Introduction

The foreign policy of President George W. Bush, a Republican, was characterized by the global war on terrorism, as represented by two wars in Afghanistan and Iraq. Even when the international community would not agree to intervene militarily in other countries, the Bush administration did not hesitate to do so

unilaterally. The foreign policy of the Bush administration was thus strongly criticized in the international community as rude 'imperialism.' This criticism of the Bush administration grew even louder in response to the failure of the occupation policies in Afghanistan and Iraq. The Bush administration was able to engage in this imperialistic foreign policy because of the budget surplus created by the Democratic Clinton administration. However, the Bush administration burned through the entire budget surplus and created in its stead, a huge deficit because defense spending continued to increase, whereas annual revenue decreased due to the Bush tax cuts of 2002.

President Barack Obama, a Democrat, took office in 2009. His administration faced an enormous budget deficit and unstable situation in Afghanistan and Iraq. How did the White House solve issues caused by the 'legacy' of the Bush administration? These issues represented the biggest challenge for the White House which could not initially tackle the budget deficit. Instead they had to focus their fiscal policy on extricating the US economy from the financial crisis that had weighed it down since 2007. The White House shifted foreign policy from the unilateral and militaristic approach of the Bush administration to one based on cooperation and non-interventionism. One example of the Obama approach was the withdrawal of the military from Iraq which was designed to decrease its overseas military commitments. The guiding principle behind this new approach was not imperialism, but rather one of restraint.

However, the White House had not, early on, formulated a clear national security strategy to deal with the global war on terrorism launched by the Bush administration. This oversight was rectified with the announcement in 2011 of a new security strategy called the rebalancing strategy. This new strategy was formulated against the backdrop of changes in the international security environment and the demands for budget deficit reduction.

Obama has had to operate within considerable budget constraints since 2011, as the Republican-controlled US Congress has pushed for budget deficit reductions. This push was behind the Budget Control Act of 2011 (BCA). The BCA stipulated that if President Obama and Congress were unable to agree to a reduction plan to tackle the budget deficit, the budget would automatically be reduced by USD1.2 trillion in the nine years from FY2013 to FY2021. Just such a scenario came to pass with the breakdown of negotiations between the White House and Congress, and forcing Obama to implement sequestration (i.e., automatic and forced deficit reduction) in accordance with the Gramm–Rudman–Hollings Act (the GRH Act; the Balanced Budget and Emergency Deficit Control Act of 1985) (White House 2013c) on March 1, 2013.

The biggest target for reduction was defense spending because the growth rate of the US defense budget had been the largest of all components of the total budget since FY2001. Defense spending has grown largely as a result of the Bush global war on terrorism. US defense budget has two accounts; The Base Budget and Overseas Contingency Operation (OCO). The Base Budget represents Department of Defense (DOD) ordinary spending, while the OCO includes

the costs of the wars in Iraq and Afghanistan and is considering extraordinary spending. The defense budget doubled between FY2001 and FY2012 with both the OCO and Base Budget on the rise—the OCO dramatically and the Base Budget gradually. If sequestration were to continue, defense spending would be reduced by USD600 billion between FY2013 and FY2021. This amount represents one-half of the total planned deficit reduction of USD1.2 trillion.

This reduction is expected to have a serious and adverse effect on US national security. Secretary of Defense Leon Edward Panetta who served from July 2011 to February 2013 sent a letter to two senators on November 14, 2011. In this letter, he asserted that if the sequestration were to continue for 10 years, the United States military “would have the smallest ground force since 1940, the smallest number of ships since 1915 and the smallest Air Force in its history,” and that “we [in the US military] would also be forced to terminate most large procurement programs in order to accommodate modernization reductions that are likely to be required” (Garamone 2011). The development and acquisition of the F-35 fighter jet were included among these procurement programs.

While the constraints on the defense budget grew, the White House defined the rebalancing strategy as a new national security policy in November 2011. If defense spending is reduced, a new national security strategy is clearly required. This new strategy was to be a guide for reducing the defense budget. The rebalancing strategy meant that the US policy priorities would shift from the Atlantic to the Asian-Pacific area. President Obama stated in November 2011 that:

As we consider the future of our Armed Forces, we’ve begun a review that will identify our most important strategic interests and guide our defense priorities and spending over the coming decade. So here is what this region must know. As we end today’s wars, I have directed my national security team to make our presence and mission in the Asia Pacific a top priority (Obama 2011).

The White House, in essence, is trying to extricate the US from the legacy of the Bush administration through reductions in the defence budget combined with a rebalancing strategy. This rebalancing strategy has been used to guide the defense budget reductions, and it also corresponds to the new international environment: the rising China in the Asian-Pacific region. The focus of the new strategy is on China as opposed to reduction of commitments in the Afghanistan, Iraq and the rest of the Middle East.

However, this scenario may end up being flipped with defense reductions actually guiding strategy because these reductions may be larger under sequestration than had originally been anticipated. If defense budget constraints define the rebalancing strategy, then the real possibility exists for defense reductions actually changing the rebalancing strategy. We must watch for changes in the national security strategy with respect to the 2014 Quadrennial Defense Review (QDR 2014) and the future of sequestration. We must further observe whether the Obama administration can maintain the path to a ‘Restrained Empire.’

This paper thus analyzes the fiscal and security strategies of the Obama administration based on the idea that budget constraints require a new national security strategy. We first will survey the impact that the US defense budget constraints under the BCA and American Taxpayer Relief Act of 2012 (ATRA2012) have had on the rebalancing strategy and its related policies in sections 2 and 3. We will then analyze the impact of sequestration on the rebalancing strategy and discuss several areas of concerns in section 4.

## 2 The Budget Control Act of 2011

Schick (1995) describes the time since 1974 in the United States as being characterized by struggles between the President and Congress, an expansion in entitlement spending, and a basic tone of fiscal deficit. During this period, the GRH Act tried to reduce the US budget deficit by enacting automatic spending cuts in anticipation of a balancing year. However, GRH failed to reduce the federal deficit, because it contained a number of loopholes. Next, the Omnibus Budget Reconciliation Act of 1990 (OBRA1990) tried to reduce the federal deficit by way of the PAYGO rule, which allowed new spending or tax changes only on the condition that the government first saves up the money needed to fund a specific project (Watarase 2012, pp. 23–25).

From FY2009 to FY2012, the US federal government's deficit exceeded USD1 trillion. As the government's debt outstanding was anticipated to exceed the legal limit of USD14.3 trillion in May 2011, the 112th Congress (from January 3, 2011 to January 3, 2012) discussed the reduction of government deficits. Just before the government debt outstanding has been to exceed the legal limit, the President and members of both the Republican and Democratic parties agreed to reach an accord, the BCA. The BCA intended to reduce the government deficit by USD900 billion between FY2013 and FY2021, in a variety of ways. The BCA made the conditions, if an agreement on additional deficit reduction does not materialize, in which case a USD1.2 trillion deficit reduction would automatically come into effect and the legal limit of the governmental deficit would be raised to USD16,394 billion (Congressional Quarterly 2011; Levit 2013b).

Under the BCA, the USD900 billion spending reduction was divided equally between the defense and non defense budgets. Therefore, the Obama administration needed to reduce defense spending by USD450 billion between FY2012 and FY 2021, inclusive. This reduction must relate to the reconstruction of the national security strategy under the budget constraint, because reviews of the defense spending must be guided by the national security strategy. The Defense Strategic Guidance (DSG), announced on January 5, 2012, was positioned as "a blueprint for the Joint Force in 2020"; it also defines the basic strategic direction of the US Armed Forces under the budget constraint, from a long-term standpoint. The strategy formulated in the DSG was the rebalancing strategy, and the DSG describes that strategy thus:

The US economic and security interests are inextricably linked to developments in the arc extending from the western Pacific and East Asia into the Indian Ocean region and South Asia, creating a mix of evolving challenges and opportunities. Accordingly, while the US military will continue to contribute to security globally, we will of necessity rebalance toward the Asia–Pacific region (Department of Defense 2012).

This rebalancing strategy had been emphasized by high-level government officials after November 2011, including President Obama. The speech by President Obama to the Australian assembly on November 2011 was the most popular and inclusive (Obama 2011). It marked the point at which the center of the US national security strategy was moving to the Asia–Pacific region, including the Indian Ocean, meaning that the US presence was becoming stronger there. In these matters, the DSG was the most important document, as it showed that the rebalancing strategy was at the core of the US national security strategy.

The rebalancing strategy had three aims.<sup>1</sup> First, it promoted closer cooperation between the United States and its traditional allied countries in the Asia–Pacific region (e.g., Australia, Japan, Philippines, South Korea, and Thailand). Second, it strengthened the US presence in Southeast Asia (i.e., ASEAN countries). Third, it helped construct cooperative relations with emerging countries (e.g., China, India, and Indonesia).

In the background, there was a change in the strategic environment; the ending of the Iraq War, starting a phased withdrawal of troops from Afghanistan and the disputes with China over access to the global commons (i.e., sea, sky, space, and cyberspace) in the Asia–Pacific region (the South and East China Seas). In particular, China based risk was the most important factor. For Example, corresponding to improvements in China’s Anti-Access Area-Denial (A2AD) capability was emphasized in QDR2010. QDR2010 proposed the Air–Sea Battle (ASB) concept of strength for Navy and Air Force coordination, to facilitate attacks on Chinese bases from long distances. The Obama administration pursued a cooperative relationship with China, but a risk-hedging strategy was nonetheless adopted. The first and second aims of the US rebalancing strategy focused on China-based risk around the East and South China Seas.<sup>2</sup>

The ASB concept remained a true “concept,” with no concrete plan being clarified. It was only with respect to the guidance that the Navy and Air Force were given priority in comparison to the Army. The DSG insisted on continued investment, to counter the A2AD abilities of China and Iran. The DSG showed no reduction in investment vis-à-vis the rebalancing strategy. President Obama

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<sup>1</sup>This explanation is drawn from the following records: Clinton (2011), Donilon (2012) and Obama (2011).

<sup>2</sup>On ASB and QDR2010, see Daggett (2010) and Toled (2010).

confirmed this in a speech that announced the DSG, as follows: “As I made clear in Australia, we will be strengthening our presence in the Asia Pacific, and budget reductions will not come at the expense of that critical region” (Obama 2012). Thus, the Obama administration clearly showed itself to be willing to maintain the rebalancing strategy; on the other hand, the main reduction targets were personnel expenses (including social security costs) and needless expenses incurred through the management of the DOD.

The direction of DSG was reflected in the FY2013 budget request, which was submitted to Congress on February 13, 2012.<sup>3</sup> In the FY2012 request, the Base Budget was USD530 billion and the OCO was USD114 billion; in the FY2013 request, the Base Budget was USD525 billion (–USD5 billion) and the OCO was USD88 billion (–USD26 billion). In total, the FY2013 request for USD613 billion was USD31 billion lower than that of the FY2012 request. In addition, the FY2013 request made it clear that defense spending between FY2012 and FY2021 would be reduced by USD487 billion, under the BCA.

On the whole, with a reduction in Army spending, the FY2013 request focused on the priorities of Navy and Air Force spending. In this, the rebalancing strategy and the ASB concept functioned as guidance. Reductions in the number of active Armed Forces Personnel are typical cutbacks, for example: from 2012 to 2017, the total number of Armed Forces Personnel will be reduced from 1,422,600 to 1,320,000—70% of this reduction will be derived largely from the Army, as the numbers of Air Force and Navy personnel would remain almost the same. In addition, eight Brigade Combat Teams of the Army and one infantry regiment headquarters, five infantry battalions, one artillery battalion, four Tactical Air squadrons, and one combat logistics battalion in the Marine Corps were abolished. However, even though the number of Navy war vessels was reduced, 11 carrier systems were maintained. Although an acquisition postponement was decided, the Air Force maintained future procurement numbers for the F-35, whose development cost was increasing each year.

However, the construction of new bases was not being carried out. Relationships with allied countries in the Asia–Pacific region was maintained through a rotation of military forces; doing so incurred a lower total cost than permanent stationing. The FY2013 budget request adopted the placement of a rotational force of Marine Corps in Darwin, Australia, to strengthen the bases in Singapore and the Philippines and to enforce the Guam base. In the spending allocation of the FY2013 request, the reinforcement of the US presence in Southeast Asia bore particular importance; in this regard, the Obama administration wanted to resolve the imbalance of presence between East Asia and Southeast Asia.

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<sup>3</sup>This information about the FY2013 request is drawn from the Office of the Under Secretary of Defense (2012) and Daggett and Towell (2012).

The FY2013 request had a weak point: it did not consider that the sequestration might be forced to carry through to after January 2013. If the sequestration were executed, the USD600 billion reduction (i.e., one-half of the total reduction of USD1.2 trillion) would need to be imposed on defense spending—and if the budget reduction were executed, both the borrowing of money and interest payments would decrease. Thus, the real spending reduction would be USD492 billion for the nine years from FY2013 to FY2021, inclusive. In the FY2013 request, defense spending was reduced by USD487 billion, from FY2012 to FY2021; a further reduction of USD492 billion would be added after the sequestration. It was expected that the sequestration would inflict heavy damage on defense spending and national security (Daggett and Towell 2012, p. 16).

### 3 The Fiscal Cliff and the American Taxpayer Relief Act of 2012

The Fiscal Cliff derives from the overlap of the expiration of the Bush tax cuts with the sequestration by the BCA. On November 2012, incumbent President Obama won the Presidential election over Republican candidate Mitt Romney. Following that election, the fiscal cliff emerged as the most important US political–economic policy issue.

In 2001, President G.W. Bush and his Congressional Republican party members were unable to secure the 60 Senate votes needed to cut taxes of USD1.7 trillion over 10 years; they went on to reduce taxes, having acquired a 51-vote majority in the Senate. In 2003, President G.W. Bush again took up the tax-cut cause and succeeded in cutting taxes for 10 years. Although President Obama extended the Bush tax cuts in 2010 as an economy-boosting measures, he subsequently decided to finish them by the end of 2012. Therefore, at the end of 2012, the Bush tax cuts were scheduled to end and this was one reason for the fiscal cliff (Weisman 2012).

At the end of 2012, the Fiscal Cliff scenario was envisioned. In the first two days of 2013, a very large Bush tax cut expired and defense and nondefense spending alike by the government would start to be reduced. It was anticipated that these reductions would heavily damage the US economy. What was the scale of the tax increases and the expenditure reductions? The minimum income tax rate would be scheduled to rise from 10% to 15%, and the maximum income tax would be scheduled to rise from 35% to 39.6%. Tax revenues would increase by USD6 trillion over 10 years, and the 2013 tax increase would total USD347 billion. As for expenditures, military programs would be reduced by 9.4% and nonmilitary programs—excluding huge entitlement spending programs such as social welfare, Medicare, and Medicaid—would be reduced by 8.2%. The Office of Management and Budget (OMB) estimated that the 2013 impact alone—about USD600 billion in tax increase and spending cuts—exceed the projected growth of the GDP (Weisman 2012).

At the end of 2012, President Obama and the House Republicans negotiated intermittently, to draw up a plan by which to avoid the fiscal cliff; on January 1, 2013, the ATRA2012 was enacted. The ATRA2012 reduced the deficit of USD737 million by levying taxes amounting to USD618 million on more affluent individuals. The OMB asserted that the ATRA2012 was not only an imposition on the wealthier class, but that it aims to bolster economic growth by raising taxes of USD737 million constituted a practical scenario (OMB 2013). On January 1, 2013, President Obama stated that

Under this law, more than 98 percent of Americans and 97 percent of small businesses will not see their income tax go up. ... But we are continuing to chip at this problem, step by step. Last year, I signed into law \$1.7 trillion in deficit reduction. Tonight's agreement further reduces the deficit by raising \$620 billion in revenue from the wealthiest households in America. And there will be more deficit reduction as Congress decides what to do about the automatic spending cuts that we have now delayed for two months (White House 2013b).

The ATRA2012 agreement represented the first time in 20 years that Congress had agreed on a tax in a bipartisan manner. The enactment of the ATRA2012 implied, by bipartisan agreement, a permanent tax reduction of the middle class; it also meant protecting the middle class, which comprised part of Obama's Presidential election platform (White House 2013a; White House 2013b; OMB 2013).

On January 1, 2013, the fiscal cliff negotiations were settled, effectively freezing the fiscal cliff for two months. The US government and Congress made a last-ditch negotiation effort, and as a result, they avoided falling off the fiscal cliff. However, the ruling and opposition parties differed greatly on specific matters, that is, raising taxes versus cutting expenditures. The ATRA2012 agreement postponed the problems relating to Armed Force expenditure reductions and an increase in the limit of US government bonds that could be issued. By backing the rising grassroots Tea Party Movement, conservatives—who insisted on not raising taxes but instead reducing expenditures—gained a greater voice in the House of Representatives. John Boehner, Speaker of the US House of Representatives, determined that if a bipartisan agreement could be reached during the last-ditch effort, the Republicans would take the blame and compromise with the Democrats. In this compromise, expenditure cuts—which conservative Republicans had wanted—were shelved. House Republican executives—including Eric Cantor, House Majority Leader (No. 2)—voted “no” to the ATRA. The Republican party faced a crisis, finding itself on the verge of dissolution by virtue of a schism among its extreme conservatives (Avalon 2013; *Nikkei* (morning edition) 2013, January 3, 2013; January 4, 2013).

The US federal government's liability limit would be increased vis-à-vis government bond issuance, to USD16.4 trillion—a figure set by Congress. If Congress did not agree to increase the limit of governmental liability, the US federal government would be exposed to the risk of default. If negotiations



on increasing the limit of liability were to become problematic, the payment of interest on US governmental bonds would stop, thus increasing the risk of default. Akio Fujii, from the Washington branch of *Nikkei*, said that the “Crisis of governmental liability” (*Nikkei* (morning edition) 2013, January 3, 2013) ”.

If the sequestration was executed in January 2013, defense spending would need to be reduced by USD54.7 billion under BCA (for a total of USD109 billion) during FY2013. However, under ATRA2012, the total sequestration of budget spending was USD85 billion. This reduction was divided equally between defense and nondefense budgets. If the sequestration was executed in March 2013, defense spending would need to be reduced by USD42.5 billion during FY2013 (Levit 2013a).

#### 4 Sequestration and Rebalancing Strategy

On February 14, Democrat and Senate Majority Leader Harry Mason Reid intended to hold discussions on February 25 with Republicans—after the pro-rogation—to force budgetary concessions. President Obama and the Democrats set out an agreement in the House, following the agreement made in the Senate. The Democrats’ proposal was to freeze the invocation of the forced budget cut to December 2013, and by way of compensation, proceed with a USD110 billion reduction in the budgetary deficit over 10 years, including part of FY2014. This proposal indicated the imposition of a 30% minimum tax rate among those with an annual income in excess of USD1 million and the abolition of preferential taxation for oil companies. In contrast, the Republicans’ proposal ran counter to impositions made in the wealthy class (*Nikkei* (morning edition) 2013, February 16, 2013).

Republicans, Democrats and President Obama could not arrive at an agreement on budget cuts until scheduled two month postponement. So, on March 1, 2013, President Obama signed a presidential order to reduce the budget by USD1.2 trillion over 10 years. By this order, the US government will certainly and automatically cut budgetary expenditures. There were three scenarios. The first scenario was that Republicans and Democrats would agree to the reconstruction plan before the end of the month. The second scenario was that the tentative budget would be extended for a short time; in this scenario, the government would need to raise the debt ceiling in mid-May 2013. If the government could not raise the debt ceiling, however, the government could not issue new government bonds and the United States would go into default. The third scenario was that negotiations between the Democrats and Republicans would break down, but that an agreement could be brokered in the summer (White House 2013cd; *Nikkei* (evening edition) 2013, March 2, 2013; *Nikkei* (morning edition) 2013, March 3, 2013).

On March 6, the House passed the Republican-tabled bill to extend the tentative budget, which had expired on March 27, at the end of the fiscal year.

The aim of this bill was to preclude the closure of governmental agencies—something that would happen, if the tentative budget were to expire. The US Senate—of which the Democrats hold a majority—seemed to pass the modified bill. Congress did not revert to forcing budgetary cuts to start on March 1 and limit its influence on defence spending (*Nikkei* (evening edition) 2013, March 7, 2013).

In the sequestration, the largest reduction target was defense spending, which would be reduced by USD600 billion to FY2021. In the end, the reduction in defense spending vis-à-vis the DOD budget in FY2013 was USD37 billion; all items pertaining to defense spending were automatically cut. Therefore, the DOD was rendered unable to adjust a reduction item without the prior approval of Congress (Secretary of Defense 2013). The DOD was obligated to fall in line with the budget reduction. As a result of those cuts, on May 14, Secretary of Defense Chuck Hagel (from February 2013 to present) announced a civilian furlough plan, by which most civilian employees would need to take 11 furlough days between July 8 and September 30, at the end of FY2013 (Simeone and Parrish 2013). Clearly, the budget cuts would have very tangible effects on day-to-day military operations.

What impact does a reduction in defense spending have on the rebalancing strategy? On March 5, Navy Admiral Samuel J. Locklear III, Commander-in-Chief of the US Pacific Command, testified to the House Armed Services Committee with regard to the impact of the sequestration. Locklear said that the sequestration “limited our flexibility to manage” and that it had “the potential to undermine our strategic rebalance momentum, as our ability to operate and maintain our force is at increased risk.” The cuts to defense spending also reduced the rotation forces and training and resulted in a 50% cut in the military exchange travel budget in the short term. These were serious problems that hampered the abilities of the US military. In the long term, said Locklear, “these funding cuts will challenge our ability to execute both discreet operations and the broader Indo–Asia–Pacific rebalance strategy” (Miles 2013). As a result, according to him, in the short term a spending reduction would have an effect on the US military presence in the Asia–Pacific region. And clearly, if the White House and Congress could not agree to stop the sequestration, it would have a great and adverse effect on the rebalancing strategy.

At present, high-level officials within the Obama administration stress that sequestration will not affect the rebalancing strategy. For example, National Security Adviser Tom Donilon described the rebalancing strategy as follows:

In these difficult fiscal times, I know that some have questioned whether this rebalance is sustainable. After a decade of war, it is only natural that the US defense budget is being reduced. But make no mistake: President Obama has clearly stated that we will maintain our security presence and engagement in the Asia–Pacific (Donilon 2013).

Donilon asserted clearly that even if defense spending were reduced, the presence of the US military in the Asia–Pacific region would be preserved. Additionally, Hagel issued a review of defense strategy, posture, and investment within a scenario of budget constraints following the sequestration. This review was “anchored in the President’s defense strategic guidance,” which had been released in January 2012 (Hagel 2013). At the time of writing (May 2013), the Obama administration maintains the rebalancing strategy.

The FY2014 budget request was released on April 10, 2013, and it was made on the basis of the DSG. According to the FY2014 budget request overview, “The FY 2014 budget request further advances the rebalance agenda, continuing key investment choices made in FY2013, as well as investing in new initiatives to expand and deepen our commitment to the [Asia–Pacific] region.”<sup>4</sup>

In the FY2014 request, the Base Budget and OCO were around USD526 billion and USD88 billion, respectively, for a total account of USD614 billion. The total account amount was almost the same as the FY2013 defense budget before sequestration and, as was the case at the FY2013 request, the FY2014 request prioritizes the Navy and Air Force. For example, the Navy budget was the largest of all, USD155 billion, and the Navy secured funding for the construction of 41 new vessels and two carriers. The Air Force budget, at USD144 billion, was increased in relation to the previous year, and the Air Force acquired funding for the development and procurement of the F-35 and KC-46. However, the Army budget (USD130 billion) had been cut relative to the previous year and was the smallest of the Armed Forces. The FY2014 request showed a change of focus from the Army to the Navy and Air Force, and this change had been guided by the DSG. In addition, reinforcement of the US presence in Southeast Asia as part of the FY2014 request is a continuation of that made during the FY2013 request. For example, the Guam base was strengthened as a “strategic hub” by virtue of the FY2014 request, with the aim of creating stronger relationships with Australia, the Philippines, and Singapore.

In addition, the selection of reduction targets depended on the DSG, management costs and personal expenses. By promoting the reduction of support costs and increasing business efficiencies, the DOD reduced management costs by USD34 billion over the next five years. The restructuring of civilian workforces and reductions in healthcare costs was also proposed. Healthcare spending had declined by 4%, compared to two years previous. Base Realignment and Closure (BRAC) was also requested as a new proposal that would take effect in FY2015; the enactment of BRAC would mean the closure of domestic bases. According to Hagel, BRAC “adds \$2.4 billion over the next five years to pay for those costs. But in the long term, there are significant savings” (Hagel 2013).

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<sup>4</sup>Office of the Under Secretary of Defense (2013). Information on the FY2014 request is drawn from this and Hagel (2013).

In addition to these proposals, DOD cancelled more than 30 major procurement programs and pointed out to Congress its spending-reduction efforts.

Ultimately, however, the FY2014 request did not premise the continuation of sequestration. This was the new DOD proposal in response to sequestration. It remains unclear, however, whether or not Congress will admit the FY2014 request. At present, sequestration does not affect the direction of the rebalancing strategy; nonetheless, the presence of the US military in the Asia–Pacific region is in decline as a result of sequestration. If the White House and Congress cannot agree to stop the sequestration, it would have a great and adverse effect on the capabilities of the US military and, ultimately, render the rebalancing strategy ineffective. If the sequestration continues, the US military will retreat from the Asia–Pacific region, with East Asia is the main target area of military withdrawal. Allied countries in the region would then need to reconsider their self-defence abilities and relationships with China; this is of special consideration in Japan and South Korea.

The following are important points that must be taken into consideration.

First, there has been a change of focus from East Asia to Southeast Asia. This change has already become more evident since the FY2013 request, and Donilon has made a point of mentioning it (Donilon 2013). The continuation of sequestration will promote and even accelerate this trend. Rotation forces will become the main component of US military power in the East Asia region; nonetheless, peace and stability in this region is important to the Obama administration, and hence, it will ask its main allies in East Asia (i.e., Japan and South Korea) to work hard to share the US “burden”. If both countries do not respond positively, the US military would withdraw from the East Asia region; however, international situations involving both countries, in particular North Korea nuclear problem, require the presence of the US military, and thus, both countries must set forth certain policies by which to keep the US military from leaving and create a new form of military cooperation with the United States under sequestration.<sup>5</sup> Also, the important problem in the East Asia region is the security of Taiwan. The Taiwan Relations Act (TRA) defines the US military commitment to Taiwan. If the Obama administration will change the focus from East Asia to Southeast Asia, it must maintain the military commitment to Taiwan under TRA. That is the problem whether rotation forces will be enough for the security of Taiwan or not. This point is related to the second point, because US Taiwan policy depends on US China strategy.

Second, there has been a change in China policy and attitudes vis-à-vis the ASB concept. Behind the rebalancing strategy is the purpose of countering Chinese A2AD capability. However, on January 24, 2013, Secretary of State John Kelly testified at the Senate’s nomination hearing that he did not consider

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<sup>5</sup>For example, negotiations between the United States and Japan with regard to the revision of defense guidelines started in January 2013. Garamone (2013).

China's military threat (Gallo 2013). If that is true and China is indeed not a military threat, it would be possible to slow the pace at which the rebalancing strategy is unfolding, while concurrently reducing the US presence in the region. Additionally, the ASB concept would not be needed. The ASB concept requires the procurement and development of new weaponry, and therefore it requires a large amount of funding; in particular, the cost of developing the F-35 fighter jet continues to increase. If the sequestration does not stop, in the worst-case scenario, the Obama administration will abandon the ASB concept and retreat to the Southeast region (i.e., Guam and Australia). The US presence in the Pacific region would then depend on rotation forces, and allied countries would be asked to strengthen their own self-defense capabilities.<sup>6</sup>

Third, a reduction in the number of bases has been proposed. Hagel proposes a BRAC process; however, Congress will strongly oppose the closure of domestic bases, as they employ many Americans and undertake substantial procurements, and therefore, their closing would have a very large and adverse effect on those base's regions. Former Secretary of Defense Panetta had previously proposed the closure of domestic bases, but this was rejected by Congress (Scarborough 2012). Indeed, the closure of domestic bases would be very difficult; on the other hand, the closure of overseas bases would not encounter obstacles. It is therefore likely, all things being equal, that the number of overseas bases will be reduced. Recently, the US military has considered a move to rotational forces from main bases in maintaining a presence in the Asia-Pacific region in general, and in East Asia in particular; this position will be strengthened. In addition, additional host-nation support will be requested of countries that want to maintain a US base presence; those countries that wish to relocate them will need to shoulder the expenses related to withdrawal.

## 5 Conclusion

This paper focused on the connection between security policies and fiscal policies in the Obama administration from January 2011 to May 2013. The 'fiscal cliff' strategy of Obama was a smart measure by which to reduce defense spending and avoid a critical budgetary crisis while the Republicans hold a majority in the House of Representatives. Sequestration is the newest attempt to reduce the US federal deficit and, at the same time, achieve corresponding reductions in defense spending. The White House simultaneously announced its rebalancing strategy. This strategy clearly indicates the desire of the current administra-

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<sup>6</sup>Recently, "offshore control" has been gathering attention as a strategy choice. This concept focuses on the long-range containment of China and the enforcement of self-defense capabilities among allied countries. If this concept is adopted, US military can reduce many US bases in Asia-Pacific region. On this point, this concept is similar to the worst-case scenario. See Hammes (2012).

tion to minimize military commitments to Afghanistan, Iraq and the rest of the Middle East as it turns its attention to coping with the looming shadow of China in the Asian–Pacific area.

Forced deficit reduction does not currently affect the rebalancing strategy overall. However, if the White House cannot solve negotiation impasses with the Republicans or win the 2014 midterm elections, sequestration will continue and the rebalancing strategy will be in an extremely precarious position. As a result, there is a real possibility that the policy package of the White House, represented by the budget deficit reduction and rebalancing strategy, will fail. The defense budget reduction must be informed by the national security strategy, but the White House could be forced to work from the opposite position, with the national security strategy being restricted, and therefore dictated by budgetary constraints. The White House may require a new national security strategy to replace its current rebalancing strategy.

Secretary of State Kerry has maintained this rebalancing strategy as the US national security policy as a way to hedge risks vis-à-vis China. Yet at the same time, he is conducting diplomacy based on the aim of achieving greater cooperation with China and stronger commitments with the Middle East region (e.g. Syria). Will the rebalancing strategy have to be changed under Kerry's tenure? Will this strategy minimize military commitment to the Asian-Pacific region and lead to a US-China G2? The future is unclear at present. The 2014 midterm elections represents a clear fork in the road. Each and every issue covered in this paper will need to be revisited once again after the 2014 midterm elections.

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