

BUDGET AND PROGRAM

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Question: How did the high-level budget summit between the White House and congressional leaders go?

Answer: Not too well.

This past week... Democratic heads refused to attend - after the President "tweeted" - "I don't see a deal."

Mr. Trump... responded to the boycott by inviting TV cameras into the Roosevelt Room, and pointed to the empty chairs on either side of the President that were to be filled by Senate Minority Leader, Chuck Schumer (D-NY) and House Minority Leader, Nancy Pelosi (D-Cal).

The day-long series of insults added to the sense of dysfunction in the nation's capital.

The meeting... was to be a critical one. After much congressional negotiations... it was viewed as an essential step in writing a new budget pact and ironing out policy issues that could pave the way for a year-end omnibus measure and fresh FY 2018 funds for federal departments.

But it fell apart... before it ever got off the ground.

So where does that leave things - with the current continuing resolution ticking down to its December 8 expiration?

The House has introduced a short-term CR lasting until Dec 22 - which includes a technical adjustment to the Children's Health Insurance Program to continue administering it - but no other add-ons so far.

Some Republicans... are saying they will not support the extension as is - enough that Democrat support would be required.

Earlier in the week... House leaders considered a CR into January but got an immediate reaction from Dept of Defense - which is strongly opposed to entering the new calendar year under the restraint of a CR.

Building on that... a highly unusual back-and-forth occurred at the end of the week during a House Armed Services subcommittee hearing.

Mike Gallagher (R-Wisc) - an Iraqi war veteran told several high-ranking military witnesses:

"We can put an end to this madness by the end of the year but only if men like you and General Kelly [White House Chief of Staff] and General Mattis (Secy of Defense) hold Congress' feet to the fire. I know it might seem absurd from your perspective for us to put the onus on you given that we are a separate branch of government, which provides you with the funding, but we really need your help because you guys bring a credibility that Congress does not have."

You just don't hear exchanges like that. It reflects the desperation that some in Congress have, to put DOD on a predictable and fully funded path - now.

Unfortunately - the highly likely scenario is that federal agencies will be operating under an additional CR beyond Dec 22... at least into early January. Of course, this relies on having no hiccups in initial passage later this week.

What stands in the way - of you getting your FY 2018 funding?
As December draws... there are still a number of unresolved issues.

Far up on the list - is the seemingly unanswerable question regarding the ratio of defense vs nondefense increases that a new budget deal would carry forward. Republicans have offered +\$54 billion vs +\$37 billion respectively. Response from Nancy Pelosi (D-Cal) - "They think parity is 54-37. We are saying that isn't even close."

On the policy front - there is opposition from Mr. Trump regarding codifying President Obama's memorandum on DACA (Deferred Action on Childhood Arrivals), which Democrats are demanding be included in any year-end budget deal. Meanwhile, the President insists on \$1.6B for border wall construction - which Democrats strongly oppose.

Staring back... is that appropriators would need two-three weeks to finish writing all 12 FY 2018 spending bills, from the time a budget pact is hammered out so they have an aggregate number to work with. At the same time... this doesn't take into account the other crush of business.

The premier example - is the hugely complex tax bill that struggled to get approval in the Senate (51-49). The final push involved a 24-hour marathon of deal-making and arm twisting that culminated in a middle of the night vote. It now must be reconciled with the House version... high-stake negotiations.

In all the acrimony... could a partial gov't shutdown occur at the end of the week?

Not likely but still potentially possible, as it can't be passed in the Senate without some Democratic support and that is not a guarantee.

North Korea's ICBM launch this past week - ended a two-month hiatus.

Reflecting noticeable advancement... it flew at a very steep angle reaching an altitude of 2,800 miles - over a thousand miles higher than its predecessor.

In addition... observers were surprised to see that the Hwasong-15 appeared to be a much different design configuration - much larger and able to carry a significantly bigger payload. Nobody apparently expected such an upgrade. At the same time - they are still believed to have problems with mastering the technical aspects of a warhead surviving re-entry into the atmosphere.

An ominous milestone has been laid down... with this launch. For the first time, all of the U.S. mainland is now within range of a normal trajectory flight path. Consider that it was just this past July... that Pyongyang launched a ballistic missile with an estimated reach of 6,500 miles. The new standard represents quite an increase - at 8,100 miles.

On a corresponding front - N. Korea conducted its sixth and most powerful nuclear test in Sept. The hydrogen bomb represented a huge leap in explosive yield... up at least 10-fold from their previous nuclear detonations. They claim it can be mounted on an ICBM.

Also of note... the middle-night (3 a.m.) launch appeared to have attempted to fuel the missile while it was horizontal on its mobile launcher in the hanger before rolling it out and raising it to the vertical position. This exercise is intended to cut preparation time when the ICBM is first visible and most vulnerable.

U.S. estimates... are that Pyongyang will be able to place a miniaturized warhead on an ICBM sometime next year.

The most recent CRS report on North Korea - was published on Nov 6. Though not including this recent launch - they write - "These events appear to have fundamentally altered U.S. perceptions of the threat the Kim Jong-un regime poses . . ." Further on - "A key issue is whether or not the United States could manage and deter a nuclear-armed North Korea if it were to become capable of attacking targets in the U.S. homeland and whether taking decisive military action . . . might be necessary." If interested, refer to CRS report R44994, runs 66 pages.

Are you wording your budget justifications correctly?

A few points you might want to keep in mind. . .

First - seek to use consistent terminology in budget documents from year to year. This can make it easier to establish intent if problems arise.

Second - make your descriptive summaries accurate - yet not so narrow as to constrain program execution unnecessarily. Insuring proper use of appropriated funds is always a factor.

As it is...fiscal complexities may arise over “new starts” - which can frequently cause congressional concern. The key is often in the wording of the budget document, as Congress needs to know prior to obligation which projects will be carried out.

Revisions written by OMB earlier this year - include a requirement that agency Chief Information Officers (CIOs) must now include a statement “indicating the extent to which the CIO reviewed and had significant input in approving IT investments included in the budget request.”

Furthermore...a statement from the Chief Financial Officer (CFO) is to be included identifying the extent to which the CIO had a role in reviewing “significant increases and decreases in IT resources reflected in the budget.”

Other revisions are also highlighted...alongside long-standing criteria. Refer to OMB circular A-11...section 51.

The Dow Jones Industrial Average...exploded over 24,000 with a 331-point gain on Thursday.

It was the biggest one-day leap in a year and the fifth 1,000-point milestone of 2017. This last one took just 30 days - surging over the new high on the last day of November.

Let's take a look at how your thrift investments have been doing over the last 12 months (Dec, 2016 thru Nov, 2017) and for the single month of November:

C (stock) fund...up 22.87% - gain of 3.07% in November.

S (small-cap) fund...up 19.8% - gain of 2.9% in November.

I (internat'l) fund...up 27.69% - gain of 1.06% in November.

F (bond) fund...up 3.49% - Loss of 0.11% in November.

G (gov't) fund...up 2.33% - gain of 0.19% in November.

L (2020) fund...up 10.47% - gain 0.99% in November.

L (2050) fund...up 20.03% - gain of 2.03% in November.

Who is the greatest of them all?

As of end of last year...the C (stock) fund has averaged the best since its inception (1987) at 10.16% annually. Second worst performer may surprise you... I (internat'l) fund at 4.07% since its inception (2001) - has even been outpaced by the humble G (gov't) fund, which has posted a 5.19% annual average (since 1987).

U. S. diplomatic mission in Baghdad...is one of the most dangerous posts for State Dept personnel

But you don't hear much about the facility.

It is the largest U. S. embassy in the world - by far. Completed in 2009, with a \$115M “massive” upgrade in 2012...it is situated on 104 acres. Dwarfing all others - it is five-fold the size of the next biggest U. S. embassy and no less than 10-fold the third largest that is located in Beijing, China.

Its presence is extensive - six housing buildings for employees which includes over 600 bomb-proof apartments; a power station; waste treatment facilities, tennis courts, Olympic size swimming pool, etc. The facility has roughly 4,500 vehicles assigned to it - largest fleet in the State Dept.

At one time...staffing was 16,000 - mostly contractors with perhaps 2,000 embassy diplomatic employees. Everything seemingly on a huge scale.

Why the vast scope and staff?

To help shepherd Iraq to a democracy - and in doing so run wide-ranging capacity building programs and civilian aid activities amounting to tens of billions of dollars. Also...to work closely with the U.S. military in practically all aspects of the compound's role.

After the U.S. Dec. 2011 withdrawal - State Dept became the lead U.S. agency in Iraq. The cornerstone of nation ties was to be the Strategic Framework Agreement. Intent was to reorient Iraq governance and its economy toward the West.

At the same time...staffing was slashed as headcounts fell to 5,500 by 2014. Of the contractors, the majority were there to protect the embassy and consulates.

From 2012-2014...most U.S. funding to Iraq went to promote democracy, rule of law and "conflict resolution."

But the collapse of Iraqi security in 2014...changed the focus. The shift was stark - when U.S. forces left in Dec, 2011...they evaluated the Iraqi 350,000 troop force as relatively well-trained and disciplined. However, after the collapse of the Army in northern Iraq to ISIS during 2014 - some estimates put its post-strength as low as 50,000. The moment of crisis had arrived - hundreds of additional military personnel were sent to guard the consulate compound.

In the overall...the embassy's overarching purpose has been to bring democracy to Iraq. It was a central tenet of President George W. Bush - coupled with ridding the region of non-existent WMDs.

But by the time the United States withdrew in 2011 - with hundreds of thousands of Iraqis dead along with 4,500 U.S. soldiers...it all looked quite improbable.

However - perhaps not anymore - as this resilient country of 37 million is something rare in the region...a fragile democracy, however deeply flawed.

From 2002 - despite the carnage, despite the jihadist movements that rose up, despite the near economic collapse of oil dropping 50%, despite prognostications of the country's demise...Iraq's post-invasion institutions of gov't and its 2005 constitution - have basically remained intact.

In the big picture...Iraq is moving in the opposite direction of autocratic rule that many of its neighbors in the region have accepted as the status quo since the Arab Spring. Comments from a member within the political bureau of one of the main pro-Irani an Shiite militia that fought Americans ten years ago - and is now loosely aligned with Iraq...perhaps lends some perspective:

"It's hard for us to confess that America did something good for us because of so many mistakes that it committed here. But it toppled Saddam. And now Iraq is for sure freer than Iran and the rest of the region."

At this time...Haider al-Abadi, the current prime minister - is at his peak of popularity after vanquishing ISIS and moving with authority to retake the oil-rich province of Kirkuk in the north from expansionist Kurds.

Iraq's next test...is the nat'l elections in May.

His greatest rival for power...is Nouri al-Maliki, who was prime minister from 2006-2014. The country's worst sectarian violence occurred under his rule, which some firmly believe he set the table for ISIS.

The two...have very different visions for Iraq.

Prime Minister Abadi, a 63-year old who holds a doctorate in engineering from the University of Manchester - views a consensus gov't as best.

Mr. Maliki...wants a strong political bloc - contends that "power-sharing" is the "biggest threat to democracy."

But they do agree on one thing.

That elections should be held on time - even though some politicians are calling for postponement of up to a year. Mr. Maliki states that not holding them would be more dangerous to Iraq than ISIS - "the democratic process would end."