

Budget Situation Makes Defense Cuts Inevitable

by Jim Stickford



Mark Signorelli

Sequestration of the federal budget means a lot of things, but for now, the situation has stabilized in terms of military spending, said Mark Signorelli, BAE Systems vice president and general manager for armored combat systems.

Signorelli is based out of BAE Systems' Sterling Heights facility. He said that all the recent actions by Congress have given those in charge of defense spending some needed flexibility. Until the most recent continuing budget resolution was passed with its contingencies for defense, it appeared that the defense budget would have been cut 10 percent across the board.

Now, Signorelli said, the Army can better plan which projects get cut by how much.

"Now they can get money in the right buckets," Signorelli said. "If they didn't pass the most recent appropriations bills, the result would have been some projects would have been underfunded and some projects would have been overfunded and they couldn't move money from one bucket to another."

That's the short-term picture, Signorelli said. Congress has spent so much time working on this year's budget, he said, that they haven't really looked too much at next year's budget.

"We're past the immediate crisis," Signorelli said. "But as for the longer-term effects of sequestration, we're less certain of what the impact will be."

Not having a better sense of the future budgets, Signorelli said, hurts the morale of employees who are now worrying about their jobs. Not knowing future budgets is "also a nightmare" because it's hard to manage budgets. Lack of knowledge also handcuffs departments in their ability to make smart choices of how money will be spent in the future.

"Everyone's expectation is that we can't continue to operate this way, so, eventually, choices will have to be made on how to project spending," Signorelli said. "For example, the Army may decide to reduce end strength - that's the number of troops - because at this point in time, with the U.S. winding down two wars, the Army wants to invest in future capabilities instead of maintaining a force that will go unused."

That's a potential choice, Signorelli said, using that as an example of the kind of decision that will have to be made in the future if current budget conditions continue.

"If the Army - it's the Army for us - gets the ability to prioritize, depending on how programs turn out, we could see a 20 to 30 percent decrease in staff at the Sterling Heights location," Signorelli said. "That's instead of an automatic 10 percent under the original sequestration rules."

"It's unlikely that we are going to see the program accelerated and have an increase in staff. Maybe our programs would be left alone. I'd like that. In an ideal world, all programs would be untouched - but that's unlikely."

So, Signorelli said, there will be an impact from sequestration, it's just a question of to what degree. These cuts would come on top of a 50 percent staff reduction over the past three years that was the result of the end of the war in Iraq.

"The Army no longer needs us to create defenses in armored vehicles against IEDs," Signorelli said. "We're also phasing out troops in Afghanistan. We're seeing two major wars trend down, so there's less need for armored vehicles."

Companies like BAE Systems and General Dynamics will be affected, Signorelli said. That's to be expected, but what many people don't realize that as prime defense contractors see cuts, loss of business will trickle down to subprime contractors.

"I'm talking about small businesses that might only make one or two items for the Defense Department," said Signorelli. "Cuts might drive them out of business or owners might decide it's not worth their time and efforts to stay certified as a defense contractor, so they revert to strictly commercial business."

The end result is that a lot of expertise is lost, Signorelli said, adding that BAE is proud of the staff the company has assembled and doesn't want to lose them.

Signorelli said that in the past there's been a healthy exchange of staff between the auto and defense industries, but he doesn't want to lose a workforce the company is proud of and he doesn't want to see the defense industry lose capabilities.

The goal shouldn't be to build more armored vehicles, Signorelli said. The goal should be to develop technologies that can improve the vehicles the Army already has. That will require research.

Congress, the Pentagon and private industry need to work together to manage defense spending cuts, Signorelli said. There are costs associated with shutting down projects and there are costs that come with starting up a project a few years down the line. All that money spent produces exactly nothing.

"That's money that could be better spent maintaining an industrial base for the defense industry," Signorelli said. "I expect to see a reduction in staff, but the challenge is trying to plan in advance. It's hard to make plans for a year or two in the future when you don't know what is happening next week."

The bottom line, Signorelli said, is that cuts are going to happen. Contractors in metro Detroit will be affected by what's going on in Washington.

And, if Congress, the military and private industry work together, he said, they can manage the cuts responsibly.

But that's a big if.

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