
APPENDIX II

REPRIORITIZING SEQUESTER SAVINGS

KEY POINTS

- ✓ After the President initially asked for a blank check to keep borrowing, Congress forged a bipartisan agreement – The Budget Control Act – to ensure that any debt-limit increase was accompanied by a greater amount of spending reduction.
- ✓ The Budget Control Act called for deficit reduction in three stages – pre-sequester discretionary spending caps, a Joint Select Committee on Deficit Reduction (JSCDR), and an automatic spending reduction enforced by sequester in the event that the JSCDR failed.
- ✓ In the wake of the JSCDR's failure to achieve its deficit-reduction goals, discretionary spending levels are scheduled to be reduced by \$98 billion effective January 2, 2013.
- ✓ There is bipartisan agreement on the devastation to America's national security that would result if these deep cuts go into effect, and both parties have expressed a desire to avoid this outcome by reprioritizing the savings.
- ✓ Despite bipartisan agreement on the challenge, only House Republicans – through this budget – have proposed a solution to address it.
- ✓ This budget reprioritizes sequester savings to focus on the problem, which is government spending, and to protect national security from deep and indiscriminate cuts.
- ✓ It achieves these goals by giving six House committees reconciliation instructions to produce legislation by a date certain that achieves the savings called for under the Budget Control Act without the haphazard cuts that the sequester entails.

APPENDIX II

Reprioritizing Sequester Savings

Last year, as the nation approached the statutory limit on how much it could legally borrow, the Obama administration asked Congress for a “clean piece of legislation” to increase the government’s legal borrowing authority without any spending cuts to match.¹

House Republicans refused to give the President the blank check he requested. Instead, Speaker of the House John Boehner insisted that any increase in the debt ceiling be accompanied by a greater amount of spending reduction. Speaker Boehner made clear on May 9, 2011 that, “Without significant spending cuts and reforms to reduce our debt, there will be no debt limit increase. And the cuts should be greater than the accompanying increase in debt authority the President is given.”²

Once it became clear that Congress would not rubber-stamp his requested increase in the debt ceiling, President Obama announced that he would not accept a debt-ceiling deal that did not include large tax increases on American families and businesses.³

House Republicans succeeded in protecting hardworking taxpayers by preventing the President from securing a bill containing tax hikes. Instead, a bipartisan agreement was forged to achieve savings from limits on discretionary spending and to set in motion a framework to achieve additional savings. The Budget Control Act of 2011 (BCA) paired a \$2.1 trillion increase in the public debt limit with equivalent deficit reduction over the ensuing ten years. The BCA called for deficit reduction in three phases:

1. First, it established caps on discretionary spending, achieving approximately \$917 billion in savings over ten years.
2. Second, it established and called upon a Joint Select Committee on Deficit Reduction (JSCDR) to produce legislation with at least an additional \$1.2 trillion in deficit reduction.
3. Third, it established an automatic sequestration process to force spending reductions in the event the JSCDR did not produce a deficit-reduction bill or Congress refused to pass it. This “sequester” would result in immediate discretionary spending reductions effective January 2, 2013.

Understanding each component of the BCA is critical to understanding the fiscal impact of the law as a whole. The BCA’s pre-sequester spending caps reduced discretionary spending for FY2013 to a maximum of \$1.047 trillion. Some, including Senate Majority Leader Harry Reid, are still insisting that House Republicans are obligated to pass FY2013 spending bills at these levels.⁴

But Congress is no longer operating in a pre-sequester world. Last November, the JSCDR announced that it could not reach agreement on a deficit-reduction bill by the statutorily required deadline, thus triggering the sequester. Congress is now operating in a post-sequester world – one in which discretionary spending for FY2013 is capped at \$949 billion,

¹ Brian Patrick, “Debt Limit Tick Tock,” Blog Update, Office of Majority Leader Eric Cantor, August 1, 2011. <http://majorityleader.gov/blog/2011/08/debt-limit-tick-tock.html>

² Remarks by House Speaker John Boehner. Economic Club of New York. May 9, 2011. <http://www.speaker.gov/News/DocumentSingle.aspx?DocumentID=240370>

³ Patrick, “Debt Limit Tick Tock.”

⁴ Naftali Bendavid, “Fight Breaks Out Over 2013 Budget Cuts,” *Wall Street Journal*, March 14, 2012. <http://blogs.wsj.com/washwire/2012/03/14/fight-breaks-out-over-2013-budget-cuts/>

and defense spending will be cut by \$55 billion, or 10 percent, in January 2013 unless Congress acts to replace this sequester by reprioritizing the savings.

Table 1

Discretionary Spending Caps: Post-Sequester (Budget Authority in Billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-22
Budget Control Act / Pre Sequester	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234	1,234	11,451
Defense	546	556	566	577	590	603	616	630	644	644	5,972
Non-Defense	501	510	520	530	541	553	566	578	590	590	5,479
Sequester (discretionary only)	-98	-93	-92	-91	-91	-90	-89	-88	-88	-90	-910
Defense	-55	-55	-55	-55	-55	-55	-55	-55	-55	-56	-548
Non-Defense	-43	-38	-38	-37	-36	-36	-35	-33	-33	-34	-362
Budget Control Act / Post-Sequester	949	973	994	1,016	1,040	1,066	1,093	1,120	1,146	1,144	10,541
Defense	491	501	511	522	535	548	561	575	589	588	5,424
Non-Defense	458	472	482	493	505	517	531	545	557	556	5,117

Source: CBO March 2012 Baseline

These cuts would be devastating to America's defense capabilities. Leaders of both parties agree that sequester savings should be reprioritized. On August 4, 2011, then-director of the Office of Management and Budget (now White House Chief of Staff) Jack Lew wrote that the sequester was not intended to be implemented: "Make no mistake: the sequester is not meant to be policy. Rather, it is meant to be an unpalatable option that all parties want to avoid."⁵

The Joint Select Committee on Deficit Reduction

While both parties have expressed their desire to avoid the consequences of the sequester, there is profound disagreement over how. This disagreement was evident in the JSCDR's failure to produce a deficit-reduction bill last year.

Despite the good-faith effort on the part of committee Republicans to avoid the sequester (and, by extension, to avoid its disproportionate impact on defense), the negotiations exposed a fundamental lack of seriousness by some in Washington regarding the need to control government spending and address the structural drivers of the debt. As JSCDR Co-Chairman Jeb Hensarling made clear, Democrats on the committee "were unwilling to agree to anything less than \$1 trillion in tax hikes – and unwilling to offer any structural reforms to put our health care entitlements on a permanently sustainable basis."⁶

Committee Democrats refused to address the problem, so the problem remains. Therefore, the immediate question of how to reprioritize sequester savings – and the larger challenge of averting a debt-fueled economic crisis – have become central to this year's budget debate during this year's budget season.

The President's FY2013 Budget

⁵ Jack Lew, "Security Spending in the Deficit Agreement," August 4, 2011. <http://www.whitehouse.gov/blog/2011/08/04/security-spending-deficit-agreement> (accessed March 19, 2012).

⁶ Hensarling, Jeb. "Why the Super Committee Failed," *Wall Street Journal*, November 22, 2011. <http://online.wsj.com/article/SB10001424052970204531404577052240098105190.html> (accessed March 19, 2012).

The President's FY2013 budget calls on Congress to replace the sequester, but it does not make a specific proposal to turn the sequester off. It assumes that the sequester does not occur, but it does not lay out a specific path forward to avoid its consequences. The President's budget includes tax increases and spending cuts (including a \$487 billion reduction in defense spending), which it claims are enough to offset the sequester – but it includes a net spending *increase* that consumes nearly all of its claimed deficit reduction.

This approach is deeply flawed, for three reasons. First, it imposes a net tax increase on American families and businesses of \$1.9 trillion. Washington's fiscal imbalance is overwhelmingly driven by runaway spending, not insufficient tax revenue, and reducing the deficit by taking more from hardworking Americans would simply slow the economy, reduce job opportunities, and ultimately prove counterproductive as a deficit-reduction strategy.

Second, despite the large tax increase, the President's budget also contains a net spending increase of \$1.5 trillion, for a total of only \$400 billion in deficit reduction. The rest of the President's deficit-reduction claims are based on discredited budget gimmicks, including almost \$1 trillion in "savings" that come from projecting current wartime spending in Iraq and Afghanistan out for the next ten years, then proposing not to spend that money, even though it was never requested and never going to be spent.

And third, much of the President's actual spending reduction comes from cutting too deeply into the Defense Department. Although the President's budget does not cut defense as deeply as the sequester would, these cuts would still jeopardize the capability of the U.S. military.

The Senate's Lack of a Budget

It has been three years since the Senate passed a budget, and the legal deadline for passing a congressional budget resolution this year is fast approaching. Yet there has been no indication that Senator Reid plans to put forward an alternative plan for prioritizing spending, much less for averting the sequester. Instead, he continues to insist that Congress is still operating in a pre-sequester world, even though the President's own budget admits that "the sequester was triggered and will take effect in January 2013 if no action is taken."⁷ Senator Reid's approach has been the very definition of inaction. There is a better way forward.

The Path to Prosperity Approach: Reprioritize Savings Through Reconciliation

This budget reprioritizes sequester savings to focus on the problem, which is government spending, and to protect national security from deep and indiscriminate cuts. It achieves these goals by giving six House committees reconciliation instructions to produce actual legislation that achieves the sequester savings without the haphazard cuts that the sequester entails.

How Reconciliation Works

The 1974 Budget Act provides Congress with a special procedure to give expedited consideration to bills enacting the spending, revenue, and debt policies contained in the budget resolution. To trigger these expedited procedures, the budget resolution must include reconciliation instructions calling on specific committees to achieve specified amounts of savings in programs within their jurisdictions. The committees choose which programs to address and which policies to adopt.

Reconciliation in the FY2013 Budget Resolution

This budget gives reconciliation instructions to six committees – Agriculture, Energy and Commerce, Financial Services, Judiciary, Oversight and Government Reform, and Ways and Means – that in aggregate would produce at least \$18 billion of deficit reduction in the first year, \$116 billion over the first five years, and \$261 billion over the first ten years.

⁷ "Fiscal Year 2013 Budget of the U.S. Government," Office of Management and Budget, February 2012.
<http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/budget.pdf>

Table 2

Replacing the Sequester (Millions of \$ of Deficit Impact)

	2012-13	2012-17	2012-22
Sequester of \$78,480 million of Discretionary Budget Authority	-45,410	-77,799	-77,799
Committee on Agriculture	-8,200	-19,700	-33,200
Committee on Energy & Commerce	-3,750	-28,430	-96,760
Committee on Financial Services	-3,000	-16,700	-29,800
Committee on the Judiciary	-100	-11,200	-39,700
Committee on Oversight & Government Reform	-2,200	-30,100	-78,900
Committee on Ways & Means	-1,200	-23,000	-53,000
Gross Reconciliation Savings	-18,450	-129,130	-331,360
Remove overlapping reconciliation instructions	-100	-12,800	-69,900
Net Total Reconciliation Savings	-18,350	-116,330	-261,460
Reconciliation Savings as a Percentage of Replaced Sequester	40%	150%	336%

Ultimately, the committees will be responsible for determining how to meet their reconciliation instructions. But savings could be achieved in the areas of making pensions for federal workers more like those for workers in the private sector, repealing recent expansions of the federal role in financial services, saving money in health care, means-testing entitlements, and reforming the medical liability system.

This budget provides a clear solution that would be implemented quickly to replace the sequester. It does so by using an expedited procedure to reduce lower-priority spending. This solution would cut through the gridlock in Washington to start eliminating excessive autopilot spending immediately. It would protect taxpayers, and it would shield the U.S. military from a crippling, 10 percent across-the-board reduction in its funding.

Unfortunately, the House cannot unilaterally implement this solution – and the Senate Democratic leadership’s only plan has been to oppose solutions put forward in the House. U.S. troops and their families should not have to suffer because the Democratic Party’s leaders refuse to lead. House Republicans will continue to show a way forward by directly addressing the nation’s most urgent fiscal and economic challenges. It is not too late for Americans to choose a better path.