



Replacing the Sequester

By Michael Linden October 17, 2013

With the government shutdown and the threat of a catastrophic debt default now blessedly behind us, Congress can turn its attention to the real and most pressing fiscal challenge our country faces: ending austerity.

Over the past three years, several rounds of drastic, ill-timed, and ill-designed spending cuts have dragged down the recovery, costing us hundreds of billions of dollars in lost economic activity and millions of jobs. Unfortunately, another round of spending cuts is already happening. The automatic across-the-board cuts known as sequestration are still in place for this fiscal year, despite the Congressional Budget Office's warning that keeping these cuts will cost us 800,000 jobs.¹ Job number one, now that the government is reopened and the debt limit is raised, is to replace those mindless and damaging cuts with smarter, longer-term deficit reduction and implement some much-needed immediate investments in economic growth today.

The sequestration cuts were never meant to go into effect. They were deliberately designed to be so draconian, painful, and blunt that Congress would work together to find an alternative. Unfortunately, they did go into effect in fiscal year 2013. As a result, children were deprived of preschool,² cancer patients were turned away,³ the U.S. court system experienced delays,⁴ and our entire economy suffered. In fact, a recent analysis from the private economic forecasting firm Macroeconomic Advisers found that cuts to discretionary federal spending—the sequester among them—have cost the U.S. economy 1.2 million jobs this year, raising the unemployment rate by 0.8 percentage points.⁵ The absurdity of continuing these failed policies should be clear.

Making the sequester even more absurd is the simple fact that it is entirely unnecessary for achieving the goal of a sustainable federal budget—its entire purported purpose. In fact, today's budget projections *without* sequestration are actually better than what was originally projected *with* sequestration. In August 2011, the federal budget deficit from 2014 to 2021 was projected to total \$5.5 trillion with the sequester in place, for an average deficit of 3.3 percent of gross domestic product.⁶ Today, without the effects of the sequester, the deficit is projected to total \$5 trillion over the same period, for an average

deficit of 3 percent of GDP.⁷ In other words, if we simply repealed the sequester in its entirety, our budget deficits would still be about \$500 billion lower than what they were expected to be after the sequester was originally passed into law.

In a rational world, that is exactly what we would do—simply repeal the sequester. It is harmful, shortsighted, and totally unnecessary. Unfortunately, we do not live in that world yet. Tea Party members of Congress and their allies see the sequester as a victory that should be protected.⁸ Single-issue deficit reduction groups will oppose anything that increases the debt under nearly any circumstances. And many policymakers have simply not fully come to grips with the new economic and fiscal realities—for example, the dramatically improved budget outlook and the spectacular failure of austerity policies in Europe.

As a result, the most realistic approach to fixing the sequester at this point is to replace it with smarter deficit reduction—even if that deficit reduction is largely unnecessary right now.

In June, the Center for American Progress offered one such reasonable plan for replacing the sequester.⁹ Today, that plan is even more relevant.

The four principles behind our sequester replacement plan

Keep it manageable

If the past three years have proven anything, it is that Republicans and Democrats cannot agree on a large package of deficit reduction. If we hold out for \$1 trillion in deficit reduction to replace the entire 10 years of the sequester, we may find ourselves waiting forever. There is no need, however, to replace the entire 10 years right away. In time, as our fiscal situation continues to improve and as political conditions change, it will hopefully be easier to replace or even get rid of the sequester. But we should not let the perfect be the enemy of the good. For now, our plan would replace three years of the sequester, taking us through 2016.

We have already paid for 60 percent of the sequester

The original intent of the sequester was to ensure that, no matter the outcome of the so-called super committee, there would be \$1.2 trillion in additional deficit reduction. As already noted, the deficit picture has actually improved much more substantially than that even without the sequester. But even if we consider only legislated deficit reduction, we have actually achieved part of the goal as well. The American Taxpayer Relief Act,

better known as the fiscal cliff deal, enacted about \$800 billion in deficit reduction from 2013 to 2023, or about 60 percent of the total deficit reduction achieved by the sequester over that period.¹⁰ Had that same deficit reduction come about through the super committee process, it would have reduced the impact of the sequester to only about \$500 billion rather than the currently projected \$1.3 trillion. Recognizing this, our plan offsets only the remaining 40 percent of the sequester that has not been paid for already.

Balance is a necessary component

Nearly three-quarters of the legislated deficit reduction to date has come in the form of spending cuts.¹¹ And while additional spending cuts may be required to offset the sequester, so too will some additional revenue. In the past the requirement for additional revenue has been the main stumbling block to a deal, as conservatives in Congress have refused to consider even relatively modest revenue enhancements. Because of our first two principles, however, conservatives will only need to agree to a very small amount of additional revenue to achieve the goal of fixing the sequester. Our plan would increase total revenues over the next 10 years by less than 0.4 percent.

Focus on the economy

The main objective in seeking to fix the sequester is to avoid further economic damage. The economy is on fragile ground, and although there have been some optimistic signs of progress, unemployment remains unacceptably high, wages remain unacceptably stagnant, and growth remains unacceptably slow. Federal Reserve Chairman Ben Bernanke recently all but begged Congress to address the deleterious economic effects of the sequester.¹² But Congress could and should do more than simply prevent the sequester from doing harm. It can actively take steps to boost job creation and lay foundations for future economic growth. That is why our plan includes room for roughly \$80 billion in investments that Congress could enact today that would help improve the economic outlook and make it easier to address what remains of our fiscal problems in the long term.

The replacement plan itself

Repeal the sequester for fiscal years 2014, 2015, and 2016

The total “cost” to the federal bottom line would be approximately \$315 billion not including increased debt service costs.¹³ But because we have already paid for 60 percent of the sequester, we need only offset about \$126 billion.

Implement competitive bidding more broadly throughout federal health care programs

Competitive bidding for medical equipment and devices, for clinical laboratories, and in Medicare Advantage will lower prices for the federal government, resulting in nearly \$50 billion in savings over 10 years.¹⁴

Better alignment of Medicare payments to actual costs

Medicare payments for services from a number of different providers—including home health providers, skilled nursing facilities, and some hospitals—are currently substantially higher than the actual costs of treatment. Bringing those payments down to reflect the providers' true costs will reduce federal spending by approximately \$50 billion over 10 years.¹⁵

Reduce agriculture subsidies

Our current system of agricultural subsidies is outdated and costly. Reforming this system along the lines proposed by President Obama would save approximately \$40 billion over 10 years.¹⁶

Implement the "Buffett Rule"

Overall, our federal tax system is progressive—meaning that higher-income households on average pay a greater share of their income in taxes than do middle- and low-income households. This is not always true, however. There are many very high-income households who are able to avoid paying even middle-class rates. The Buffett Rule would ensure that millionaires are paying at least the same tax rates as most other high-income households. It would raise approximately \$100 billion over 10 years.¹⁷

Repeal fossil-fuel industry tax subsidies

The fossil-fuel industry currently receives numerous tax breaks. Given the profitability of leading fossil-fuel companies, these tax subsidies are entirely unnecessary. Repealing them would save about \$40 billion over 10 years.¹⁸

Invest in job creation and growth

Our plan also includes room for a little more than \$80 billion in investments that would spark faster growth today and lay the foundations for faster growth tomorrow. These include a \$20 billion down payment for the first five years of the president’s early childhood initiative, a \$50 billion investment in infrastructure, and a \$12 billion investment in the “Pathways Back to Work Fund,” which would help provide employment opportunities for the long-term unemployed, young people, and low-income people.¹⁹

TABLE 1
How to replace the sequester

Deficit effect, 2014-2023, in billions

Remaining cost of sequester repeal through 2016	125
Spending Cuts	
Competitive bidding	-48
Better align Medicare payments with costs	-50
Agriculture subsidy reform	-40
Revenue enhancements	
Buffett Rule	-99
Fossil fuel tax subsidy repeal	-44
Investments	
Early childhood	20
Infrastructure	50
Pathways Back to Work fund	12
Debt service	15
Net deficit effect	-59

This plan would avoid the economic damage caused by the sequester and replace it with smarter and better-timed deficit reduction. The plan would also spark faster job creation right away and allow us to begin to make important investments in our future.

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Endnotes

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- 11 Michael Linden and Michael Ettlinger, "The Deficit Reduction We Have Achieved So Far," Center for American Progress, January 8, 2013, available at <http://www.americanprogress.org/issues/budget/news/2013/01/08/49137/the-deficit-reduction-we-have-achieved-so-far/>.
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- 14 Center for American Progress, "The Senior Protection Plan" (2012), available at <http://www.americanprogress.org/issues/healthcare/report/2012/11/13/44590/the-senior-protection-plan/>.
- 15 Ibid.
- 16 Office of Management and Budget, *Fiscal Year 2014 Budget of the U.S. Government* (The White House, 2013), available at <http://www.whitehouse.gov/omb/budget/overview>.
- 17 Ibid.
- 18 Ibid.
- 29 Ibid.