Center for American Progress

Why One Simple Fix Would Dramatically Reduce the Sequester

By Harry Stein November 26, 2013

For the past several months, automatic across-the-board spending cuts have damaged our economy and national security. These cuts, known as the sequester, were never supposed to happen.[1] Congress always planned to replace the sequester with a smarter debt-reduction package. Then Congress did, in fact, pass another debt-reduction package at the end of 2012, commonly known as the fiscal cliff deal. But unfortunately, the savings from the fiscal cliff deal were not counted toward replacing the sequester.

Fixing the sequester to account for the debt reduction in the fiscal cliff deal would lay the foundation for a stable federal budget and a strong economic recovery. Even better, the benefits of applying the fiscal cliff's deficit reduction to the sequester would flow disproportionately to critical investments such as education, research, and infrastructure. These sectors have borne the brunt of recent budget cuts, but they are exactly where we should be investing to rebuild the economy.

How we got here

Congress originally passed the sequester as part of the Budget Control Act of 2011, which reduced the deficit by more than $2 trillion over 10 years.[2] About half of those savings came from spending caps that essentially froze discretionary spending for the next 10 years.[3] The rest of the deficit reduction was supposed to come from legislation developed by a special congressional committee, nicknamed the "super committee." But if the super committee and Congress failed to implement the deficit reduction required by the Budget Control Act, the sequester would kick in and automatically cut spending by an additional $1.2 trillion.[4]

The sequester was deliberately designed to be a terrible policy.[5] It was supposed to force Congress to compromise and make tough decisions to reduce the deficit. Unfortunately, the members of Congress on the super committee failed to make those compromises. As 2011 drew to a close, the super committee missed the deadline to produce legislation that would meet the deficit-reduction targets in the Budget Control Act.[6]

One year later, at the end of 2012, Congress faced another crisis, this one nicknamed the "fiscal cliff." The massive tax cuts signed into law by President George W. Bush were scheduled to expire, and the sequester was about to kick in.[7] Congress passed legislation that allowed some of the tax cuts for the wealthiest Americans to expire while permanently extending all of the middle-class tax cuts.[8] Allowing those tax cuts to expire, along with other savings in the fiscal cliff deal, reduced deficits by $737 billion over 10 years compared to what deficits would have been under current policy at the time.[9]

Had the fiscal cliff deal been produced by the super committee instead of the normal legislative process, it would have automatically reduced the sequester spending cuts by $737 billion.[10] Instead, the sequester was left nearly untouched. Congress did postpone the sequester as part of the fiscal cliff deal, but only for two months. After that, the sequester kicked in.

How to fix it

The Budget Control Act calculates the size of the sequester cut by subtracting the debt reduction produced by the super committee from a base of $1.2 trillion. Since the super committee failed to produce a bill, that leaves a full $1.2 trillion sequester to be implemented over nine years. But whether the fiscal cliff deal was produced by the super committee or not, it still delivered more than half of the debt reduction required by the Budget Control Act's sequester provision. All Congress needs to do is amend the Budget Control Act to include the debt reduction from the fiscal cliff deal in the sequester calculation.

Subtracting the fiscal cliff savings of $737 billion from the $1.2 trillion sequester base leaves $463 billion of sequester cuts. The remaining sequester cuts will also yield extra savings by reducing the national debt, and therefore the interest that must be paid on that debt. To account for that extra savings, the sequester law reduces the overall amount of program cuts by 18 percent. Finally, the sequester law spreads those cuts over nine years, and then splits each year's cuts evenly between defense and nondefense programs.[11]

When the fiscal cliff savings are included in the sequester calculation, the annual amount of sequester cuts falls from $109 billion to $42 billion. That reduces the defense and nondefense cuts from $55 billion to $21 billion. Reducing the defense sequester gives the Pentagon flexibility to draw down national security spending in a responsible and strategic manner. But the benefits of applying the fiscal cliff deficit reduction to the sequester are even greater on the nondefense side.

The nondefense sequester is not allocated evenly within the domestic budget. Fortunately, many programs that form the foundation of American retirement security and the social safety net are protected completely, such as Social Security, Medicaid, and the Supplemental Nutrition Assistance Program, or SNAP, commonly known as food stamps.[12] Medicare and some other federal health programs are also partially protected by limiting the sequester cuts to 2 percent.[13] Any sequester cuts that exceed this 2 percent threshold are reallocated to the rest of the domestic budget, meaning extra cuts.[14] As a result, the sequester has made particularly deep cuts to investments in education, scientific research, and infrastructure, which fall into the broad category of nondefense discretionary spending.

Since the nondefense discretionary budget is hit hardest by the nondefense sequester, it also benefits most from reducing the sequester. If the fiscal cliff savings are included in the sequester calculation, the nondefense sequester becomes an across-the-board cut of 1.82 percent. That delivers a small amount of relief to Medicare, but Medicare cuts were already limited to 2 percent. The biggest impact is in the nondefense discretionary budget. While the sequester is currently set to cut about $37 billion from nondefense discretionary spending,[15] accounting for the fiscal cliff savings reduces the sequester cuts to $9 billion.

Accounting for the savings in the fiscal cliff deal reduces the nondefense discretionary sequester by 75 percent, while the overall sequester is reduced by 61 percent. That means Congress can allocate $28 billion to prevent more cuts to job training, schools, transportation, and wherever else those funds are most needed within the nondefense discretionary budget to get our economy back on track.

TABLE 1

Caluclating the 2014 sequester under current law and with fiscal cliff savings included

Note: All figures in billions of dollars. Totals may not add up due to rounding.	Current law	Including fiscal cliff
Step 1: Start with $1.2 trillion in required deficit reduction	$1,200.00	$1,200.00
Step 2: Subtract enacted deficit reduction (in current law, only super committee savings is counted)	0.00	737.00
	1,200.00	463.00
Step 3: Deduct 18 percent for debt service savings, leaving 82 percent in required program cuts	984.00	379.66
Step 4: Divide by nine to calculate annual reductions	109.33	42.18
Step 5: Split reductions 50/50 between defense and nondefense functions	**54.67**	**21.09**

Sources: Office of Management and Budget; Jeff Zients, "American Taxpayer Relief Act Reduces Deficits by $737 Billion," The White House blog, January 1, 2013.

TABLE 2

Caluclating the 2014 defense sequester under current law and with fiscal cliff savings included

Note: All figures in billions of dollars. Totals may not add up due to rounding.	Current law			Including fiscal cliff		
	Discretionary	Mandatory	Total	Discretionary	Mandatory	Total
Step 1: Start with 2014 discretionary and mandatory bases for allocating reductions	$552.00	$7.67	$559.67	$552.00	$7.67	$559.67
Step 2: Calculate percentages to allocate reductions	98.6%	1.4%	100.0%	98.6%	1.4%	100.0%
Step 3: Allocate defense reductions proportionally between discretionary and mandatory bases	**53.92**	**0.75**	**54.67**	**20.80**	**0.29**	**21.09**

Sources: Office of Management and Budget; Jeff Zients, "American Taxpayer Relief Act Reduces Deficits by $737 Billion," The White House blog, January 1, 2013.

TABLE 3

Calculating the 2014 nondefense sequester under current law and with fiscal cliff savings included

Note: All figures in billions of dollars. Totals may not add up due to rounding.	Current law				Including fiscal cliff			
	Medicare	Other mandatory	Discre-tionary	Total	Medicare	Other mandatory	Discre-tionary	Total
Step 1: Start with 2014 Medicare, other mandatory, and discretionary bases for allocating reductions	$557.87	$95.37	$506.00	$1,159.24	$557.87	$95.37	$506.00	$1,159.24
Step 2: Calculate percentages to allocate reductions	48.1%	8.2%	43.6%	100%	48.1%	8.2%	43.6%	100%
Step 3: Allocate nondefense reductions proportionally between functions	26.31	4.50	23.86	54.67	10.15	1.74	9.21	21.09
Step 4: Reduce Medicare reduction to 2 percent (Note: Medicare reduction is already below 2 percent with fiscal cliff savings included)	15.15				0.00			
	11.16				10.15			
Step 5: Reallocate excess Medicare cuts to other functions		2.40	12.75			0.00	0.00	
	11.16	**6.90**	**36.61**	**54.67**	**10.15**	**1.74**	**9.21**	**21.09**

The sequester calculation for other mandatory programs is further modified by limits in cuts to some other federal health programs and an increase in student-loan fees, but these adjustments do not affect the discretionary or Medicare sequester cuts.

Sources: Office of Management and Budget; Jeff Zients, "American Taxpayer Relief Act Reduces Deficits by $737 Billion," The White House blog, January 1, 2013.

TABLE 4

Effect of including fiscal cliff savings in the sequester calculation

Note: All figures in billions of dollars.	Current law	Including fiscal cliff	Sequester reduction from including fiscal cliff
Total sequester	$109.33	$42.18	61.4%
Defense sequester	54.67	21.09	61.4%
Nondefense discretionary sequester	36.61	9.21	74.9%
Nondefense other mandatory sequester	6.90	1.74	74.9%
Nondefense medicare sequester	11.16	10.15	9.0%

Sources: Office of Management and Budget; Jeff Zients, "American Taxpayer Relief Act Reduces Deficits by $737 Billion," The White House blog, January 1, 2013.

Applying fiscal cliff savings to the sequester results in a stable budget outlook

When the sequester was originally passed, Congress was confronting alarming projections of exploding national debt.[16] That is no longer the case.[17] According to the Committee for a Responsible Federal Budget's "realistic baseline"—which assumes a full repeal of the sequester without offsetting deficit reduction—the national debt will be lower as a share of the economy 10 years from now than it is today.[18]

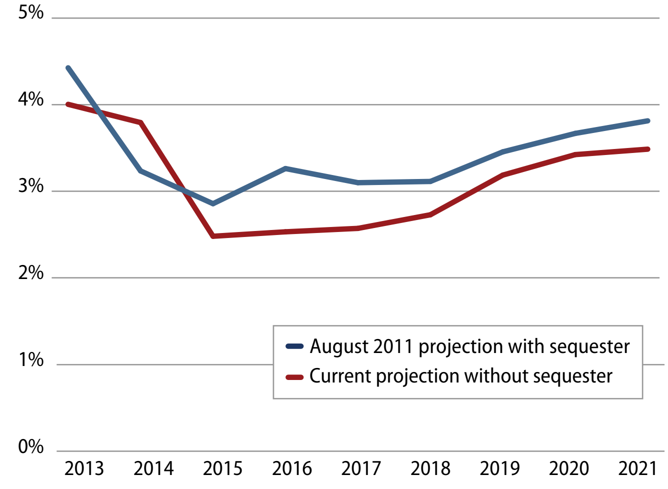
Debt projections are actually lower today *without* the sequester than they were *with* the sequester back in 2011.[19] That is partly because the fiscal cliff deal reduced deficits by $737 billion over 10 years, and partly because of progress controlling the growth of health care costs. The Congressional Budget Office now estimates that spending for federal health care programs will be $672 billion lower from 2013 to 2022 than their earlier estimate from January 2012, primarily due to savings in Medicare and Medicaid.[20] Additionally, premiums are coming in lower than expected for private health insurance sold through the marketplaces established by the Affordable Care Act, which the Center for American Progress estimates will reduce government spending by $190 billion over the next 10 years.[21] Altogether, that totals about $1.6 trillion in deficit reduction since the Budget Control Act was passed—far exceeding the $1.2 trillion in deficit reduction from sequestration. In short, we no longer need sequestration.

The long-term budget outlook has also improved dramatically. Back in 2010, the Congressional Budget Office's most commonly used budget projection estimated that debt would approach 350 percent of our total economic output by 2050. Today, the Congressional Budget Office's estimate of debt as a share of the economy in 2050 is closer to 125 percent.[22]

FIGURE 1

The sequester is unnecessary to achieve deficit reduction targets

Budget deficit as a share of GDP

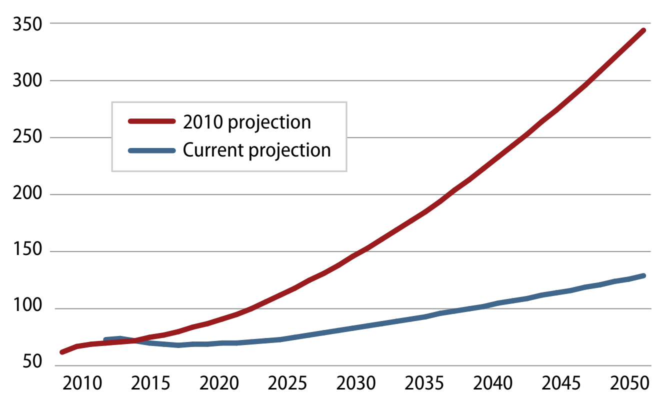


Source: Congressional Budget Office.

FIGURE 2

Incredible improvement in the long-run fiscal outlook

Publicly held debt, as a share of GDP



Note: The 2010 projection is the CBO's "Alternative Fiscal Scenario" which, at the time, was used far more widely than its baseline scenario.

Sources: Congressional Budget Office, "The Long Term Budget Outlook"; Congressional Budget Office, "The 2013 Long-Term Budget Outlook."

Applying fiscal cliff savings to the sequester maintains this stable budget outlook. Under this policy, the national debt would decline as a share of the economy over the next few years. In 10 years, the debt would equal approximately the same share of the economy as it does today.[23]

There is still some work to do on the long-term budget, but this is not an immediate crisis. And sequestration, which expires in 2021, does little to address the long-term debt anyway.[24]

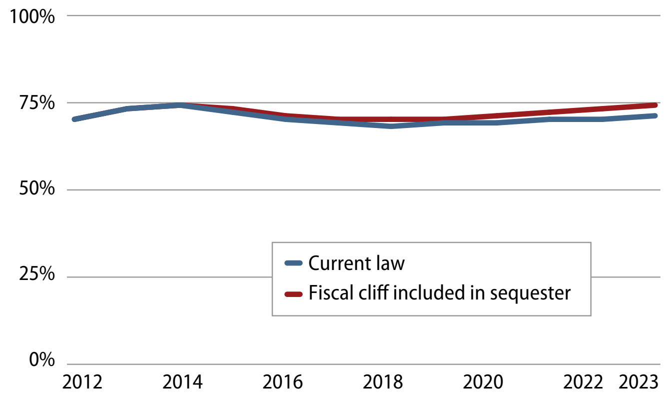
Conclusion

The sequester is solving a short-term budget problem that no longer exists. Congress passed the sequester in the face of deeply concerning national debt projections, but those projections look much better now. One major reason for that improvement is the fiscal cliff deal. Using the fiscal cliff savings to reduce the sequester is exactly in line with Congress's initial intent to replace sequester with smarter debt reduction.

FIGURE 3

Applying fiscal cliff savings to the sequester results in a stable budget outlook

National debt as a share of GDP



Note: The increase in outlays from including fiscal cliff savings in the sequester is based on estimates by the Committee for a Responsible Federal Budget, or CRFB. Those estimates assume a full sequester repeal. Since including fiscal cliff savings would only eliminate 61.4 percent of the sequester, the CRFB estimates for increased outlays are multiplied by 0.614 for the calculations underlying this figure.

Sources: Congressional Budget Office, "Updated Budget Projections: Fiscal Years 2013 to 2023"; Committee for a Responsible Federal Budget; U.S. Department of the Treasury.

Most importantly, scaling back the sequester enables Congress to focus on the very real economic crisis that we have now. More than 7 percent of Americans are actively looking for work but cannot find a job.[25] Many more Americans are underemployed, and families everywhere are struggling to make ends meet. That is the crisis on which Congress should be focused. Reducing the sequester is a step in the right direction, but it is not enough. Rebuilding the economy will require a full repeal of the sequester and renewed investments to lay the foundation for long-term prosperity.

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Endnotes

1 Jessica Yellin, "The day that was never supposed to happen is here," CNN, March 1, 2013, available at http://politicalticker.blogs.cnn.com/2013/03/01/forced-spending-cuts-begin-today/.

2 Letter from Congressional Budget Office Director Douglas W. Elmendorf to Speaker of the House John A. Boehner and Senate Majority Leader Harry Reid, August 1, 2011, available at http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/123xx/doc12357/budgetcontrolactaug1.pdf.

3 Ibid.

4 Ibid.

5 Heidi Moore, "As sequestration cuts bite, Congress is content with recrimination," *The Guardian*, July 4, 2013, available at http://www.theguardian.com/commentisfree/2013/jul/04/sequestration-cuts-congress-recrimination.

6 Ted Barrett, Kate Bolduan, and Deirdre Walsh, "'Super committee' fails to reach agreement," CNN, November 21, 2011, available at http://www.cnn.com/2011/11/21/politics/super-committee/index.html.

7 Dylan Matthews, "Everything you need to know about the fiscal cliff in one post," The Washington Post Wonkblog, July 16, 2012, available at http://www.washingtonpost.com/blogs/wonkblog/wp/2012/07/16/everything-you-need-to-know-about-the-fiscal-cliff-in-one-post/.

8 *American Taxpayer Relief Act of 2012*, P.L. 112-240, 112 Cong. 2 sess. (Government Printing Office, 2013).

9 This estimate included $12 billion in increased revenue from allowing taxpayers to convert tax-deferred retirement accounts to Roth savings accounts. While this tax change is expected to increase revenue in the short term as taxes are paid on conversions, it is also expected to decrease revenue in the long term by increasing flexibility for retirement tax planning. The total estimated deficit reduction was also reduced by $30 billion due to an extension of emergency unemployment compensation, even though a similar extension was not paid for at the end of 2010. See Jeff Zients, "American Taxpayer Relief Act Reduces Deficits by $737 Billion," The White House blog, January 1, 2013, available at http://www.whitehouse.gov/blog/2013/01/01/american-taxpayer-relief-act-reduces-deficits-737-billion.

10 The American Taxpayer Relief Act, or fiscal cliff deal, increased deficits relative to the Congressional Budget Office's current law baseline, which assumed all of the Bush tax cuts would expire as scheduled. However, the super committee was allowed to use a different baseline, such as one based on current policy, in order to reflect reduced deficits from legislation like the fiscal cliff deal. See James Horney, "Contrary to Speaker Boehner's Claim, Budget Deal's 'Supercommittee' Can Consider Revenue Increases" (Washington: Center on Budget and Policy Priorities, 2011), available at http://www.cbpp.org/cms/?fa=view&id=3554.

11 Office of Management and Budget, *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014* (The White House: 2013), available at http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy14_preview_and_joint_committee_reductions_reports_05202013.pdf.

12 Karen Spar, "Budget 'Sequestration' and Selected Program Exemptions and Special Rules" (Washington: Congressional Research Service, 2013), available at http://www.fas.org/sgp/crs/misc/R42050.pdf.

13 Ibid.

14 Office of Management and Budget, *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*.

15 Ibid.

16 Congressional Budget Office, "The Long-Term Budget Outlook" (2010), available at http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/115xx/doc11579/06-30-ltbo.pdf.

17 Michael Linden, "It's Time to Hit the Reset Button on the Fiscal Debate" (Washington: Center for American Progress, 2013), available at http://www.americanprogress.org/issues/budget/report/2013/06/06/65497/its-time-to-hit-the-reset-button-on-the-fiscal-debate/.

18 Committee for a Responsible Federal Budget, "CRFB's Realistic Baseline," available at http://crfb.org/crfbs-realistic-baseline (last accessed November 2013).

19 Linden, "It's Time to Hit the Reset Button on the Fiscal Debate."

20 The January 2012 Congressional Budget Office projection estimates $13.375 trillion in spending for mandatory federal health programs from 2013 to 2022. The May 2013 Congressional Budget Office projection estimates $12.703 trillion in spending for mandatory federal health programs from 2013 to 2022, a difference of $672 billion. See Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2012 to 2022" (2012), Table 3-2, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-31-2012_Outlook.pdf; Congressional Budget Office, "Updated Budget Projections: Fiscal Years 2013 to 2023" (2013), Table 2, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44172-Baseline2.pdf.

21 Topher Spiro and Jonathan Gruber, "The Affordable Care Act's Lower-Than-Expected Projected Premiums Will Save $190 Billion" (Washington: Center for American Progress, 2013), available at http://www.americanprogress.org/issues/healthcare/report/2013/10/23/77537/the-affordable-care-acts-lower-than-projected-premiums-will-save-190-billion/.

22 Kitty Richards and Michael Linden, "Flood of New Data Should Be a Wakeup Call to Policymakers," Center for American Progress, September 19, 2013, available at http://www.americanprogress.org/issues/budget/news/2013/09/19/74685/flood-of-new-data-should-be-a-wakeup-call-to-policymakers/.

23 These estimates are based on current law. If the assumptions of the Committee for a Responsible Federal Budget's "realistic baseline" were used, the estimated debt would be lower.

24 Steve Bell, Shai Akabas, and Brian Collins, "Sequester Impacts 101 – Budget Authority and Outlays," Bipartisan Policy Center blog, November 5, 2013, available at http://bipartisanpolicy.org/blog/2013/11/05/sequester-impacts-101-budget-authority-and-outlays.

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