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How Sequestration Gets Worse in 2014

By Harry Stein November 2013

Center for American Progress



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Introduction

“It is like a slowly growing cancer.” That is how Steven Warren of the University of Kansas described the automatic across-the-board spending cuts known as “sequestration” to Sam Stein of The Huffington Post.¹ Sequestration took effect eight months ago, and it has already been a disaster for the American people. Two of the worst sequester cuts took Head Start preschools and services away from 57,000 children² and scuttled groundbreaking scientific research.³ Sequestration also eliminated hundreds of thousands of jobs across the country.⁴ And things will only get worse.

There are four factors making next year’s sequester even more damaging than this year’s. First, and most simply, the sequester makes larger cuts in 2014 than it did in 2013. Second, many of the cuts that were legally made this year have not actually been implemented yet. Third, one-time fixes that mitigated sequestration’s worst impacts in 2013 cannot be used again next year. Fourth, sequestration made cuts to little-noticed but critical functions of government—cuts that will be particularly devastating if they are not reversed soon.

If sequestration is allowed to continue through all of fiscal year 2014, which began on October 1, 2013, the nonpartisan Congressional Budget Office, or CBO, estimates that 800,000 more jobs will be lost.⁵ Another year of sequestration would reduce economic growth by 0.6 percent of gross domestic product, or GDP.⁶ The key pillars of American prosperity and security would come apart as sequestration hollows out education, research, infrastructure, public safety, and national defense. In short, we cannot afford another year of sequestration.

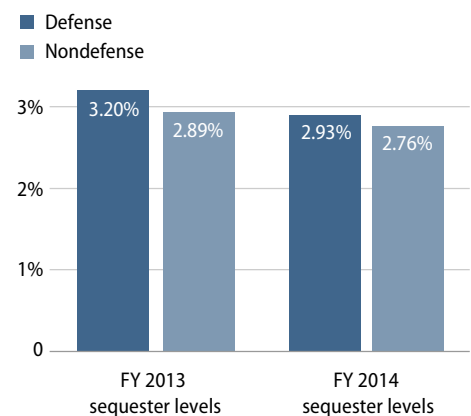
Sequestration gets bigger

Sequestration will cut \$24 billion more in 2014 than it did in 2013. That is because Congress partially repealed the 2013 sequester in the American Taxpayer Relief Act, which was passed to address the “fiscal cliff” at the beginning of 2013. Sequestration is supposed to cut \$109 billion every year, but this legislation reduced the 2013 cuts to \$85 billion.⁷ We have yet to experience a full sequester, but unless Congress acts again, the full \$109 billion in sequestration cuts will take effect in 2014.⁸

In addition to reducing the overall size of the sequester in 2013, Congress also shifted funds from nondefense to defense programs.⁹ That special treatment for defense does not continue in 2014 under the sequestration law, which means that defense will be funded at an even lower level next year.¹⁰ While the nominal spending level for nondefense under sequestration hardly changes from 2013 to 2014—because nondefense programs already took extra cuts in 2013—both defense and nondefense programs will shrink as a share of the overall economy.

FIGURE 1
The 2014 spending caps are lower than the 2013 caps

Discretionary spending caps under sequestration as a share of GDP



Sources: Office of Management and Budget, *Fiscal Year 2014 Budget of the United States* (The White House, 2013), Table 10.1, available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/hist10z1.xls>; Joel Friedman, Sharon Parrott, and Richard Kogan, “Too Little to Go Around: House Appropriations Plan to Increase Defense and Homeland Security Requires Even Deeper Cuts in Other Programs” (Washington: Center on Budget and Policy Priorities, 2013), Table 3, available at <http://www.cbpp.org/cms/?fa=view&id=3969>; 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), Table 1, available at http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy14_preview_and_joint_committee_reductions_reports_05202013.pdf.

Many of this year's sequestration cuts have not happened yet

Just before the sequester took effect, CBO estimated that the FY 2013 sequester cuts would only reduce spending by \$42 billion in FY 2013, even though the full FY 2013 sequester cut was \$85 billion.¹¹ That means only half of the FY 2013 sequester cuts were actually implemented in FY 2013. The reason for this is a technical distinction in budget terminology that has a big impact on when the sequester cuts actually happen.

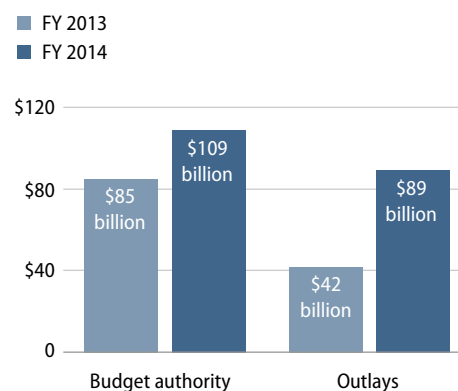
The sequester makes cuts to “budget authority,” which allows the federal government to incur financial obligations that will have to be paid with federal funds, either immediately or in the future.¹² The federal government makes an “outlay” when it actually disburses the money to meet its obligations.¹³ Federal agencies often commit funds from budget authority in an earlier fiscal year than the funds are actually spent as outlays.¹⁴ Businesses and individuals often behave in a similar manner whenever they sign a contract that requires payment to be made at some future date. In these situations, the impacts of sequestration cuts to budget authority will not be felt until later, when the subsequent outlays are also reduced.

According to CBO, sequestration will cut \$89 billion in FY 2014 outlays—double the cut it made in FY 2013.¹⁵ Outlay cuts in future years are even larger.¹⁶ Our economy has yet to experience sequestration’s full damage—but hundreds of thousands of jobs have already been lost.

The U.S. Department of Defense, for example, will only spend about half of its FY 2013 budget authority as outlays in FY 2013, with larger delays for long-term investments.¹⁷ Most of the funding provided in FY 2013 budget authority for research, development, testing, and evaluation, as well as procurement of new equipment, will not actually be spent as outlays until future fiscal years.¹⁸ For

FIGURE 2
Sequestration cuts far more actual federal spending (outlays) next year

Budget authority and outlay sequester in billions of dollars



Sources: Congressional Budget Office, “The Budget and Economic Outlook: Fiscal Years 2013 to 2023” (2013), Table 1.7, available at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf>; Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013* (The White House, 2013), Table 1, available at http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjcssequestrationreport.pdf.

instance, FY 2013 budget authority for the purchase of new submarines will be spent over seven years.¹⁹ Payments to military personnel—which are exempt from sequestration—are the only major Defense Department account in which budget authority and outlays occur almost entirely in the same fiscal year.²⁰ That means our military is only just beginning to feel the full effects of the FY 2013 sequester.

On the domestic side of the budget, these delayed effects are especially prominent in the education and job-training sectors—economic investments that are critical to recovering from the Great Recession and laying a foundation for long-term economic prosperity. The U.S. Department of Labor, for example, did not even begin to cut two major job-training programs until July, even though sequestration took effect in March. The FY 2013 sequester will cut nearly \$90 million²¹ from “Adult Employment and Training Activities” and “Dislocated Worker Employment and Training Activities,” which help unemployed workers build new skills and find jobs.²² This FY 2013 sequester cut, however, is being implemented from July 1, 2013 to June 30, 2014—meaning that most of the FY 2013 cut will actually take place in FY 2014, since FY 2014 began on October 1, 2013.²³ Cutting job training will drive up government spending elsewhere on unemployment and social services. Most importantly, abandoning jobless workers undermines our nation’s economic recovery.

Most elementary and secondary schools are also just beginning to feel the effects of sequestration, as it cuts key education grants. These major grants include Title I support for high-poverty schools and funding under the Individuals with Disabilities Education Act, or IDEA, which helps schools provide an appropriate education for students with special needs.²⁴ These grants are forward funded, meaning that the FY 2013 sequester cuts do not affect spending until the 2013-14 school year.²⁵ So even though sequestration kicked in on March 1, 2013, students only started to feel the effects more recently when they went back to school after their summer vacation.²⁶ Schools serving children from Native American reservations and military bases felt the impacts of sequestration sooner, because these schools rely on Impact Aid funds to replace lost property tax revenue from land on the reservation or base. Unlike Title I and IDEA, Impact Aid is not forward funded, meaning that some schools funded by Impact Aid had to make cuts during the 2012-13 school year.²⁷

The American Association of School Administrators surveyed 541 school superintendents in 48 states to learn how the FY 2013 sequester would affect school districts for the 2013-14 school year, and 85 percent of those superintendents responded that they would have to make cuts to balance their budget.²⁸ That meant eliminating teachers and other instructional staff positions for 53 percent of the districts surveyed. Forty-eight percent of superintendents responded that they increased class sizes to implement sequestration.²⁹ Every school district will handle sequestration differently, but it is most devastating to schools serving Native American reservations, military bases, and poor children, since these schools rely on federal funds the most.³⁰

Many schools are mortgaging their future to weather today's sequestration cuts by cutting teacher training and postponing long-term investments. According to the survey by the American Association of School Administrators, 59 percent of school districts are reducing professional development, 46 percent are delaying technology upgrades, 38 percent are deferring maintenance, and 32 percent are waiting to buy new textbooks.³¹ As the next section of this paper will document, many federal agencies are also following the same pattern to deal with sequestration in the short term.

One-time fixes for sequestration have been used up

The federal government is responding to sequestration with the assumption that it is a short-term budget crisis. While sequestration is generally an automatic across-the-board cut, Congress and the Obama administration have allowed some flexibility to ameliorate the worst short-term problems. These fixes have focused on funding immediate needs to minimize sequestration's impacts, but that approach cannot be sustained. In some cases, agencies minimized their sequester cuts using budget gimmicks, but those gimmicks only work once. In other cases, agencies drained their reserve and investment accounts to sustain urgent needs, but those accounts need to be replenished later. These responses are appropriate as long as sequestration is just a short-term problem—meaning that Congress acts quickly to repeal it. But if sequestration continues, these quick fixes will only make things worse down the road.

The most high-profile quick fix for sequestration was at the Federal Aviation Administration, where air traffic controller furloughs were delaying travelers across the country.³² To stop the furloughs, Congress cut investments in airport improvements to pay the salaries of the air traffic controllers. That makes sense for now, but airport infrastructure needs are piling up, and Congress will eventually have to pay the bill.³³

At the U.S. Department of Agriculture, Congress was determined to keep meat inspectors on the job. Sequestration meant furloughs for meat inspectors, and slaughterhouses have to close if their inspectors are not present.³⁴ Secretary of Agriculture Tom Vilsack estimated that meat-industry workers would lose \$400 million in wages when their plants closed and warned that beef and poultry would become scarcer for consumers.³⁵ To prevent the furloughs, Congress postponed maintenance on Department of Agriculture facilities and cut one-time grants for school equipment in order to transfer extra money to the Food Safety and Inspection Service.³⁶ For now, meat inspectors remain on the job, but one-time grants can only be cut once, and maintenance cannot be deferred forever.

The U.S. Forest Service eliminated hundreds of firefighting jobs due to sequestration and only avoided even more firefighting cuts by reducing efforts to prevent wildfires from occurring in the first place.³⁷ The agency, for example, responded to budget cuts by borrowing heavily from a program to dispose of the brush on public lands that often fuels wildfires.³⁸ Wildfires cause enormous economic and human losses, and forest management experts consistently recommend investing more in preventing wildfires rather than focusing solely on putting them out.³⁹ But the U.S. Forest Service can barely afford to fight the wildfires we have now, so there are few resources left over for preventing future wildfires.⁴⁰ Cutting firefighters is bad enough, but the worst impacts from the FY 2013 sequester will happen next year when the risk of catastrophic wildfires is far higher than it should be.

The U.S. Department of Justice used budget gimmicks to postpone sequestration's worst impacts, but time has run out and federal law enforcement is about to take a big hit. Congress allowed the Justice Department to count more than \$300 million in expired funds—which could not be spent anyway—as part of their FY 2013 sequester cut.⁴¹ Even after the Justice Department partially mitigated the FY 2013 sequester with this budget gimmick, however, the Federal Bureau of Investigation, or FBI, still had to make painful cuts. The FBI borrowed from its future by instituting a hiring freeze, substantially reducing training for its agents, and eliminating purchases of new vehicles, which has a particularly big impact on public safety in rural areas where those vehicles are needed to cover larger territories.⁴² But that will not be enough to address next year's sequester, when budget gimmicks will no longer be available. The FBI will have to close its offices and furlough its agents for 10 days over the next year.⁴³

The Department of Defense made deep cuts to investment accounts to minimize furloughs, but it still had to furlough more than 650,000 civilian employees for six days.⁴⁴ Defense Secretary Chuck Hagel originally planned to furlough employees for 22 days but ultimately reduced this year's furloughs by imposing a civilian hiring freeze, laying off temporary employees, and making deep cuts to training, maintenance, and new equipment purchases.⁴⁵ The Department of Defense shifted approximately \$9 billion within its budget to meet immediate needs, which included cutting \$3.8 billion from procurement accounts for new equipment.⁴⁶ Reducing the defense budget is in line with historical trends after years of increased spending for the wars in Iraq and Afghanistan,⁴⁷ but the kinds of cuts being made under sequestration cannot continue for long. At some point the military will need to hire new staff, train its forces, make necessary repairs, and purchase new equipment.

Our nation's top military leaders warn that continuing to slash investment accounts under next year's sequester would threaten our national security. Army Chief of Staff Gen. Ray Odierno reports, "These reductions will put at substantial risk our ability to conduct even one sustained major combat operation."⁴⁸ Chief of Naval Operations Adm. Jonathan Greenert warns that the Navy will have fewer ships ready to respond to events around the world.⁴⁹ Additionally, the Navy will have to cancel more maintenance, meaning a shorter service life for ships and aircraft.⁵⁰ Air Force Chief of Staff Gen. Mark Welsh III estimates that sequestration will force a 15 percent cut in flying hours, meaning that "Within three to four months, many of our flying units will be unable to maintain mission readiness."⁵¹ Marine Corps Commandant Gen. James Amos plans to cancel modernization and infrastructure investments, diverting funds that should be supporting long-term requirements to meet urgent needs.⁵²

At the U.S. Nuclear Regulatory Commission, or NRC, budget gimmicks mitigated the short-term impacts of the FY 2013 sequester. The NRC was able to use prior-year funds to cover 73 percent of its sequestration cuts for this year.⁵³ The NRC also postponed staff training⁵⁴ and information technology upgrades for future years.⁵⁵ If sequestration is not repealed, the postponed training and upgrade requirements will place greater strain on the NRC budget, and prior-year funds will not be available to avoid deeper cuts. The average American does not have a daily interaction with the NRC, but its mission to ensure safe nuclear power and prevent a nuclear meltdown is still vitally important.⁵⁶ As the next section will explain, sequestration often works this way—hitting critical but little-noticed functions of government.

Federal agencies have implemented sequestration under the assumption that it is a short-term glitch—one that Congress will soon fix. If sequestration is indeed just a one-year mistake, then it makes sense to use budget gimmicks and one-time fixes to postpone the real cuts. It makes sense to push necessary maintenance expenses into future years if Congress is willing to pay the bill in those years. It might even make sense to borrow from the future by draining investment accounts to meet immediate needs, if Congress is willing to replenish those investment accounts later. Federal agencies have weathered sequestration as best they can, as long as it is just a short-term problem. But if sequestration becomes the new normal, all of these quick fixes will have only made things worse for the American people.

Sequestration hollows out critical government functions

Termites are capable of severely damaging a home before the homeowner even realizes they have a problem;⁵⁷ sequestration works in a similar way. Many of the most visible government programs, such as Social Security, Medicaid, and veterans' benefits, were exempt from sequestration. The decision to exempt those programs means that sequestration targets lower-profile government functions. But low profile does not mean low importance. A closer look at sequestration reveals a pattern of cuts that are subtly hollowing out critical but often unnoticed public services. That means the consequences of many sequestration cuts will not be felt immediately; instead, these impacts will only manifest later, when the damage is already severe.

The federal government, for example, plays a quiet but critical role in driving scientific research, and sequestration has forced scientists to scale back their work. Across the federal government, this year's sequester cut scientific research funding by about \$9 billion.⁵⁸ Cuts to the National Institutes of Health, or NIH, are shutting down promising medical research across the country.⁵⁹ Dr. Anindya Dutta at the University of Virginia School of Medicine, for instance, lost NIH funding for groundbreaking research into muscle formation, which had the potential to improve treatment for muscular dystrophy and reduce falls among the elderly.⁶⁰ Most Americans do not interact directly with NIH, meaning this cut is not felt immediately. But American families will suffer in the future when promising new treatments are not discovered in time.

Cutting-edge science and technology will be critical to growing our economy in the 21st century, which makes today's sequestration cuts to research especially concerning in the long term. According to the Information Technology and Innovation Foundation, nine years of sequestration research cuts will reduce our GDP by more than \$200 billion.⁶¹ Instead of investing to bring the world's greatest minds into the American economy, federal budget cuts have led 18 percent of researchers to consider moving abroad to continue their work, according to a survey by the American Society for Biochemistry and Molecular Biology.⁶²

In addition to cutting lifesaving medical research, sequestration further threatens public health by compounding budget problems at the Centers for Disease Control and Prevention, or CDC. Budget cuts at the CDC reduced investment in HIV/AIDS prevention, scaled back immunization programs, and left state and local agencies with fewer resources to respond to disease outbreaks and other public health emergencies.⁶³ CDC Director Thomas Frieden warns that “Outbreaks won’t be detected, vaccines won’t happen.”⁶⁴ Problems at the CDC due to sequestration will only become truly destructive during a future public health emergency, but there are already some early warning signs: Federal authorities report that sequestration has hindered the investigation of a cyclospora outbreak that has sickened 600 people in 22 states.⁶⁵

In addition to jeopardizing public health, sequestration also threatens public safety by undermining federal courts. Since most Americans are rarely inside a courtroom, these problems have not received much immediate attention. Despite that, a functioning justice system is still foundational to American society, and problems caused by sequestration will have a very real impact over time on safety and justice for all Americans. Federal judges warn that, if sequestration continues throughout FY 2014, “our constitutional duties, public safety, and the quality of our nation’s justice system will be profoundly compromised.”⁶⁶ Sequestration puts the public at risk by stretching probation officers dangerously thin and puts the courts themselves at risk by cutting courthouse security.⁶⁷ If sequestration continues, backlogs will grow longer on court dockets, meaning that justice will be delayed or denied.⁶⁸

The Constitution requires courts to provide an attorney to defendants who cannot afford one, but federal judges warn that “cuts in federal defender offices will severely undermine and weaken a program that has taken years to build.”⁶⁹ When the Federal Public Defender’s Office lacks the manpower to take a case, the defendant is assigned a private attorney.⁷⁰ But these private attorneys cost the government more than a public defender, causing unnecessary government spending that compounds the judiciary’s budget problems.⁷¹ For now, the federal judiciary is delaying payments to court-appointed lawyers and using other temporary fixes to hold off even worse impacts.⁷² But the Federal Public Defender’s Office warns that it will have to lay off staff if sequestration continues through all of FY 2014.⁷³

Immigration courts are hit especially hard by sequestration because they already have long backlogs. There are more than 300,000 cases pending nationwide with only 256 immigration judges to hear them.⁷⁴ Instead of increasing resources, sequestration forced the Executive Office for Immigration Review to institute a strict hiring freeze.⁷⁵ Vacancies caused by attrition or retirement cannot be filled, except for rare exceptions approved directly by the attorney general.⁷⁶ Most Americans will never be inside an immigration court to experience these problems directly, but all Americans will eventually suffer from a broken immigration system. Even though we may disagree on the best way to reform our immigration laws, everyone agrees that we need a functioning legal process to enforce those laws.

In the field of national security, Director of National Intelligence James Clapper has made clear that “we’re taking higher risks” due to sequestration cuts.⁷⁷ Of course, these cuts are little noticed because they are mostly secret, but Clapper has disclosed that analysis, human intelligence, and new investments are being scaled back.⁷⁸ As Clapper testified to Congress, “Unlike more directly observable sequestration impacts, like shorter hours at public parks or longer security lines at airports, the degradation to intelligence will be insidious. It will be gradual, almost invisible, until, of course, we have an intelligence failure.”⁷⁹

Finally, across-the-board sequestration cuts actually increase the risk of wasteful spending throughout the government. That is because sequestration cuts the budgets of federal investigators and inspectors general, compromising their mission to stop corruption and wasteful government spending. These offices altogether lost more than \$200 million in funding for FY 2013.⁸⁰ In FY 2011, inspectors general found \$93 billion in potential savings—35 times more than their combined budgets.⁸¹ Based on that ratio, the FY 2013 sequestration cuts may have allowed more than \$7 billion in potentially wasteful spending that would have otherwise been detected. Problems with waste, fraud, and abuse will continue to grow in future years until they are identified and stopped. While some claim that sequestration controls government spending, it is actually enabling more wasteful spending.

The truth is that we do not know the exact impact of sequestration’s cuts to inspectors general because waste, fraud, and abuse go undetected. We know that the U.S. Department of Education inspector general has fewer staff with less training, and that tight travel budgets limit criminal investigations in many parts of the country.⁸² The Department of Education has an annual budget of about \$68 billion and a student-loan portfolio of about \$948 billion, so the impacts of undetected waste are potentially enormous.⁸³ Sequestration removed many auditors from

the Office of Inspector General at the General Services Administration—whose earlier reports on the wasteful Western Regions Conference played a large role in reigning in unnecessary travel and conference costs throughout the government.⁸⁴ The Defense Contract Audit Agency estimates that FY 2013 sequester cuts meant it failed to stop up to \$74 million of unmerited payments to defense contractors.⁸⁵ If sequestration continues, inspectors general will have fewer resources to prevent this year's problems from continuing or stop new problems before substantial funds have already been wasted.

Some of the federal government's most important and effective work takes place in the background of our society. The average citizen does not work with agencies such as the Executive Office for Immigration Review, the National Institutes of Health, or the Nuclear Regulatory Commission. But all Americans rely on functioning law enforcement, improved medicine, and safe nuclear power. Sequestration is hollowing out these critical functions of government, and the impacts will only be apparent to the public once the damage is terrible.

Conclusion

Sequestration has only been in effect for around eight months, and the effects have already been painful. Economic growth is slower, which means fewer jobs. Children and families lost Head Start preschools. Citizens and immigrants wait in growing backlogs for their day in court. Residents of the western United States face an increased risk of deadly wildfires.

Unfortunately, sequestration will only get worse. Next year's cuts are larger. Many of this year's cuts still have yet to take effect. Deferred costs are piling up, and one-time quick fixes will not be available to ease the budget crunch. Growing problems in little-noticed sectors of government will become apparent only when the systems on which Americans rely start to break down.

Sequestration was never meant to happen, and Congress made a mistake by allowing it to kick in. As long as that mistake is fixed soon, the damage can be contained.

As Congress and President Barack Obama negotiate a budget agreement, the primary focus should be growing the economy. At a minimum, our political leaders should not be actively harming the economy. That means neither side should accept any budget agreement that allows sequestration to continue for another full year.

About the author

Harry Stein is the Associate Director for Fiscal Policy at the Center for American Progress. His work focuses on the tax and spending choices within the federal budget. Prior to joining the Center for American Progress, he worked as a legislative assistant to Sen. Herb Kohl (D-WI). His portfolio included the federal budget, tax policy, and national security, including Sen. Kohl's work on the Defense Appropriations Subcommittee. In that position, he spearheaded successful efforts to permanently extend the tax credit for employer-provided child care and compensate troops who had been wrongfully denied benefits that were earned in connection with overseas deployments.

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