



Fixing Sequestration and Improving the Budget Process

Written Testimony Before the House Budget Committee
Hearing on First Principles of Congressional Budgeting

Carmel Martin
Executive Vice President for Policy
Center for American Progress
July 28, 2015

Thank you, Chairman Tom Price (R-GA), Ranking Member Chris Van Hollen (D-MD), and members of the committee, for inviting me to testify on improving the federal budget process. Setting a federal budget that serves the American people is a fundamental task of governing, and the budget process should provide a stable and predictable framework for lawmakers to represent their constituents and make compromises that balance the interests of our large and diverse country.

Unfortunately, I do not think there is anyone who thinks the budget process is currently working as it should. Budget decisions are too often made in the heat of a crisis, which has caused unnecessary economic damage and led to ill-conceived policies getting rushed into law.

The recent cycle of governing by crisis began in 2011, when disputes over government spending almost led to a government shutdown. Another budget showdown in 2011 nearly caused the federal government to default on the national debt when Congress delayed in lifting the debt limit. The 2011 legislation that raised the debt limit also created sequestration, which made damaging, across-the-board cuts in 2013 to both military and domestic programs.¹ Congress finally did shut down the government in 2013 during yet another budget crisis and, once again, threatened to default on the national debt, which caused measurable harm to the U.S. economy and to consumers. A two-year budget agreement finally provided our economy and our government with some stability, but that compromise expires in two months, when the United States will face yet another potential crisis that could shut down the government and force a default on the national debt.²

According to a 2013 study by Macroeconomic Advisers, these years of fiscal policy uncertainty increased borrowing costs for businesses, reduced annual economic growth by 0.3 percent, and increased the unemployment rate by 0.6 percent, which translates to 900,000 jobs lost.³ The U.S. Treasury Department reports that the debt limit crisis of 2011 coincided with a drop in consumer and business confidence, increased borrowing costs for businesses and homeowners, and caused a significant decline in stock prices and an increase in stock market volatility.⁴ The White House Office of Management and Budget reports that the 2013 government shutdown cost the government \$2 billion in lost productivity from furloughed workers, delayed \$4 billion in tax refunds for American taxpayers, disrupted scientific research, and delayed permit applications, trade licenses, and loans to homeowners and small businesses.⁵ Usually, fiscal policy requires weighing costs against benefits, but when it comes to governing by crisis, there are only costs with no benefits for the American people.

I think we can agree there is room for improvement in the way the government sets fiscal policy. However, it is not the current budget process that creates the types of crises that have, in recent years, become the only way to force action. The pattern of lurching from crisis to crisis is not caused by a failure of process but rather a failure of political will to make the compromises necessary to govern. In fact, compromise is the key to making any budget process work.

The most important budget process issue is fixing sequestration rules

We would do well to keep that in mind as we face yet another potential manufactured crisis in two short months, when the current budget deal expires and spending levels revert to the damaging, arbitrary caps imposed by sequestration. Those spending caps are inadequate to defend the country or grow the economy so that all Americans have a fair shot at a middle-class life. In fact, the spending caps were intentionally designed to be inadequate. They were meant to force cuts so painful to the American people that they would be untenable to members of Congress on both sides of the aisle. Sequestration was never supposed to actually happen. It was yet another failure of political will to compromise that forced sequestration upon us.

In fact, sequestration is a perfect example of why budget process rules should not be used to solve the political problems caused by a refusal to compromise. In 2011, lawmakers attempted to use the debt limit as a forcing mechanism to reach an agreement on long-term debt reduction. This nearly led to a default on the national debt, which damaged the economy and led to a downgrade in the United States' credit rating. In the heat of this crisis, Congress passed the Budget Control Act, which included a bipartisan agreement on discretionary spending levels and created a process for a bipartisan, bicameral so-called supercommittee tasked with negotiating additional deficit reductions.⁶ Sequestration was included in the Budget Control Act as a backstop result so

terrible that it would force the supercommittee to reach a bipartisan compromise. But when politicians refused to compromise, sequestration kicked in, forcing cruel yet arbitrary damage to the American people.

In 2013, sequestration made sudden across-the-board cuts that did not distinguish between critical programs and wasteful spending. These cuts eliminated Head Start slots for 57,000 preschoolers, many of whom have parents that depend on child care to balance their work and family responsibilities.⁷ For science, sequestration was described as a “dark age” that scuttled promising research and caused scientists to question whether the United States was the best country for their work.⁸

These cuts happened at exactly the wrong time, when the economy was struggling and unemployment was high. As sequestration was about to take effect, the Congressional Budget Office, or CBO, estimated that it would reduce economic growth by 0.6 percent and eliminate 750,000 jobs.⁹ The CBO subsequently estimated that canceling sequestration in 2013 and 2014 would have created 900,000 jobs and increased economic growth by 0.7 percent.¹⁰

And the damage of this failure to compromise is still unfolding today. The appropriations bills Congress is currently writing to stay within the sequestration cap for nondefense programs show exactly how sequestration is harming the American people.

Organizations as diverse as the U.S. Chamber of Commerce, the AFL-CIO, the American Society of Civil Engineers, and the International Monetary Fund have all called for new investment in infrastructure to create jobs now and grow the economy over the long term.¹¹ Instead, Congress is preparing to cut infrastructure spending because of sequestration. The House appropriations bill for the U.S. departments of Transportation and Housing and Urban Development would make an enormous cut to the Transportation Investment Generating Economic Recovery, or TIGER, grant program, which targets the multimodal and multijurisdictional projects that often fall through the cracks of other federal transportation programs.¹² And the House Department of the Interior, Environment, and Related Agencies Appropriations Act would sharply reduce federal investment in drinking water and wastewater infrastructure, which would eliminate funding for about 200 projects.¹³ These cuts would lead directly to job losses, even as American infrastructure continues to crumble.

The House appropriations bill for the U.S. departments of Labor, Health and Human Services, and Education would eliminate the Preschool Development Grants that are helping 18 states expand access to preschool for struggling families.¹⁴ Compared with the president’s budget for Head Start, the House bill would serve 140,000 fewer preschoolers or fail to extend the Head Start schedule to provide full-day and full-year preschool for 570,000 children.¹⁵ Congress is punishing 4-year-olds for its own failure to strike a reasonable budget agreement.

Cutting to sequestration levels would also push affordable housing even further out of reach for working families at a time when federal rental assistance only reaches one in four eligible families.¹⁶ The House appropriations bill for the departments of Transportation and Housing and Urban Development would not restore the 67,000 vouchers that were eliminated by sequestration in 2013.¹⁷ Even worse, the bill fails to renew 28,000 existing vouchers.¹⁸ The House bill would also drain the National Housing Trust Fund, which supports affordable housing for the lowest-income renters and is not supposed to be subject to the annual appropriations process.¹⁹ This misguided drive to hit an arbitrary budget cap is threatening to increase the number of homeless families.

Republican congressional leaders are insisting on these devastating cuts to domestic programs in order to stay within the sequester cap, but at the same time, they are using a budget gimmick to circumvent the cap on defense spending. Congress met President Barack Obama's budget request for defense spending by adding money to the Overseas Contingency Operations/Global War on Terrorism, or OCO/GWOT, account, which is meant to support fighting wars and thus is exempt from the caps, even as the war in Afghanistan winds down. The House Budget Committee rejected this very same budget gimmick last year, when it said the following in its budget resolution:²⁰

The Budget Control Act of 2011 allows the discretionary caps to be automatically increased for funding designated for OCO/GWOT, which has created a loophole that could be used to circumvent discretionary funding caps. For FY 2014, Congress and the President enacted an appropriations bill that provided \$7.4 billion more than the Administration requested for OCO. Abuse of the OCO/GWOT cap adjustment is a backdoor loophole that undermines the integrity of the budget process. The Budget Committee will exercise its oversight responsibilities with respect to the use of the OCO/GWOT designation in the FY 2015 budget process, and it will oppose increases above the levels the Administration and our military commanders say are needed to carry out operations unless it can be clearly demonstrated that such amounts are war-related.

It is good that Congress recognizes that the sequester caps are inadequate for defense spending, but this recognition should also extend to domestic programs that directly affect ordinary Americans. As the congressional appropriations process for fiscal year 2016 breaks down, it is clear that the lopsided approach taken by the congressional budget is a nonstarter. It is long past time for Republican and Democratic leaders to start negotiating a budget deal, as Sen. Patty Murray (D-WA) and Rep. Paul Ryan (R-WI) did in 2013.

These sequester cuts are damaging the economy in a misguided attempt to solve a nonexistent debt crisis, and they fail to address the nation's actual long-term fiscal challenges. The deficit has fallen by about two-thirds over the past several years, and the CBO projects that the national debt will remain roughly stable as a share of the economy over the next 10 years.²¹ Sequestration targets short-term budget deficits, but there is no short-term fiscal crisis to justify this kind of damaging austerity.

When the economy is operating below its full potential, meaning that workers and capital are sitting on the sidelines, fiscal policy should be used to mobilize those idle resources. In its most recent long-term budget outlook, the CBO noted that short-term policies to increase spending or cut taxes have particularly large and positive effects on economic growth and employment when the economy is operating below its potential.²² More than 2 million American workers were out of work for 27 weeks or more as of June 2015, which reflects substantial progress compared to the Great Recession but remains above the historical average.²³ The economy is still performing below its potential with too many workers still on the sidelines.²⁴ Lawmakers should focus on creating opportunity for these unemployed workers and for the millions of others who are underemployed in jobs with low and stagnant wages. Reducing the deficit should be prioritized when the economy is operating at its full potential.

In the long term, increasing fiscal pressure comes from an aging population, projected growth in health care costs, and an inadequate tax code; none of these challenges are addressed by cutting discretionary spending. The CBO already projects that discretionary spending will fall to its lowest levels in recent history as a share of GDP—but that does not prevent the national debt from increasing to unsustainable levels over the long term.²⁵ One development that has improved the long-term budget outlook is the remarkable progress in recent years to control the growth of health care costs, which has dramatically reduced the long-term projections for Medicare spending.²⁶ Achieving fiscal sustainability will require building on that progress in the health care sector and making tough choices to meet the needs of an aging population, which must include a recognition that more revenue is needed to preserve fundamental commitments to the American people, such as Social Security, Medicare, and Medicaid.

A deficit reduction agenda that focuses on discretionary spending—which has been the pattern in recent years—simply misses the point. The CBO projects that nondefense discretionary spending will total 2.5 percent of gross domestic product, or GDP, in 2025, while the overall budget deficit will be 3.8 percent of GDP.²⁷ Even if Congress completely eliminated the nondefense discretionary budget—meaning no veterans’ health care, National Institutes of Health, Head Start, Federal Aviation Administration, or National Park Service, among many other losses—that would still not be enough to balance the budget.

Considerations for overall budget process reform

Setting a responsible course for the federal budget requires political will and compromise. Budget process reforms should seek to improve the quality of the budget debate and the data that inform it. The budget process should not be a substitute for the policy-making process or deny lawmakers flexibility to respond to new developments.

Budget process rules are poor tools for forcing political compromise, as sequestration painfully demonstrates. Budget process changes that impose rigid fiscal rules such as spending caps, automatic fiscal triggers, or a balanced budget amendment to the Constitution would rob lawmakers of the flexibility to respond to a rapidly changing world. The United States may need to take quick and decisive action in response to a national security threat, as we did in the immediate aftermath of September 11, 2001. Natural disasters such as hurricanes Katrina or Sandy require a rapid and coordinated federal response to prevent a greater catastrophe and loss of life. Given how contentious disaster funding has recently become, increasing the barriers to response would only make things worse, as Americans suffering in disaster areas wait for a hopelessly gridlocked Congress.

Recovering from recessions also requires short-term measures that temporarily increase budget deficits in order to protect long-term fiscal and economic health, but mechanical budget rules would force damaging austerity instead. During the Great Recession, arbitrary budget targets might have caused automatic tax increases when revenue fell sharply as a share of GDP. Budget caps might have also forced cuts to safety net programs, such as unemployment insurance and nutrition assistance, at a time when these programs were most needed as automatic stabilizers that expand in response to increased need. Inflexible rules would have stood in the way of the decisive actions Congress took in response to the recession, such as the Troubled Asset Relief Program and the American Recovery and Reinvestment Act.²⁸ For ordinary Americans, this could have meant losing unemployment relief when they needed it most. And it could have made the jobs crisis even worse, causing large-scale layoffs without the recovery act in place to fill the holes in state budgets for schools and Medicaid.

For both immediate economic problems and long-term fiscal issues, the best thing lawmakers can do is talk to each other and work toward agreement. For these negotiations to succeed in producing a sustainable federal budget, both sides of the budget have to be on the table: revenue and spending. When bipartisan commissions produce plans to reduce the long-term debt, their proposals consistently include both tax increases and spending cuts. President Obama's budget recognizes this by including a broad collection of ideas to raise revenue and cut spending and calls for a balanced mix of these proposals to offset the cost of sequester relief. Unfortunately, almost half the members of Congress have rejected this central tenet of bipartisan fiscal compromise by signing a pledge to oppose any tax increase.²⁹ This refusal to compromise on revenue—not the budget process—is what stands in the way of bipartisan budget agreements.

Modifying the overall budget process is an important issue to consider, but the most immediate budget process issue before Congress is lifting the spending caps imposed by sequestration. It is important to remember that sequestration itself is the result of a failed attempt to use budget process rules to solve a political problem caused by a lack of willingness to compromise. More process changes are not going to solve the sequestration problem. Congress and the White House need to start working on a compromise to lift the sequestration caps that are damaging the U.S. economy and making it even harder for working families to make ends meet.

Endnotes

- 1 *Budget Control Act*, Public Law 112-25, 112th Cong., 1st sess. (August 2, 2011), available at <https://www.congress.gov/112/plaws/publ25/PLAW-112publ25.pdf>.
- 2 *Bipartisan Budget Act*, Public Law 113-67, 113th Cong., 1st sess. (December 26, 2013), available at <https://www.congress.gov/113/plaws/publ67/PLAW-113publ67.pdf>.
- 3 Macroeconomic Advisers, “The Cost of Crisis-Driven Fiscal Policy” (2013), available at http://pgpf.org/sites/default/files/10112013_crisis_driven_report_fullreport.pdf.
- 4 U.S. Department of the Treasury, *The Potential Macroeconomic Effect of Debt Ceiling Brinkmanship* (2013), available at <http://www.treasury.gov/initiatives/Documents/POTENTIAL%20MACROECONOMIC%20IMPACT%20OF%20DEBT%20CEILING%20BRINKMANSHIP.pdf>.
- 5 Sylvia Mathews Burwell, “Impacts and Costs of the Government Shutdown,” White House Office of Management and Budget, November 7, 2013, available at <https://www.whitehouse.gov/blog/2013/11/07/impacts-and-costs-government-shutdown>.
- 6 *Budget Control Act*, Public Law 112-25.
- 7 Michael Alison Chandler, “Head Start eliminated services to 57,000 children in U.S. as a result of sequester,” *The Washington Post*, August 19, 2013, available at http://www.washingtonpost.com/local/education/head-start-eliminated-services-to-57000-children-in-us-as-a-result-of-sequester/2013/08/18/e1181810-06d9-11e3-9259-e2aaf-e5a5f84_story.html.
- 8 Sam Stein, “Sequestration Ushers In A Dark Age For Science In America,” *The Huffington Post*, August 14, 2013, available at http://www.huffingtonpost.com/2013/08/14/sequestration-cuts_n_3749432.html.
- 9 Wendy Edelberg, “Automatic Reductions in Government Spending—aka Sequestration,” Congressional Budget Office, February 28, 2013, available at <https://www.cbo.gov/publication/43961>.
- 10 Letter from Douglas W. Elmendorf to Rep. Chris Van Hollen, July 25, 2013, available at https://www.cbo.gov/sites/default/files/44445-SpendReductions_1.pdf.
- 11 American Society of Civil Engineers, “2013 Report Card for America’s Infrastructure” (2013), available at <http://www.infrastructurereportcard.org/a/documents/2013-Report-Card.pdf>; International Monetary Fund, “World Economic Outlook, Legacies, Clouds, Uncertainties” (2014), available at <http://www.imf.org/external/pubs/ft/weo/2014/02/>; Kevin Bogardus, “AFL-CIO, Chamber press lawmakers for infrastructure funds,” *The Hill*, October 23, 2011, available at <http://thehill.com/blogs/blog-briefing-room/news/189233-afl-cio-chamber-make-case-for-infrastructure>.
- 12 Executive Office of the President, *Statement of Administration Policy: H.R. 2577 — Transportation, Housing and Urban Development, and Related Agencies Appropriations Act, 2016* (2015), available at https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr2577r_20150601.pdf.
- 13 Executive Office of the President, *Statement of Administration Policy: H.R. 2822 — Department of the Interior, Environment, and Related Agencies Appropriations Act, 2016* (2015), available at https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr2822r_20150623.pdf.
- 14 Letter from Shaun Donovan to Rep. Hal Rodgers, June 23, 2015, available at <https://www.whitehouse.gov/sites/default/files/omb/legislative/letters/labor-h-house-letter-rodgers.pdf>.
- 15 *Ibid.*
- 16 Tracey Ross, “No Place Like Home: Addressing Poverty and Homelessness in the United States” (Washington: Center for American Progress, 2013), available at <http://cdn.americanprogress.org/wp-content/uploads/2013/12/Homelessness.pdf>.
- 17 Executive Office of the President, *Statement of Administration Policy: H.R. 2577*.
- 18 *Ibid.*
- 19 National Low Income Housing Coalition, “THUD House Appropriations Bill Deeply Underfunds Housing Programs, Defunds National Housing Trust Fund,” Press release, April 28, 2015, available at <http://nlihc.org/press/releases/5773>.
- 20 House Budget Committee, “Concurrent Resolution on the Budget—Fiscal Year 2015” (2014), available at <http://www.gpo.gov/fdsys/pkg/CRPT-113hrpt403/pdf/CRPT-113hrpt403.pdf>.
- 21 Congressional Budget Office, “Updated Budget Projections: 2015 to 2025” (2015), available at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/49973-UpdatedBudget-Projections.pdf>.
- 22 Congressional Budget Office, “The 2015 Long-Term Budget Outlook” (2015), pp. 87–88, available at <http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50250-LongTermBudgetOutlook-3.pdf>.
- 23 Federal Reserve Economic Data, “Number of Civilians Unemployed for 27 Weeks and Over,” available at <https://research.stlouisfed.org/fred2/series/LNU03008636> (last accessed July 2015).
- 24 Nicholas Buffie, “CBO’s Estimates of Output Gap, Natural Rate of Unemployment Show Discrepancy,” Center for Economic and Policy Research Blog, July 21, 2015, available at <http://www.cepr.net/blogs/cepr-blog/cbo-s-estimates-of-output-gap-natural-rate-of-unemployment-show-discrepancy>.
- 25 Congressional Budget Office, “The 2015 Long-Term Budget Outlook.”
- 26 Harry Stein, “A Decade of Progress in Controlling Medicare Spending,” Center for American Progress, June 17, 2015, available at <https://www.americanprogress.org/issues/budget/news/2015/06/17/115317/a-decade-of-progress-in-controlling-medicare-spending/>.
- 27 Congressional Budget Office, “Updated Budget Projections: 2015 to 2025.”
- 28 *Emergency Economic Stabilization Act*, Public Law 110-343, 110th Cong., 2nd sess. (October 3, 2008), available at <https://www.congress.gov/110/plaws/publ343/PLAW-110publ343.pdf>; *American Recovery and Reinvestment Act*, Public Law 111-5, 111th Cong., 1st sess. (February 17, 2009), available at <https://www.congress.gov/111/plaws/publ5/PLAW-111publ5.pdf>.
- 29 Americans for Tax Reform, “Federal Taxpayer Protection Pledge Questions and Answers,” June 1, 2011, available at <http://www.atr.org/federal-taxpayer-protection-questions-answers-a6204>.