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# Setting the Right Course in the Next Budget Agreement

By Harry Stein

September 2015

Center for American Progress



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# Introduction and summary

While the economy is steadily improving, this recovery has done little or nothing for the household budgets of many middle-class and low-income Americans. This dynamic is dramatically illustrated by data compiled by economist Emmanuel Saez, which show that the top 1 percent of Americans reaped 58 percent of all income gains from 2009 to 2014.<sup>1</sup> Meanwhile, median wages have been stagnant since before the Great Recession, while at the same time, a middle-class standard of living has grown more expensive.<sup>2</sup>

The federal budget should address this challenge by building an economy that works for everyone—not just for the wealthy few. Instead, lawmakers have mostly spent the past several years implementing a misguided austerity agenda that pushes widespread economic growth further out of reach. Congress appears determined to enact more austerity measures this year—an action that would mean extending budget cuts from earlier years and deepening cuts to some sectors.

It is difficult to understand the full impact of these budget cuts since they affect an enormous number of sectors and programs, but many of the worst impacts can be grouped into two categories. In each category, this report examines three specific examples.

First, budget cuts reduce the economic investments that lawmakers should be making to strengthen the middle class and help Americans who are struggling to climb into the middle class. These investments, which include the three sectors outlined below, would help build an economy that works for everyone.

- **Infrastructure.** Instead of creating jobs by increasing infrastructure investment—as advocated by economic, business, and labor organizations—Congress is debating which infrastructure programs to cut.
- **Education.** Congress is cutting programs that foster improvement and innovation in public school systems, jeopardizing financial aid for college students, and scaling back efforts to expand access to high-quality early childhood education.

- **Affordable housing.** At a time when millions of Americans cannot find a safe and affordable place to live, Congress is making deep cuts to programs that increase the supply and accessibility of affordable housing.

Second, and perhaps more subtly, federal budget cuts undermine vital government functions that promote fair treatment for all Americans. Many of the agencies and programs facing cuts, including the three listed below, provide safeguards that prevent the playing field from tilting toward the wealthy few.

- **Environmental protection.** Big polluters would get a windfall from budget cuts and other restrictions on environmental programs—but these cuts would leave the American people with more pollution, deteriorating public lands, and job losses.
- **Tax assistance and enforcement.** Cutting the budget of the Internal Revenue Service, or IRS, makes it easier for large corporations and the wealthy to outmaneuver the government in order to avoid paying their fair share. Meanwhile, the IRS barely has the bandwidth to answer questions from ordinary taxpayers.
- **The legislative branch.** By hollowing out the public institutions that provide in-house expertise to Congress, lawmakers are increasingly outsourcing policy analysis to special interest groups.

The cuts that Congress is preparing to make this year can be traced back to the Budget Control Act of 2011 and its discretionary spending caps. Discretionary spending is the portion of the federal budget that Congress allocates each year in appropriations bills. The Budget Control Act also included a provision called sequestration that further lowered the spending caps and imposed separate caps for defense and nondefense funding after lawmakers failed to negotiate a follow-up deficit reduction package.

Lawmakers lifted the spending caps above sequestration levels in fiscal years 2014 and 2015, but this relief expires with the beginning of FY 2016 on October 1, 2015.<sup>3</sup> In his FY 2016 budget, President Barack Obama called for increases of equal size to the defense and nondefense spending caps.<sup>4</sup> In contrast, Congress chose austerity for nondefense programs in its budget resolution, which keeps the nondefense sequester cap in place for FY 2016 and advocates even more extreme cuts in later years.<sup>5</sup> This congressional austerity does not extend to defense programs, however, where Congress is using a budget gimmick to increase defense spending to roughly the same levels that President Obama recommends.<sup>6</sup>



In a statement published in June, the White House wrote that President Obama “is not willing to lock in sequestration going forward, nor will he accept fixes to defense without also fixing non-defense.”<sup>7</sup> If Congress and President Obama do not reach a budget deal by October 1, 2015—or pass a continuing resolution to provide more time for negotiations—the federal government will shut down.

Since Congress and the president agree that FY 2016 defense spending should be increased above sequestration levels, there are two remaining questions that must be settled before a budget deal can be completed. The first question is whether to increase the nondefense spending cap along with the defense cap; the second is whether to offset the cost of these spending increases—and, if so, determine which deficit-reducing policies to include in the deal.

To ensure that a potential budget deal takes positive steps toward building an economy that works for all, the Center for American Progress recommends the following actions:

- **Lawmakers should raise the nondefense spending cap to the presequester level and provide an equal amount of relief for the defense budget.** Given the substantial need to increase economic investment, it makes no sense to provide more relief for defense programs than for nondefense programs. This recommendation for nondefense discretionary spending is based in part on what is politically feasible for a budget deal, and it should be noted that even the presequester cap would be a relatively austere allocation for the nondefense discretionary budget.
- **Lawmakers should include new revenue in the budget deal if that deal includes deficit-reducing policies to offset the cost of sequester relief.** Federal spending projections have fallen dramatically over the past several years, and inadequate revenue has become a larger problem.<sup>8</sup> But while the United States still faces long-term fiscal challenges, the short-term budget outlook is stable. Therefore, if lawmakers cannot agree on deficit reduction that includes revenue, increasing the sequestration caps without offsets would be preferable to leaving sequestration in place.

This report begins by reviewing the current fiscal landscape and the outlook for defense and nondefense programs under sequestration. The second section examines Congress’ FY 2016 appropriations bills to gauge the impacts of sequestration on a selection of key nondefense programs. The third section deals with the question of budget offsets and the necessity of including revenue in any deficit reduction agreement.

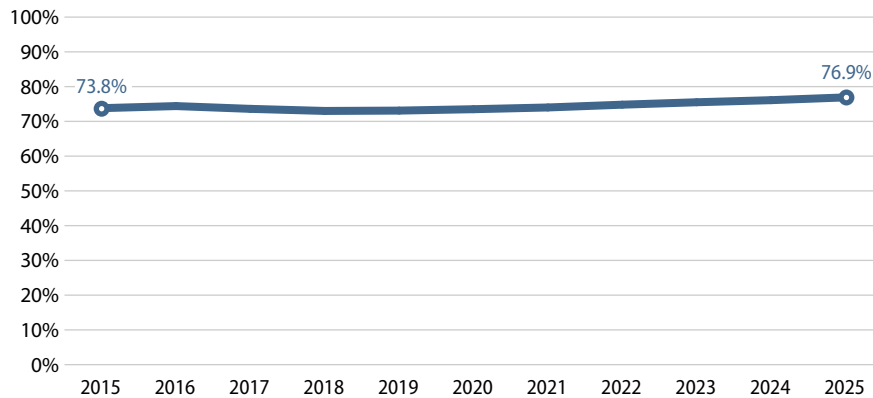
# The fiscal landscape

The budget deficit for FY 2014 was \$485 billion, which equaled 2.8 percent of the total U.S. economy as measured by gross domestic product, or GDP.<sup>9</sup> By comparison, the FY 2009 budget deficit was about \$1.4 trillion, or 9.8 percent of GDP.<sup>10</sup> Looking ahead, the Congressional Budget Office, or CBO, projects that the budget deficit will remain below 3 percent of GDP until FY 2020, and then rise to 3.7 percent of GDP by 2025.<sup>11</sup> Those deficits add to the cumulative national debt, but the increases will be small enough to cause the debt to grow at a rate similar to that of the overall economy. Ten years from now, in FY 2025, the CBO projects that the national debt will be 76.9 percent of GDP, up slightly from the FY 2014 debt-to-GDP ratio of 74.0 percent.<sup>12</sup>

FIGURE 1

## The budget outlook

National debt held by the public as a share of GDP



Source: Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2015 to 2025" (2015), available at <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50724-BudEconOutlook.pdf>.

While falling budget deficits are a positive development for the fiscal outlook, some of this improvement has been the result of the severe cuts to discretionary spending from the Budget Control Act and its sequestration rules.<sup>13</sup> These cuts have damaged the economy while failing to address the population's aging, projected health care cost growth, and inadequate tax code—all of which are the underlying drivers of the federal government's long-term fiscal imbalance.<sup>14</sup>

Sequestration imposes separate caps on discretionary spending for defense and nondefense programs through FY 2021.<sup>15</sup> In general, the defense cap covers the U.S. Department of Defense budget and other defense functions, such as the nuclear weapons programs at the U.S. Department of Energy.<sup>16</sup> The nondefense cap covers domestic programs—such as infrastructure, education, research, public safety, and the social safety net—as well as nondefense national security functions such as diplomacy, veterans' health care, and border protection.<sup>17</sup> Some mandatory programs—which are not funded by annual appropriations—are also subject to an across-the-board cut from sequestration.<sup>18</sup> However, most major mandatory programs—such as Social Security and Medicaid—are exempt from sequestration, while Medicare cuts are limited to a 2 percent reduction in payments to health care providers.<sup>19</sup>

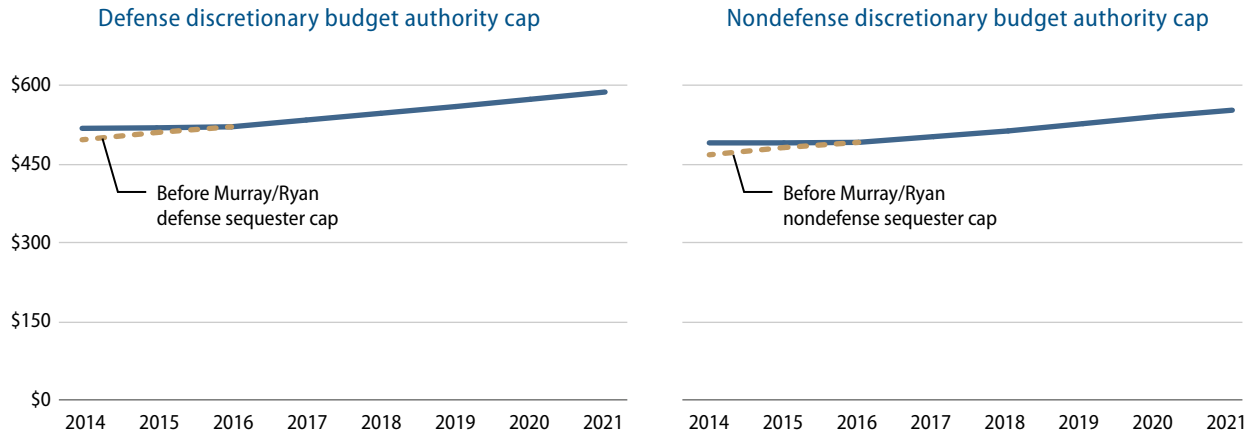
In October 2013, a study by Macroeconomic Advisers found that, “Reductions in discretionary spending have reduced annual GDP growth by 0.7 percentage points since 2010 and raised the unemployment rate 0.8 percentage points, representing a cost of 1.2 million jobs.”<sup>20</sup> Lawmakers took a small step in the right direction on December 26, 2013, when President Obama signed the Bipartisan Budget Act into law.<sup>21</sup> This legislation—also known as the Murray-Ryan deal because it was negotiated by Sen. Patty Murray (D-WA) and Rep. Paul Ryan (R-WI)—increased discretionary spending above sequestration levels for FY 2014 and FY 2015.<sup>22</sup>

The Murray-Ryan budget deal increased the sequestration caps for discretionary spending by about \$45 billion for FY 2014 and \$18 billion for FY 2015, with those increases split evenly between defense and nondefense spending.<sup>23</sup> The total discretionary spending caps are approximately \$1.012 trillion for FY 2014, \$1.014 trillion for FY 2015, and \$1.017 trillion when the sequestration caps return for FY 2016.<sup>24</sup> Nominal spending remains roughly constant because the underlying sequestration caps set forth in the Budget Control Act increase slightly each year; discretionary spending, however, does fall in real terms from FY 2014 to FY 2016 once inflation is taken into account.<sup>25</sup>



**FIGURE 2**

**Discretionary spending caps under current law, in billions of nominal dollars**

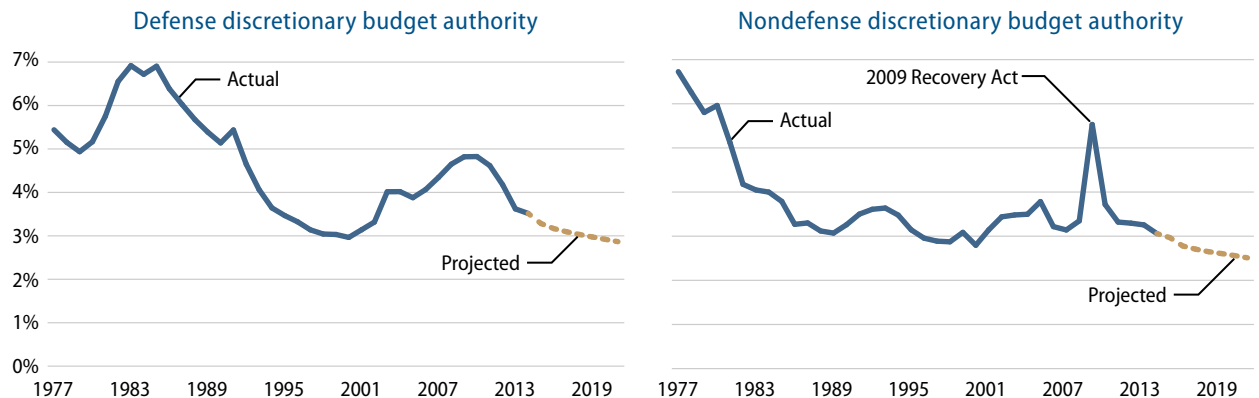


Note: These spending caps do not include funding for wars, emergencies, disasters, or program integrity.

Sources: U.S. House of Representatives Committee on the Budget, *Bipartisan Budget Act Section by Section Analysis* (2013), available at [http://budget.house.gov/uploadedfiles/bba\\_section-by-section\\_analysis\\_.pdf](http://budget.house.gov/uploadedfiles/bba_section-by-section_analysis_.pdf); Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2015 to 2025" (2015), available at <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50724-BudEconOutlook.pdf>.

**FIGURE 3**

**Discretionary spending as a share of GDP**



Note: These figures incorporate all discretionary funding, including for wars and emergencies.

Sources: Office of Management and Budget, *Historical Tables*, Tables 5.6 and 10.1, available at <http://www.whitehouse.gov/omb/budget/Historicals> (last accessed August 25, 2015); Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2015 to 2025" (2015), available at <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50724-BudEconOutlook.pdf>.

While the return of sequestration budget caps in FY 2016 does not force large and immediate spending cuts, the CBO projects that these caps will drive both defense and nondefense discretionary spending to their lowest levels in recent history as a share of GDP.<sup>26</sup> The CBO also estimates that the discretionary spending reduction from sequestration in FY 2016 will reduce economic growth and slow job creation by 500,000 jobs.<sup>27</sup>

Over the long term, the economy has tended to grow faster than the defense budget, and the projected trend continues the long-term decline of defense spending as a share of GDP.<sup>28</sup> Ultimately, the defense budget should be set based on the national security environment rather than economic conditions.<sup>29</sup> Military and civilian leaders have stated that the sequestration caps threaten national security, and the budgets from both the White House and Congress would increase defense spending after the Murray-Ryan deal expires.<sup>30</sup>

Unlike defense spending, nondefense discretionary spending has remained relatively consistent since the mid-1980s as a share of GDP—with the exception of 2009, when Congress passed the American Recovery and Reinvestment Act.<sup>31</sup> Many economic policies are funded by the nondefense discretionary budget, which may explain why this spending has tended to grow at roughly the same rate as the economy over the past 30 years. Sequestration ends this consistent funding pattern for nondefense discretionary spending.

Congress' FY 2016 appropriations bills show the effect in the first year of accepting sequestration for nondefense programs. With continued sequestration, the CBO projects that nondefense discretionary spending would fall even lower as a share of GDP in future years—well below the previous low points connected to budget cuts during the Reagan and Clinton administrations. Even the presequester caps could eventually bring nondefense discretionary spending to historic lows as a share of GDP, but at least targeted new investments would still be possible and many of the worst cuts could be avoided.<sup>32</sup>

# The impact of sequestration caps on nondefense programs

In its budget resolution, Congress voted to limit FY 2016 nondefense discretionary spending to sequestration levels, but the budget does not make any binding choices about how to allocate funding within that broad cap. The specific impacts of sequestration on nondefense discretionary programs have only become clear as Congress writes appropriations bills to fund the government for FY 2016.

Rather than presenting a complete catalog of every budget cut that Congress has attempted, this section analyzes a subset of the worst cuts within the two categories of economic investment and leveling the playing field. There are many important sectors that are not included, so the issues covered in this section are only a few of the many reasons that the sequestration cap does not work for the nondefense discretionary budget.

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## Cutting economic investments that strengthen and grow the middle class

The nondefense discretionary budget supports many different types of investments that increase potential for economic growth and opportunity, create good jobs, and help low-income Americans climb into the middle class. Congress, however, is advancing appropriations bills that divest from these sectors as a result of holding nondefense discretionary spending to sequestration levels. This section focuses on three such sectors: infrastructure, education, and affordable housing.

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## Infrastructure

The American Society of Civil Engineers gives the nation's infrastructure a D+ grade.<sup>33</sup> A study by the International Monetary Fund finds that investing in infrastructure would increase economic growth in both the short term and the long term.<sup>34</sup> The AFL-CIO, the nation's largest federation of unions, and the U.S. Chamber of Commerce both advocate infrastructure investment to create middle-class jobs—one of the few economic policies on which these organizations agree.<sup>35</sup>

Despite the clear case for increasing infrastructure investment, Congress is taking the opposite approach in its appropriations bills by cutting funding from water and transportation programs. The Senate Appropriations Committee advanced legislation that would cut \$533 million from revolving funds that support state and local investments in drinking water and wastewater infrastructure,<sup>36</sup> and the House bill cuts \$581 million from these two funds.<sup>37</sup> The Office of Management and Budget estimates that the House bill would mean a loss of approximately 200 water infrastructure projects.<sup>38</sup> The Sierra Club reports that a similar number of projects would not be funded by the Senate bill and warns that 14,000 jobs could be lost as a result.<sup>39</sup> These cuts come at a time when thousands of Americans contract waterborne diseases every year and sewer overflows annually dump about 850 billion gallons of untreated sewage into American bodies of water.<sup>40</sup>

Furthermore, the House passed an appropriations bill that would make a huge cut to the U.S. Department of Transportation's Transportation Investment Generating Economic Recovery, or TIGER, program—an innovative competitive grant program for multimodal and multijurisdictional projects that are difficult to fund through other federal transportation programs.<sup>41</sup> Even though there is more than enough demand from state and local governments to significantly expand the program, the House bill would reduce TIGER funding to approximately 80 percent less than the lowest level of funding it has received since its establishment in 2009.<sup>42</sup>

The Senate Appropriations Committee rejected the House's TIGER cut by funding the program at the FY 2015 level of \$500 million, but as a consequence, the Senate was forced to cut more deeply from major capital investments to start or expand rail and bus networks at the Federal Transit Administration, or FTA.<sup>43</sup> The Senate funded the FTA's Capital Investment Grant program at \$336 million less than the House and \$535 million less than the FY 2015 enacted level.<sup>44</sup>

Allowing the nation's transportation network to fall into disrepair makes it harder for workers to get to their jobs and for businesses to grow and deliver their goods to market. While the House and Senate take different approaches on transportation, sequestration would force both chambers to choose how to cut infrastructure investment. President Obama's budget rebuffs this false choice by rejecting sequestration and advocating substantial increases for both TIGER and FTA Capital Investment Grants.<sup>45</sup>

## Education

Speaker of the House John Boehner (R-OH) says that one of his “five points” to grow the economy is to strengthen education, but the House Appropriations Committee is considering legislation to cut \$2.8 billion from the U.S. Department of Education to adhere to the congressional budget.<sup>46</sup> The bill from the Senate Appropriations Committee would cut Department of Education funding by \$1.7 billion.<sup>47</sup> By comparison, the president’s budget increases Department of Education funding by \$3.6 billion.<sup>48</sup>

President Obama’s budget would increase federal efforts to improve low-performing schools and support schools with a high proportion of students who live in poverty, while Congress would underfund both of these priorities. The president’s budget would provide an additional \$1 billion for grants to high-poverty schools under Title I of the Elementary and Secondary Education Act, for which lawmakers provided about \$14.4 billion in FY 2015.<sup>49</sup> The House bill would freeze funding for these Title I grants at current levels, while the Senate would provide a \$150 million increase.<sup>50</sup> Avoiding cuts to Title I grants forced Congress to make sharp cuts elsewhere—such as the School Improvement Grant, or SIG, program, which funds efforts to turn around some of the worst performing schools in the country. The House Appropriations Committee proposes to completely eliminate SIG, while the Senate bill would cut SIG by \$56 million.<sup>51</sup>

Congress would also make especially deep cuts to investments that help foster innovation and improvement in local school districts. The House and Senate bills both eliminate the Investing in Innovation Fund, which helps turn around struggling schools and identifies strategies that effectively improve the performance of teachers and principals.<sup>52</sup> The House bill would cut \$164 million from the Institute of Education Sciences, while the Senate bill would make an \$11 million cut.<sup>53</sup> President Obama’s budget would provide substantial increases for the Institute of Education Sciences and the Investing in Innovation Fund as part of what it calls “a cross-cutting commitment to using and developing evidence in order to maximize results for taxpayers and students.”<sup>54</sup>

Conservatives claim that “school choice” is the key to improving education,<sup>55</sup> but the limits imposed by sequestration are undermining even the school choice agenda. The House and Senate bills both provide a modest increase for charter school grants, but they are still significantly smaller than the increase that the president’s budget would provide.<sup>56</sup> The House bill also eliminates the Magnet Schools Assistance

program, while the Senate bill cuts this program by \$6.6 million.<sup>57</sup> The magnet school program is designed to reduce segregation in school districts by supporting schools that students from a variety of backgrounds choose to attend.<sup>58</sup> For example, “This American Life” recently reported on the central role that magnet schools in Hartford, Connecticut, play in integrating public schools and expanding educational options for students from Hartford and its surrounding suburbs.<sup>59</sup>

College students could face higher costs as a result of cuts to the Pell Grant program that helps make higher education affordable for more than 8.2 million students—and this is only Congress’ latest attempt to cut Pell Grants.<sup>60</sup> The Senate bill would rescind \$300 million from the Pell Grant program, while the House bill would cut Pell Grant funding by \$370 million compared with the request in the president’s budget.<sup>61</sup> While the Pell Grant account currently has a surplus, it will likely face a shortfall beginning in FY 2017.<sup>62</sup> Choosing to cut the program now rather than planning for the future will make it even harder to find sufficient funds in FY 2017—especially if sequestration caps remain in effect. The Committee for Education Funding warns that the House bill would increase the projected Pell Grant shortfall to \$634 million in FY 2017,<sup>63</sup> which could lead to either reducing Pell Grant awards or making yet another round of cuts to other education priorities. The mandatory spending cuts advocated by the congressional budget resolution would likely mean even more cuts to the Pell Grant program, and the House endorsed a 10-year freeze on the maximum Pell Grant available to low-income students even as college costs continue to rise.<sup>64</sup>

Even preschoolers would have their educations jeopardized, as the House and Senate bills both terminate Preschool Development Grants that help 18 states make quality preschool available to economically struggling families with 4-year-olds.<sup>65</sup> The House and Senate bills were both able to provide a small increase in Head Start funding—by making deep cuts to other education programs—but the president’s budget still provides a much larger increase.<sup>66</sup> According to the Office of Management and Budget, the difference between the Head Start allocations in the House bill and the president’s budget translate to either serving 140,000 fewer children or failing to lengthen the Head Start schedule so that 570,000 children can receive full-day and full-year preschool.<sup>67</sup> Preschool Development Grants received \$250 million in FY 2015,<sup>68</sup> which exceeds the Head Start increases provided in either the House or Senate bills.<sup>69</sup>



## Affordable housing

Families need a stable and affordable place to live in order for parents to hold down a job and children to excel in school, but rising costs and low wages push affordable housing out of reach for millions of Americans.<sup>70</sup> Due to limited funding, however, only one in four eligible households currently receive federal rental assistance.<sup>71</sup> Those numbers would only get worse under appropriations bills passed under the current budget caps, even though both the House and Senate bills prioritize rental assistance programs within their limited overall allocations. The Office of Management and Budget estimates that the Senate bill would fail to renew about 50,000 rental assistance vouchers, while the House bill would allow about 28,000 vouchers to expire.<sup>72</sup> In addition, neither bill would restore the 67,000 rental assistance vouchers that were eliminated by sequestration back in FY 2013.<sup>73</sup> Other affordable housing programs would fare even worse.

The fate of the HOME Investment Partnerships Program, or HOME, which helps states and localities support affordable housing for low-income households, illustrates how the current spending caps block adequate funding for affordable housing. The Senate bill all but eliminates HOME by funding it at just \$66 million, compared with the \$900 million it received in FY 2015 or the \$1.8 billion allocation in FY 2010.<sup>74</sup> The House bill manages to fund HOME at \$900 million but does so in part by transferring \$133 million from the National Housing Trust Fund to HOME.<sup>75</sup> The National Housing Trust Fund is designed to create affordable housing for the lowest-income renters and is supposed to be funded by dedicated revenues that are not subject to the annual appropriations process.<sup>76</sup> The two paths taken by the House and Senate demonstrate that there simply is not enough budgetary space to fund affordable housing under sequestration; these programs will either be cut drastically or lawmakers will be forced to raid other accounts to fund them.

Funding for public housing faces a similar dilemma. The nation's public housing stock is in deep disrepair, risking the very existence of these affordable units. The federal government has consistently underfunded the preservation and upkeep of public housing, creating a backlog of more than \$26 billion in repairs.<sup>77</sup> This backlog grows larger every year that Congress fails to appropriate enough money for public housing capital investment, and both the Senate and House bills for FY 2016 are cutting funding further below the already inadequate levels of FY 2015.<sup>78</sup>

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## Tilting the playing field toward special interests and the wealthy

Congress is divesting not only from programs that improve the economic outlook for low-income and middle-class families, but it is also weakening safeguards that are supposed to prevent the playing field from tilting toward the wealthy and special interests. The effect of these cuts is subtler. Some of these agencies might not regularly interact with most Americans, but they all fulfill vital responsibilities for the American people. This section focuses on cuts to three sectors: environmental protection, tax assistance and enforcement, and the legislative branch. In all three of these cases, funding cuts have benefited those at the top while making these agencies less responsive to the concerns of ordinary Americans.

### Environmental protection

Congress is preparing to deliver huge victories to big polluters in the appropriations bill to fund the U.S. Environmental Protection Agency, or EPA, and the U.S. Department of the Interior. Meanwhile, ordinary Americans would be left with the health impacts of air and water pollution, as well as job losses and deteriorating public lands.

In March 2013, the *National Journal* reported that earlier rounds of funding cuts had “kneecapped environmental enforcement” at the EPA,<sup>79</sup> and now Congress is pushing even more cuts and restrictions. The House Appropriations Committee seeks to cut total EPA funding by \$718 million, or 9 percent, from FY 2015 levels.<sup>80</sup> The Senate bill would cut EPA funding below FY 2015 levels by \$543 million, or 7 percent.<sup>81</sup> These proposed cuts would significantly hamstring the EPA, which already received substantial cuts in earlier years.<sup>82</sup> Both bills include provisions that prohibit the EPA from implementing Clean Air Act rules to address climate change and ozone pollution and Clean Water Act rules to protect streams and wetlands.<sup>83</sup>

As a former EPA official said of the earlier cuts, these appropriations bills could mean that “laws about environmental enforcement are just paper.”<sup>84</sup> Perhaps that would be a victory for Americans for Prosperity—founded by billionaire brothers Charles and David Koch—which runs a website called “Stop the EPA Power Grab!”<sup>85</sup> Stopping the EPA, however, is not a goal shared by most Americans: The Pew Research Center has found that 59 percent of Americans hold a “favorable” view of the agency, compared with 32 percent with an “unfavorable” view.<sup>86</sup> In March 2015, a Gallup poll found that only 16 percent of Americans believe the U.S. government is doing “too much ... in terms of protecting the environment.”<sup>87</sup>

In addition to EPA budget cuts, Congress is also mortgaging America's public lands by underfunding the Land and Water Conservation Fund, or LWCF. The LWCF uses revenue from offshore oil and gas development fees to support federal, state, and local parks, outdoor projects, and conservation programs.<sup>88</sup> President Obama's budget fully funds the LWCF at \$900 million, which includes a \$400 million discretionary appropriation and a legislative proposal for \$500 million in mandatory funding.<sup>89</sup> The Senate bill holds funding roughly constant at the FY 2015 level of \$306 million, while the House bill would cut funding even further to \$248 million—and neither chamber has acted on the mandatory funding proposal.<sup>90</sup> There is also a growing risk that Congress will fail to reauthorize the program before it expires at the end of September.<sup>91</sup>

Insufficient funds for programs such as the LWCF—or the elimination of the program altogether—would have a significant impact on the jobs and local economies that America's public lands and outdoor spaces support. In addition to helping protect iconic national parks—such as the Grand Canyon and Yellowstone—the LWCF has supported the creation of more than 40,000 state and local projects across the country to acquire land or develop facilities for outdoor recreation.<sup>92</sup> According to the Outdoor Industry Association, consumers spend more than \$646 billion every year on outdoor recreation, and the industry supports more than 6.1 million jobs across the country—more jobs than drilling, mining, and logging combined.<sup>93</sup>

## Internal Revenue Service

Congress has sharply reduced the IRS budget in recent years, and Howard Gleckman of the nonpartisan Tax Policy Center writes that these budget cuts create two different tax systems: one for the rich and powerful and the other for everyone else.<sup>94</sup> An underfunded IRS is increasingly unable to keep up with the tax-avoidance schemes used by wealthy people and big corporations, who have vast legal and accounting resources at their disposal.<sup>95</sup>

An underresourced IRS might help those at the top, but it just makes tax time harder for everyone else. During the 2015 filing season, more than 6 out of 10 taxpayers who tried calling the IRS did not reach a representative, and lines began forming at IRS Taxpayer Assistance Centers hours before they opened.<sup>96</sup> IRS Commissioner John Koskinen testified before Congress that the “unacceptable level of taxpayer service” was due to budget cuts.<sup>97</sup> The Treasury Inspector General for Tax Administration, which is independent of both the IRS and the Obama administration, also recently reported that IRS budget cuts have significantly reduced the IRS' capacity to communicate with taxpayers and enforce tax laws.<sup>98</sup>

Congress now plans to make even deeper cuts to the IRS budget. The House appropriations bill for the IRS would cut its budget by \$838 million from FY 2015 levels.<sup>99</sup> Compared with inflation-adjusted FY 2010 levels, this would be a cut of 25 percent, or \$3.3 billion.<sup>100</sup> The Senate Appropriations Committee advanced a bill that cuts IRS funding by \$470 million from FY 2015 levels—which is 22 percent, or \$2.9 billion, below inflation-adjusted FY 2010 levels.<sup>101</sup>

These budget cuts increase federal deficits by increasing the tax gap, which is the difference between the amount of taxes owed and the amount collected. The most recent figures from the IRS reflect a return on investment of \$5.10 for every \$1 in the overall IRS budget.<sup>102</sup> This suggests that the proposed House budget cuts would reduce tax revenues by \$16.8 billion and that the Senate cuts would reduce tax revenues by \$14.9 billion, compared with a budget that instead froze IRS funding at inflation-adjusted FY 2010 levels.

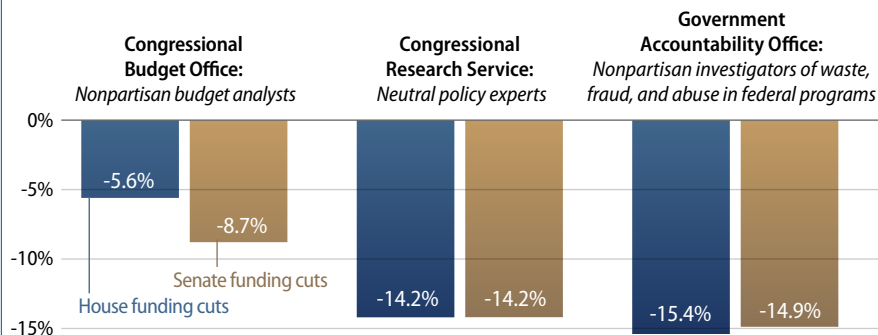
## Legislative branch

There are many reasons that Congress is deeply unpopular with the American people—perhaps including some of the budget decisions listed above—but one reason is that over time, Congress has systematically undermined the professional staff and institutions on which it relies to function effectively. The FY 2016 legislative branch appropriations bills from the House and Senate both roughly maintain the overall FY 2015 level of \$4.3 billion, which locks in a 17 percent cut from inflation-adjusted FY 2010 levels.<sup>103</sup> In addition to diminishing the capacity of Congress' own staff, these bills also underfund the budget analysts at the Congressional Budget Office, the policy experts at the Congressional Research Service, and the investigators at the Government Accountability Office—all of which are independent agencies within the legislative branch.<sup>104</sup>

FIGURE 4

## Cutting legislative branch institutions results in Congressional dysfunction

Funding cuts in House and Senate FY 2016 legislative branch appropriations bills relative to inflation-adjusted FY 2010 levels



Sources: *Legislative Branch Appropriations, 2016*, S. Rept. 114-64, 114 Cong. 1 sess. (Government Printing Office, 2015), available at <https://www.congress.gov/114/crpt/srpt64/CRPT-114srpt64.pdf>; *Legislative Branch Appropriations Bill, 2016*, H. Rept. 114-110, 114 Cong. 1 sess. (Government Printing Office, 2015), available at <http://www.gpo.gov/fdsys/pkg/CRPT-114hrpt110/pdf/CRPT-114hrpt110.pdf>; *Legislative Branch Appropriations Act, 2010*, H. Rept. 111-265, 111 Cong. 1 sess. (Government Printing Office, 2009), available at <http://www.gpo.gov/fdsys/pkg/CRPT-111hrpt265/pdf/CRPT-111hrpt265.pdf>; Office of Management and Budget, *Table 10.1—Gross Domestic Products and Deflators Used in the Historical Tables: 1940–2020* (Executive Office of the President, 2015), available at <https://www.whitehouse.gov/omb/budget/Historicals>.

Weakening the institutions of the legislative branch strengthens the power of special interest groups, as members of Congress increasingly turn to privately funded institutions for policy analysis. As political scientists Lee Drutman and Steven Teles explain, Congress cannot “push back against the claims of the mobilized and wealthy in the name of the unmobilized ... if its capacity to collect and process information has been systematically dismantled.”<sup>105</sup> Adequately funding the legislative branch does not guarantee that Congress will function effectively and stand up to special interests, but hollowing out the legislative branch almost certainly guarantees that Congress will fail to do so.

# Fiscal responsibility

As lawmakers attempt to strike a deal to increase the sequestration caps for FY 2016, a key challenge will be whether and how to implement deficit-reducing policies to offset the increases in defense and nondefense discretionary spending. President Obama proposes to pay for sequestration relief with a balanced mix of spending cuts and tax increases<sup>106</sup>—the foundation of earlier proposals for bipartisan fiscal compromise.<sup>107</sup> Approximately half of Congress has pledged to oppose any such compromise, however, by signing the anti-tax pledge circulated by Americans for Tax Reform.<sup>108</sup>

With leaders on both sides of the aisle talking about the importance of addressing rising economic inequality and stagnant wages, lawmakers should be able to agree that deficit reduction should not worsen these problems for struggling Americans.<sup>109</sup> The congressional budget itself illustrates why deficit reduction plans that do not include new revenue cannot protect low-income and middle-class Americans. The Center on Budget and Policy Priorities finds that 63 percent of the cuts in the congressional budget would come from programs for people with low and moderate incomes, while those at the top are not asked to pay even a dime in additional taxes.<sup>110</sup>

This report only describes the tip of the iceberg for the congressional budget—a subset of the worst cuts that Congress is making in order to implement the first year of its budget for nondefense discretionary programs. The congressional budget cuts the overall cap on nondefense discretionary spending even further in future years and also makes huge cuts to mandatory programs. If the congressional budget is implemented, it could double the number of Americans without health insurance, increase the cost of higher education, and make it harder for low-income families to put food on the table.<sup>111</sup>

When the Peter G. Peterson Foundation asked CAP and four other think tanks from across the ideological spectrum to design their own budget plans, all of the organizations—including the conservative think tanks—produced plans that included new tax revenue.<sup>112</sup>



Lawmakers are already starting to agree on many tax policies that would raise new revenue. In a previous report, CAP identified a set of bipartisan tax policies that would collectively raise revenue by more than \$1.4 trillion over 10 years.<sup>113</sup> These policies include limiting the value of itemized deductions for high-income taxpayers, closing the carried interest loophole, and scaling back tax subsidies for oil companies.<sup>114</sup> Lawmakers may wish to reserve some of these policy changes for a larger tax reform, but the goal of comprehensive reform should not stand in the way of reasonable incremental steps to improve the federal budget outlook by making the tax code fairer and more efficient.

Fee increases provide another alternative for raising revenue, and the Obama administration has indicated a willingness to accommodate anti-tax conservatives by looking for ways to raise revenue from these nontax sources.<sup>115</sup> This was the approach used in the Murray-Ryan deal.<sup>116</sup> Limiting revenue increases to user fees sharply limits the potential for deficit reduction, however, since user fees are much narrower in scope than taxes.<sup>117</sup> This creates a larger challenge now than it did for the Murray-Ryan deal, since that deal already used some of the options for increasing user fees.

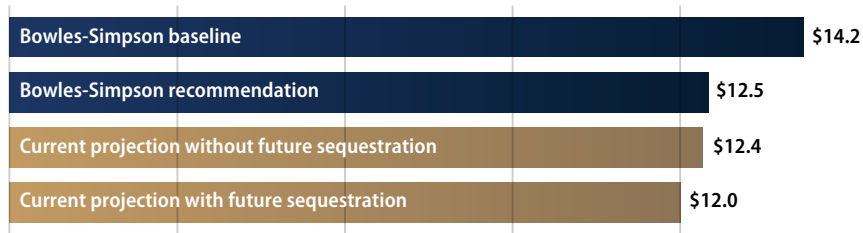
If lawmakers cannot agree on a deficit reduction package that includes sufficient revenue, increasing the sequestration caps without completely offsetting the cost would be preferable to leaving sequestration in place. The budget outlook is stable and there is no looming debt crisis, so fixing sequestration is a far more urgent issue than fixing the long-term debt.

There were serious flaws in the policies recommended by the 2010 report from the National Commission on Fiscal Responsibility and Reform, commonly known as the Bowles-Simpson commission, but this report is still useful for illustrating why sequestration is unnecessary from a fiscal perspective.<sup>118</sup> The Bowles-Simpson commission recommended \$1.7 trillion in discretionary spending cuts from FY 2011 to FY 2020.<sup>119</sup> Compared with the same baseline budget projection used by the Bowles-Simpson commission, lawmakers have already reduced discretionary spending by \$1.8 trillion—even if sequestration is fully repealed starting in FY 2016.<sup>120</sup> The federal government is also spending much less on health care programs and interest payments for the national debt compared with the projections from 2010.<sup>121</sup> Largely as a result of these factors, and assuming sequestration is repealed going forward, total federal spending from FY 2011 to FY 2020 is now projected to be \$2.6 trillion less than the levels recommended by the Bowles-Simpson commission.<sup>122</sup>

FIGURE 5

### Discretionary spending cuts since the 2010 Bowles-Simpson report

Total discretionary spending from FY 2011 to FY 2020, in trillions of dollars



Note: The Bowles-Simpson discretionary spending baseline adjusted the August 2010 Congressional Budget Office baseline to modify war spending projections and adjust other discretionary spending to match President Barack Obama's request at that time. The current projection used in this figure is the March 2015 Congressional Budget Office baseline with and without future sequestration, adjusted to reduce war spending.

Sources: The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth* (The White House, 2010), Figures 14, 15, and 16, available at [http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12\\_1\\_2010.pdf](http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf); Congressional Budget Office, "August 2015 Baseline." In "An Update to the Budget and Economic Outlook: 2015 to 2025" (2015), available at <http://www.cbo.gov/publication/45069>.

More work still needs to be done to address the nation's long-term fiscal challenges—especially with regard to the tax code—but the budget outlook has improved dramatically in recent years. If lawmakers have to choose between deficits or sequestration, they should remember President Obama's statement from December 2013: "A relentlessly growing deficit of opportunity is a bigger threat to our future than our rapidly shrinking fiscal deficit."<sup>123</sup>

# Conclusion

Setting a budget requires making choices. Limiting nondefense discretionary spending to sequestration levels would mean choosing to cut investments that strengthen and grow the middle class, while giving even more of an edge to the wealthy and powerful. A better choice would be to level the playing field by scaling back tax breaks that only benefit those at the top.

One option everyone should want to avoid is a government shutdown, and progressives have offered a number of compromises to prevent that outcome. Agreeing to equal relief for defense and nondefense programs is a compromise—the same compromise that was at the core of the Murray-Ryan deal. Agreeing to include spending cuts in a deficit reduction package—rather than focusing solely on revenues—is a compromise. Exploring user fees as a way to raise revenue without raising taxes is a compromise to accommodate an uncompromising anti-tax pledge. But negotiations cannot succeed if only one side is willing to compromise.

Lawmakers can strike a budget deal to help build an economy that works for everyone by lifting the spending caps for both defense and nondefense programs and including revenue in any offsetting deficit reduction package. The appropriations bills in Congress demonstrate that choosing sequestration will mean more spending cuts that only benefit the wealthy few. If lawmakers are interested in addressing the concerns of the middle class and those struggling to climb into the middle class, the choice should be clear.

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## About the author

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Stein has appeared on radio and television stations including MSNBC, CNBC, and BBC World Service, and he has published opinion pieces in outlets such as Reuters, *The Guardian*, and *Roll Call*. His work has been cited by publications including *The Washington Post*, *The Atlantic*, and *The New Yorker*, and he has been quoted in *The Wall Street Journal*, Bloomberg, *Politico*, and many other major news sources.

Stein is an experienced tax professional and volunteers his time to prepare tax returns for low-income clients through the DC Earned Income Tax Credit Campaign. He received his bachelor's degree in political science and psychology from the University of Wisconsin–Madison.

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As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

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