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TESTIMONY OF DANNY WERFEL
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BEFORE THE COMMITTEE ON THE BUDGET
U.S. HOUSE OF REPRESENTATIVES
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Mr. Chairman, Ranking Member Van Hollen, members of the Committee, good morning.

I am here at your request to provide input on issues related to the Budget Control Act of 2011 (BCA) and the sequester, the President's proposal to replace the sequester, and the Office of Management and Budget's (OMB) role in implementing the sequester should it take effect on January 2nd, 2013.

Currently, I serve in the position of Controller at OMB. This position was created by the Chief Financial Officers (CFO) Act of 1990, with responsibilities for coordinating government-wide policy and reform efforts related to financial management. This includes, for example, coordinating financial reporting, audits, financial systems, and other accounting and internal control functions of agency CFOs. Historically, the Controller, working with agency CFOs and other related officials, has played an important role supporting the Deputy Director of Management and the Director of OMB in preparing for both ordinary and extraordinary financial circumstances across government. It is in this capacity that I am speaking before the Committee today.

The BCA, passed on a bipartisan basis, established caps on discretionary spending for fiscal years (FY) 2012 through 2021. The Act also created a joint Select Committee on Deficit Reduction instructed to develop a bill to reduce the federal deficit by $1.5 trillion over the 10 year period ending in FY2021. If the Joint Committee failed to propose (and Congress failed to enact) a bill including at least $1.2 trillion in deficit reduction, the BCA put into place an automatic process of across-the-board cuts to reduce spending, known as the sequester.

The President has made clear that Congress can and should act to avoid the sequester. The intention of the sequester was to drive Congress to a compromise through the threat of mutually disagreeable cuts to both defense and non-defense discretionary funding. If allowed to occur, the sequester would be highly destructive to national security and domestic priorities, and core government functions. The Administration believes that taking action to avoid the sequester in full in a balanced and fiscally responsible manner must be the primary focus of Congress's deliberations in the coming months.

As noted above, OMB plays a central role in the management, oversight, and execution of appropriations and authorities provided to the Executive Branch. As a matter of course, this involves managing the normal operations of the government as funded through annual appropriations and existing mandatory authorities. However, on occasion, Congressional action or inaction requires OMB to plan for extenuating circumstances.

Recently, this has included planning for potential government shutdowns, operating under continuing resolutions, and managing operations when the government's borrowing limit was nearly reached. On these occasions, OMB, in coordination with other Executive Branch agencies, has demonstrated an ability to plan appropriately for necessary contingencies, provide required guidance to agencies, and, as needed, take the steps necessary to implement plans of action. OMB will be prepared to draw on these experiences in implementing the sequester if Congress does not act to avoid it. As the Administration has made clear, it is our firm belief that the sequester is not an appropriate mechanism for deficit reduction and should not occur.

Sequesters serve as the enforcement mechanism for the two budget controls currently in place: PAYGO and discretionary caps. Many of the statutory principles underlying their enforcement are longstanding. They rely on the framework first established in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) and modified in the Budget Enforcement Act of 1990 (BEA), Statutory Pay-As-You-Go Act of 2010 (PAYGO), and most recently in the BCA.

Like many of the circumstances described above, the sequester would be severely disruptive to normal government operations and will have far reaching consequences. The adverse impacts of the sequester cannot be substantially mitigated with advance planning and executive action. In this sense, the sequester called for in the BCA can still operate as designed – a blunt instrument that is intended to spur action by imposing sweeping across-the-board cuts.

A CBO report released last November estimated the magnitude of the cuts that would be required by the sequester. It found that base defense discretionary spending would be cut by approximately 10 percent while non-defense discretionary spending would be cut by almost 8 percent. These cuts would generally be applied in equal percentages, indiscriminately affecting programs without regard to priorities or function. For defense, this means that all operations, from procurement to programmatic activities will be affected. For non-defense, the cuts would be equally harmful and wide-ranging, for example, cutting funding for education, law enforcement, infrastructure, and research and development. In his March 28 testimony before the House Committee on Education and the Workforce, Secretary Duncan explained:

> A 7.8 percent reduction in funding for large State formula grant programs that serve over 21 million students in high poverty schools and 6.6 million students with special needs could force States, school districts, and schools to slash teacher salaries, lay off teachers, or reduce services to these needy children. More specifically, the resulting cut of more than $1.1 billion to Title I could mean denying funding to nearly 4,000 schools serving

more than 1.6 million disadvantaged students, and more than 16,000 teachers and aides could lose their jobs.

These types of deep cuts undercut critical government programs that the American people rely on and eliminate investments needed for future economic growth. These cuts are not the result of policy decisions. That is why the Administration believes that avoiding the sequester – not trying to mitigate its effects – should be the focus of responsible policymakers.

To this end, the President has put forward a balanced deficit reduction package to avoid the sequester. This package achieves more than enough deficit reduction to avoid the sequester if Congress chooses to act and pass it. Last September, to support the work of the Joint Select Committee on Deficit Reduction that the bipartisan BCA established, the Administration released the President's Plan for Economic Growth and Deficit Reduction. This package identified specific proposals from across the spectrum that far exceeded the deficit reduction target set by Congress for the Joint Committee. When the Joint Committee announced last November that it would be unable to achieve its mandate for deficit reduction, the President made clear that he would veto any legislation that attempted to cancel the sequester—in part or in full—without achieving at least the minimum $1.2 trillion of deficit reduction agreed to in the BCA. In February of this year, the President transmitted his 2013 Budget, which again included a deficit reduction package that would not only meet but exceed the mandate given to the Joint Committee. Specifically, the 2013 President's Budget implements the discretionary spending caps that were negotiated and agreed to as part of the BCA, generating more than $1 trillion in deficit reduction over the next decade, and reducing discretionary spending to 5 percent of Gross Domestic Product (GDP) in 2022. With these discretionary savings and other deficit reduction policies, including reforms to mandatory programs and new revenue, the President's Budget would cut the deficit by well over $4 trillion over the next decade. Importantly, unlike the sequester scheduled in current law, his proposals would achieve deficit reduction in a balanced, responsible way by making clear policy choices and targeted reductions.

The Administration has repeatedly provided a blueprint for Congress to avoid the sequester while meeting the nation's fiscal challenges. Now responsibility rests with Congress and ample time remains for such action.

OMB stands ready to coordinate government-wide planning and activities for any contingency. But today, the more pressing need is for Congress to act to avoid the sequester.

Therefore, the Administration urges the Committee and this Congress to take action to enact balanced and significant deficit reduction. Thank you, and I am happy to answer any questions you may have.