Investing in America's Economic and National Security

Testimony to the U.S. House
Committee on the Budget

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*The opinions expressed herein are mine alone and do not represent the position of the American Action Forum.

Introduction

Chairman Yarmuth, Ranking Member Womack and members of the Committee, I am honored to be before you today to discuss the need to responsibly fund the nation's defense and domestic priorities. I commend this Committee for holding this hearing now, anticipating the need to address responsibly the reset of the Budget Control Act (BCA) discretionary spending limits for FY2020.

In my testimony, I wish to make three basic observations:

- The BCA made an important down-payment on what will need to be a significant fiscal consolidation, and reinstated a more formal disciplining process on discretionary spending;

- The original conception of the BCA and two follow-on amendments provide a valuable model against which to compare future cap adjustment legislation;

- The congressional budget process is well suited to addressing the need to responsibly fund discretionary spending priorities in a divided Congress.

Let me discuss these in turn.

The Evolution of the Budget Control Act

On August 2, 2011, the president signed the Budget Control Act (BCA) of 2011. The BCA re-imposed a regime of discretionary spending caps that had previously been in place through the 1990s and lapsed in 2002. At the time of its enactment, the Congressional Budget Office (CBO) estimated that the discretionary spending caps would reduce the primary deficit by $756-$935 billion over the period 2012-2021.[1] The BCA provided an automatic enforcement mechanism, an across-the-board rescission of budget authority (BA), a sequester, in the event that those caps were breached

The BCA also created the Joint Select Committee on Deficit Reduction, also referred to as the "Super Committee," charged with producing legislative recommendations to reduce the deficit by at least $1.2 trillion, over and above the savings produced by the imposition of the discretion caps alone. The "hard" part of deficit reduction, specifically changes to mandatory spending programs and tax reform, was supposed to have been the responsibility of the Super Committee.

When the Committee failed to reach consensus, the BCA imposed a fallback mechanism, variously referred to as the "Joint Committee Reductions," "Automatic Spending Reductions," or more colloquially just as the "sequester." This mechanism

[1] https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/costestimate/budgetcontrolactaug1.pdf

was designed to achieve the $1.2 trillion in deficit savings (including interest costs) that the Super Committee failed to deliver, albeit in a substantially different form.[2]

Upon the failure of the Super Committee, the BCA required the Office of Management and Budget (OMB) to issue a sequestration order on January 2, 2013 cancelling $109 billion in budget authority, split evenly between defense and non-defense categories, already enacted for FY2013 – a true sequester of budget authority already in place.[3] For FY2014-2021, discretionary savings result from spending caps lowered by about $90 billion per year below the original BCA discretionary caps. Remaining savings would come from cancelation of mandatory budget authority through an annual sequestration order.[4]

CBO interpreted the automatic enforcement process as requiring $1.2 trillion in total budget authority reductions. Accordingly, CBO's estimate of the impact of the automatic enforcement process under the BCA assumes a $984 billion reduction in programmatic budget authority, rather than outlays. CBO also estimated that the sequestration process would result in an offsetting increase in outlays of $31 billion. CBO's estimates of the associated debt service savings are also smaller than 18 percent. Accordingly, CBO's estimate of a $1.2 trillion BA reduction consistent with the BCA would reduce the *deficit* by $1.057 trillion. The CBO's BA estimates follow:

[2] https://www.cbo.gov/publication/49889
[3] http://www.cbo.gov/sites/default/files/09-12-BudgetControlAct_0.pdf
[4] ibid

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Defense										
Mandatory sequestration	*	*	*	*	*	*	*	*	*	*
Reduction in the cap on discretionary BA	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Total - Defense	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Nondefense										
Mandatory sequestration										
Medicare (2 percent limit)	-11	-11	-12	-13	-13	-14	-15	-16	-17	-123
Other nonexempt programs	-3	-3	-4	-4	-3	-3	-3	-3	-3	-30
Redistributed Cuts from Medicare Limitation	-2	-2	-2	-2	-2	-2	-2	-2	-2	-17
Subtotal - Non-Defense Mandatory	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Reduction in the cap on discretionary BA										
Preliminary Reductions	-25	-24	-24	-23	-23	-23	-22	-21	-21	-206
Redistributed Cuts from Medicare Limitation	-14	-14	-13	-13	-13	-13	-12	-12	-12	-116
Subtotal - Non-Defense Discretionary	-39	-38	-37	-36	-36	-36	-34	-33	-33	-322
Total - Non-Defense	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Memorandum										
Percentage Cut to Nonexempt Budget Accounts										
Defense	10	9.8	9.7	9.5	9.3	9.1	8.9	8.7	8.5	
Non-Defense										
Discretionary	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	
Mandatory										
Medicare	2	2	2	2	2	2	2	2	2	
Other	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	

To forestall the imposition of the sequester, the president signed the American Taxpayer Relief Act (ATRA) of 2012, which addressed a number of major expiring provisions contributing to what was referred to as a "fiscal cliff." Among these provisions was the sequestration set to take place on January 2. The Act delayed these cuts by two months – pushing the order to March 1, 2013. It also reduced the amount to be sequestered to $85 billion, again split evenly between defense and non-defense funding.[5]

OMB issued a sequester order pursuant to ATRA on March 1, 2013, and cancelled $85 billion in enacted budgetary resources for the balance of the fiscal year. The order reduced defense funding by $42.6 billion, non-defense discretionary funding by $25.8 billion, and non-defense mandatory spending by $16.9 billion.[6]

[5] https://www.cbo.gov/sites/default/files/American%20Taxpayer%20Relief%20Act.pdf

[6] https://obamawhitehouse.archives.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjcsequestrationreport.pdf

Federal funding faced a troubled road in the remainder of 2013, including a partial government shutdown beginning October 1, 2013, owing to a failure between the House and Senate to agree to discretionary spending levels and other policy matters. On October 16, Congress passed a continuing resolution through January 15, 2014, that provided $986 billion in overall discretionary budget authority (BA) on an annualized basis for FY2014.[7]

The Architecture of a Budget Compromise

On December 26, 2013, the president signed into law the Bipartisan Budget Act of 2013, which established discretionary spending levels and enforcement provisions, for FY2014 and FY2015. This was designed to mitigate the effects of the reduced spending caps, add certainty to the appropriations process and reduce the likelihood of future government shutdowns. The Act set overall discretionary spending by a combined $63 billion above the lowered caps for FY2014 ($44.8 billion) and FY2015 ($18.5 billion), split evenly between defense and non-defense funding. Importantly, in exchange for these increases in the discretionary spending, the Bipartisan Budget Act of 2013 enacted $85 billion in gross deficit reduction as estimated by the CBO.[8] These changes came from relatively modest mandatory programmatic savings, fee increases, and indirect revenue increases. As part of this compromise, lawmakers extended the mandatory sequester until FY2023. Two months later, Congress essentially repealed a controversial provision related to veterans' retirement, and extended the mandatory sequester until 2024.[9]

On November 2, 2015, President Obama signed into law the Bipartisan Budget Act of 2015, which established discretionary spending levels and enforcement provisions, for FY2016 and FY2017. The Act provided relief to both defense and domestic discretionary spending from the "post-sequester" spending levels that would have otherwise prevailed. These revised caps reflected increases of $50 billion and $30 billion for FY2016 and FY2017, again split evenly between defense and non-defense discretionary spending. As with the Bipartisan Budget Act of 2013, the increases to the discretionary spending limits were offset with modest mandatory programmatic savings, fee increases, and non-tax revenue increases. The Act included another extension of the BCA's mandatory sequester until FY2025. According to CBO, the Bipartisan Budget Act of 2018 was essentially deficit-neutral, with the programmatic savings and collections roughly offsetting the higher discretionary spending.[10]

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7 https://obamawhitehouse.archives.gov/sites/default/files/omb/assets/legislative_reports/sequestration/sequestration_update_august2013.pdf

8 https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/costestimate/bipartisan-budget-act-20130.pdf

9 https://www.congress.gov/113/plaws/publ82/PLAW-113publ82.pdf

10 https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/costestimate/hr1314.pdf

Most recently, lawmakers enacted the Bipartisan Budget Act of 2018. This Act provided more substantial increases to both the defense and non-defense discretionary caps than had prior BCA amendments. For FY2018, the Act increased the defense and non-defense caps by $80 billion and $63 billion, respectively. For FY2019, the Act provided for defense and non-defense cap increases of $85 billion and $67 billion.[11] These cap increases were included in broader legislation that among other provisions, provided substantial disaster relief funding and extensions to health and tax policies. The Act also included a two-year extension to the mandatory sequester provision of the BCA, and a reduction in the Strategic Petroleum Reserve.[12] Unlike past Bipartisan Budget Acts, these savings only partially offset the additional spending provided for under this Act.

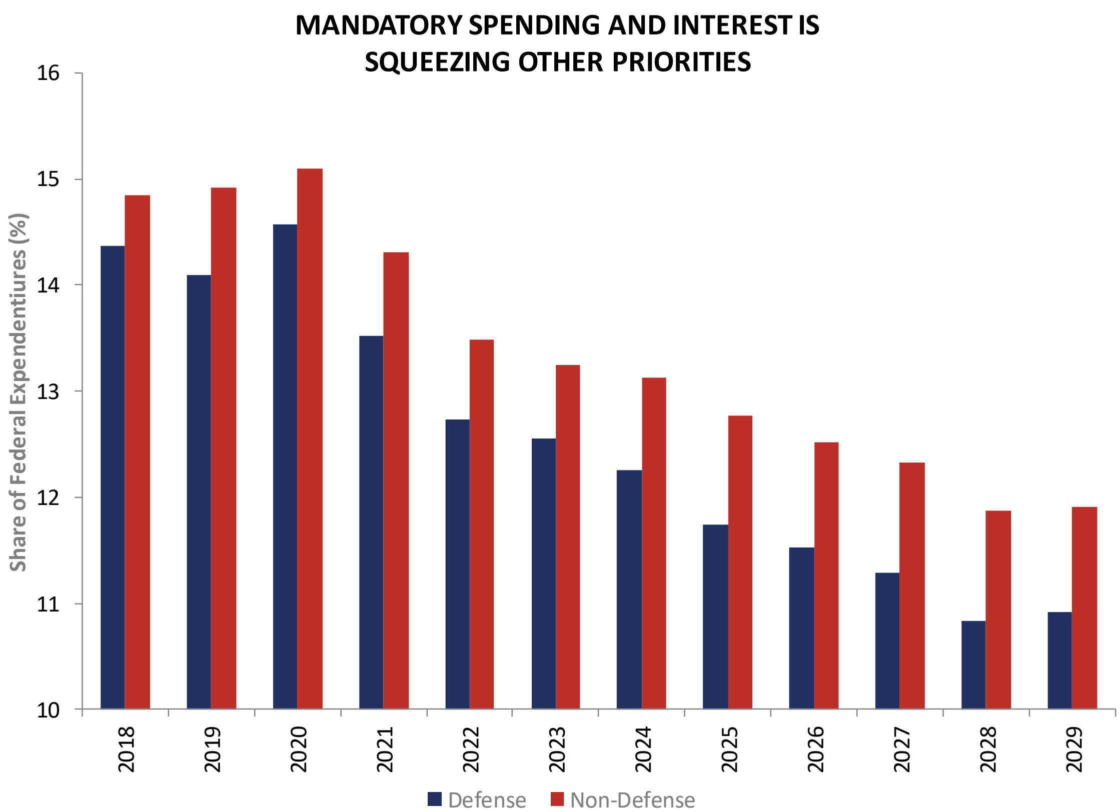
Under current law, the FY2020 caps on defense and non-defense discretionary spending are $71 billion and $55 billion below those of FY2019, respectively, setting up a $126 billion "cliff" in discretionary funding levels for next year. The recent history of the BCA suggests that policymakers essentially have three approaches to addressing this cliff. First, Congress could embark on a substantial fiscal consolidation that on net reduces the deficit but accommodates discretionary funding relief against the BCA caps. Second, Congress could provide discretionary funding relief and offset those changes with incremental mandatory savings, fee increases, and indirect revenue increases. Last, Congress could simply add the funding increases to the deficit.

As highlighted by the CBO's most recent *Budget and Economic Outlook,* the nation's present fiscal trajectory is unsustainable and risks a fiscal crisis if left unaddressed. An eventual U.S. fiscal consolidation is inevitable – the only question is how much discretion policymakers choose to exercise over the timing and composition of that consolidation. The sooner policymakers embark on this effort, the more gradual and less drastic those changes will need to be. While this "grand bargain" is an elusive policy goal, it remains within this Congress's discretion to pursue it.

Beyond the unlikely outcome of a grand fiscal bargain that accommodates discretionary funding increases, is the second approach mirrored by the Bipartisan Budget Acts of 2013 and 2015. These Acts included a potpourri of small policy changes, including some that observers consider "gimmicks," that at least offset the Acts' discretionary funding increase. While these compromises did not achieve substantial fiscal reforms, at a minimum they hewed to the laudable concept that the discretionary funding should be at least nominally offset. Moreover, while the Acts did not include substantial programmatic reforms, even small policy changes to mandatory programs can accrue substantial savings and yield net deficit reduction

[11] https://www.whitehouse.gov/wp-content/uploads/2018/08/Sequestration_Update_August_2018_House.pdf
[12] https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/bipartisanbudgetactof2018.pdf

over time.[13] The architecture of the Bipartisan Budget Acts of 2013 and 2015 also reflect the budgetary pressure animated by the growth in mandatary spending and debt service.



The composition of federal expenditures has changed dramatically over the last several decades. Whereas discretionary spending comprised over two-thirds of federal expenditures in the 1960s, today that ratio has essentially inverted. Today, Congress has annual discretion over only about one-third of federal expenditures. The Bipartisan Budget Acts of 2013 and 2015 reflected this reality and exchanged savings in faster-growing mandatory programs (among other offsets) for discretionary funding relief.

Last, Congress could choose simply to add the additional funding to the deficit either in whole or in part, as was done with the Bipartisan Budget Act of 2018. While certainly more expeditious, this approach would exacerbate the deteriorating budgetary outlook and impose greater costs on future generations. Simply borrowing the additional spending increases also abandons the need to make the difficult policy tradeoffs that prioritize federal spending decisions. The disciplining mechanism of living within a budget is therefore worthwhile for its own sake.

The Budget Process is Well Suited for Addressing this Challenge

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[13] https://www.americanactionforum.org/insight/not-all-savings-are-created-equal/

Last year’s Congress, including several members of this Committee, should be commended for their efforts to improve the congressional budget process. While the Joint Select Committee on Budget and Appropriations Process Reform did not result in changes to the Congressional Budget Act of 1974 (Budget Act)or other formal budgetary processes, the effort underscored wide belief that the budget process remains a valuable avenue for facilitating compromises if members choose to use it.

Congress will likely pursue some form of relief against the $126 billion decline in discretionary funding for FY2020. In a divided Congress, the House and Senate will no doubt have different views on how that relief should be structured. While often dismissed as partisan messaging exercises, the budget process need not be so frivolous. Indeed, both chambers could provide for discretionary funding relief in their respective budget resolution and include reconciliation instructions that should produce a continuum of possible offsets. The conference process contemplated (though infrequently invoked) in the Budget Act would offer a formal and deliberate mechanism for finding compromise. The process allows each chamber to express its collective will, but ultimately assumes that both sides must bridge that divide to effectuate a change in law. It would be an improvement of recent practice to have that process well underway in April than in the waning days of the fiscal year. Budget season officially began with the release of the CBO January baseline, and this Committee has a unique opportunity to improve over recent practice and leverage the budget process to fund the nation’s economic and security priorities responsibly.

Conclusion

The BCA has proven to be a periodic thorn in the side of Congress and program advocates since its inception. With due respect to this body, that is good thing. The discretionary spending caps have introduced a disciplining mechanism on federal discretionary spending that, irrespective of any budgetary savings, are sound policy practice. That the spending caps, all else being equal, have also produced budgetary savings is so much the better. The sequestration-level spending caps that currently prevail in current law plainly reflect the failure of the Super Committee (and Congress at large) to deliver on the hard part of the BCA. Congress pursued responsible offsets to these further reductions, and in so doing, did not let itself off the “hook” for the Super Committee’s failure. That effect is laudable, and worth retaining in future budget compromises. The formal budget process is an ideal vehicle for pursuing that compromise. I thank the Committee for the invitation to appear today and look forward to your questions.