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A CLOSER LOOK AT CHAIRMAN RYAN'S "SEQUESTRATION" PROPOSAL

By Richard Kogan

On May 7, the House Budget Committee approved a bill designed by Chairman Paul Ryan to alter three aspects of the debt-limit agreement that the President and congressional leaders reached last summer. The bill would produce a total funding level for discretionary programs in fiscal year 2013 that exactly matches the amount in the House-passed budget resolution — and would enable Congress to boost defense funding *above* the existing, agreed-upon funding cap.¹

The bill (H.R. 4966) would: a) turn off the automatic cuts (or “sequestration”) scheduled to occur on January 2, 2013, in defense and non-defense *discretionary* (NDD) programs (while leaving in place the automatic cuts scheduled for various *mandatory*, or entitlement, programs); b) replace the separate caps on defense and NDD funding for fiscal 2013 with a single cap on overall discretionary funding; and c) set that overall discretionary cap at a level that is \$19 billion below the current defense and NDD caps combined and exactly equals the overall discretionary funding level in the House budget resolution.² The Budget Committee also approved a “reconciliation” bill on May 7 that includes over \$300 billion in budget cuts to more than offset the cost of turning off the scheduled 2013 sequestration.

The bill replaces the separate defense and NDD caps for 2013 with a single overall cap, so it does not mandate an exact division of funding between those two types of programs. But the Ryan

¹ For a broader examination of the Ryan proposal and the related “reconciliation” bill that the Committee also approved on May 7, see Robert Greenstein and Richard Kogan, “House Budget Bills Would Target Programs for Lower-Income Families While Breaking Last Summer’s Bipartisan Deal,” Center on Budget and Policy Priorities, revised May 8, 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3767>.

² In previous analyses, we have written that the Ryan budget plan would reduce total discretionary funding by \$30 billion, rather than the \$19 billion discussed in this analysis. We used the \$30 billion figure because the Ryan budget plan would have disallowed certain upward cap “adjustments” that are permitted under the Budget Control Act, such as in the case of national disasters. The Budget Committee’s report on the Ryan budget plan stated, “The budget assumes that any future disaster-relief-designated spending relief will be fully offset within the discretionary levels provided in this resolution.” As David Rogers of *Politico* has reported, however, this aspect of the Ryan budget plan triggered conflict between the Budget and Appropriations Committees, and the Appropriations Committee ultimately prevailed. See David Rogers, “GOP returns to disaster issue,” <http://www.politico.com/news/stories/0312/74504.html>, and “House crushes budget compromise,” <http://www.politico.com/news/stories/0312/74619.html>. H.R. 4966 keeps these upward disaster adjustments in place, and so confirms the success of the Appropriations Committee on this matter. The new Ryan bill is precisely consistent with the House-passed budget resolution as subsequently modified *de facto* to allow these upward adjustments.

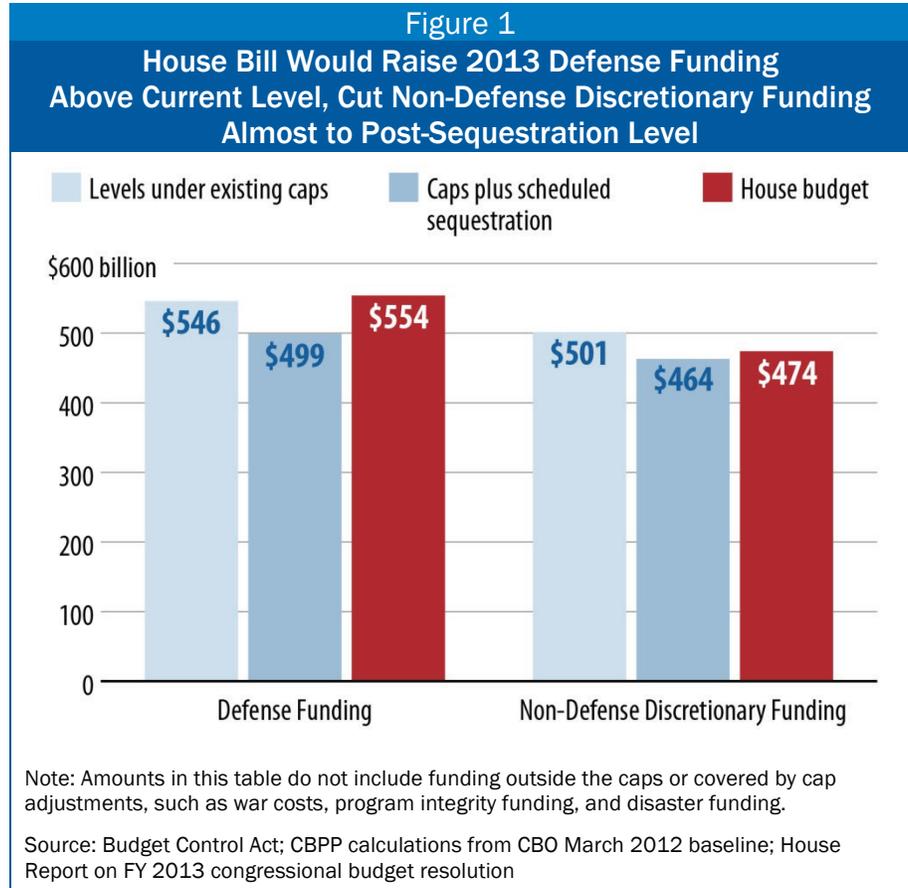
budget plan that the House approved on March 29 — and that Chairman Ryan’s new bill is designed to advance — *does* spell out that division. Taken together, the Ryan budget and H.R. 4966 would cut non-defense discretionary funding for 2013 *nearly as deeply as if sequestration remained in place*, while boosting defense funding *above* the level that the Budget Control Act (BCA) sets as a cap on defense in the *absence* of sequestration.

Specifically, instead of NDD being cut \$37.2 billion below the BCA cap on NDD funding — as would occur under sequestration — it would be cut \$27.3 billion below the cap, or 74 percent as much. Yet defense funding would be set \$8.2 billion *above* the level that the BCA allows in the absence of sequestration. This would abrogate the bipartisan compromise that the BCA represents.

On May 7, the House Budget Committee also approved a “reconciliation bill” that would produce over \$300 billion in mandatory program savings, with a disproportionate emphasis on cutting programs for lower-income families and individuals. Chairman Ryan and the House leadership are promoting the reconciliation bill as offsetting the costs of H.R. 4966’s cancellation of sequestration of discretionary programs, and the House Rules Committee has recommended merging H.R. 4966 and the reconciliation bill for House consideration.

Ryan Bill Would Alter Key Features of Budget Control Act

Last summer’s BCA established caps on discretionary funding (e.g., for defense, education, natural resources, general government, assisted housing, biomedical research, veterans’ health, and so on). Separate caps apply to defense funding and NDD funding. The caps first became effective for fiscal year 2012, and Congress adhered to them. They remain in effect through 2021. Relative to the discretionary funding levels for 2010, as adjusted for inflation, the BCA caps reduce funding by more than \$1 trillion over ten years.



The BCA also established a “supercommittee” to negotiate at least \$1.2 trillion in deficit-reduction policies, such as specific revenue increases and reductions in entitlement programs. It included a backup “sequestration” of \$984 billion in funding over nine years if the supercommittee failed; those automatic funding cuts, combined with the associated savings on interest payments, were estimated to produce the required \$1.2 trillion in deficit reduction. Though the threat of sequestration was supposed to spur compromise, the supercommittee failed, and the \$984 billion sequestration is therefore required by law.

The BCA prescribes nine annual installments of \$109 billion in automatic spending cuts. The first is scheduled to occur on January 2, 2013, and will cut defense funding, NDD funding, and Medicare and certain other mandatory programs.³

What Would the Ryan Bill Do?

H.R. 4966 would cancel the defense and NDD sequestrations scheduled for 2013, while leaving in place the sequestrations in Medicare and certain other mandatory programs.⁴ It would not affect the sequestrations scheduled for 2014 through 2021.

In addition, the Ryan bill would merge the caps on defense and NDD funding for 2013 into a *single* cap covering all discretionary funding. In common parlance, it would “tear down the firewall” between defense and NDD funding. The bill would also reduce the merged 2013 funding cap by \$19 billion.

Because the Ryan bill merges the two caps, the actual allocation of funding between defense and NDD programs in 2013 would be up to the Appropriations Committee and Congress. But the clear intention of the House Republican leadership is to write appropriations bills that conform to the defense and NDD levels in the House budget, and the new Ryan bill would remove all statutory obstacles to doing that.

As Table 1 shows, the Ryan approach would raise defense funding \$8 billion above the existing defense cap and \$56 billion above the scheduled post-sequestration level for defense.⁵ At the same time, it would lower NDD funding \$27 billion below the existing NDD cap, which is \$10 billion

³ For a detailed description of how sequestration will work, see Richard Kogan, “How the Across-The-Board Cuts in the Budget Control Act Will Work,” Center on Budget and Policy Priorities, revised April 27, 2012, <http://www.cbpp.org/files/12-2-11bud2.pdf>.

⁴ Since a budget resolution is not a law, separate legislation is needed to alter the caps that the BCA set for 2013 and to cancel the sequestration of discretionary programs scheduled for 2013. That is what H.R. 4966 does. The sequestration also makes automatic cuts to three tiny mandatory funding streams in the defense budget function; the Ryan bill would cancel those cuts in 2013. Note also that the mere enactment of alternative savings does not by itself reduce or cancel that scheduled sequestration, because it was designed to be a guaranteed penalty if the supercommittee failed.

⁵ In this analysis, we compare the level of funding allowed under the discretionary caps with the level of funding that will be available after the scheduled sequestration occurs. To make this a valid apples-to-apples comparison, we exclude war funding, which is *not* subject to the caps but is subject to sequestration. That is, we compare the level of funding that is subject to the caps with the level of *that* funding – funding *other than* for the war – after the scheduled sequestration. (Note that while most war funding occurs in the defense category, a small amount occurs in international affairs, which is part of the non-defense category.)

Table 1			
Discretionary Funding for 2013			
In billions of dollars			
	Defense	NDD	TOTAL
Current law: caps and sequestration	499	464	962
Existing caps but no sequestration	546	501	1,047
House-approved budget	554	474	1,028
H.R.4966 in combination with the House budget, relative to current law (including sequestration)	+56	+10	+66
H.R. 4966 in combination with the House budget, relative to existing caps (not including sequestration)	+8	-27	-19
Obama budget	551	496	1,047

Note: Amounts in this table do not include funding outside the caps or covered by cap adjustments, such as war costs, program integrity funding, and disaster funding. Since war funding is outside the caps, Congress can offset the scheduled sequestration of war funding by higher appropriations.

Source: CBPP calculations from CBO March 2012 baseline; House Report on FY 2013 congressional budget resolution; CBO estimate of President's 2013 Budget

above the scheduled post-sequestration level. Taken together, discretionary funding would be \$19 billion below the existing caps, but \$66 billion above the scheduled post-sequestration levels.

Like Chairman Ryan, President Obama proposes canceling the sequestration. He would cancel it in all years, not just 2013, and would cancel the mandatory portion of the sequestration as well as the discretionary portion. His budget proposes significant revenue increases and entitlement cuts, relative to current policy, which would more than offset the cost of canceling the sequestration. In addition, the President proposes altering the existing defense and NDD caps by reconfiguring them as “security” and “non-security” caps, which would subdivide the existing total in a somewhat different way. Unlike Chairman Ryan, the President does not propose reducing the total amount of discretionary funding below the existing caps.⁶

Finally, the Ryan bill is drafted to be contingent upon enactment of the “reconciliation” bill that the House Budget Committee approved on May 7. (A reconciliation bill is one that, in response to specific directives contained in a congressional budget resolution such as the Ryan budget plan, changes tax or entitlement law.) The House Rules Committee has recommended merging H.R. 4966 and the reconciliation bill into a single bill for the House to consider. The political point of linking H.R. 4966 to the reconciliation bill is the notion that the savings in the reconciliation bill constitute the justification for turning off the 2013 sequestration, by offsetting the costs of doing so. As we have written elsewhere, this linkage is essentially political and sets up an unnecessary choice between defense sequestration and cuts in domestic entitlement programs, especially programs that target assistance on low- and moderate-income families.⁷

⁶ The President does propose to reclassify \$4.2 billion of discretionary transportation funding as mandatory, placing it within a proposed, mandatory successor to the Highway Trust Fund. This action, if approved by Congress, would decrease the applicable discretionary cap by \$4.2 billion; that action would be a reclassification, not a program cut. The Ryan budget, in contrast, requires \$19 billion in *program cuts* in order to live within its reduced discretionary cap. Since the President's proposed reclassification is not a program cut, we do not reflect it in Table 1.

⁷ See Richard Kogan and Robert Greenstein, “The False Choice of National Defense Versus Helping the Poor,” Center on Budget and Policy Priorities, April 20, 2012, <http://www.cbpp.org/files/4-20-12bud.pdf>.