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## Senate Appropriations Allocations for 2014 Reflect Better Approach Than House Plan

By Joel Friedman, Sharon Parrott, and Krista Ruffini

The Senate Appropriations Committee agreed on June 20 (by a party-line vote) to fund defense and non-defense discretionary programs in 2014 at the levels set in the Budget Control Act (BCA) before sequestration — for a total of \$1,058 billion, or \$91 billion more than would be available after sequestration in 2014. This is consistent with the Senate-passed budget resolution and the President’s budget, both of which proposed to replace sequestration in each year through 2021 with a balanced deficit-reduction package that includes both other spending reductions and higher revenues.

The House Appropriations Committee has also proposed an alternative to sequestration as laid out in the BCA. While the overall level of funding in the House plan is consistent with sequestration’s austere *total* funding level for appropriated programs, the plan does *not* adhere to the separate caps prescribed by the BCA for defense and non-defense programs after sequestration. Instead, the House appropriations plan shifts substantial funds from non-defense to defense: defense would be about \$47 billion above, and non-defense programs about \$47 billion below, their respective caps after sequestration.<sup>1</sup>

These two starkly different approaches reflect very different priorities, particularly for non-defense programs. Since 2010, when Congress began efforts to reduce the deficit, policymakers have cut non-defense programs substantially — first as part of the 2011 appropriations process, then through the BCA, and then again through sequestration. The House plan would add a new round of steep non-defense cuts.

In contrast, the Senate approach would roll back sequestration. This would still leave non-defense funding in 2014 roughly 12 percent below the 2010 level, adjusted for inflation (see Figure 1), since

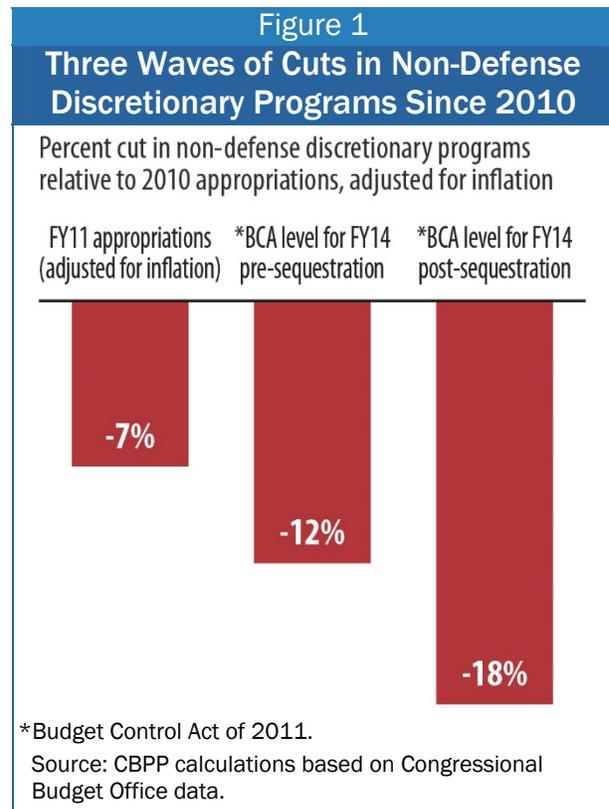
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<sup>1</sup> Both House and Senate appropriations plans would violate the current BCA caps (which include the effects of sequestration). The BCA does not set an overall discretionary funding level, but rather enforces the defense and non-defense caps separately. While the House plan is consistent with the overall BCA level for 2014 including sequestration, its defense allocation substantially exceeds the defense cap, and thus if enacted would trigger across-the-board cuts in defense to lower funding back to the cap level. The Senate plan exceeds both the defense and non-defense caps and would trigger cuts in both areas. Both plans would require further changes in the law to avoid these automatic cuts, which are designed to enforce the post-sequestration BCA cap levels.

the BCA caps constrain discretionary funding even without sequestration. Under these caps, by 2017 spending on non-defense programs will reach its lowest level as a share of the economy on record, with data available back to 1962.

As we have explained, the House plan demonstrates that if overall discretionary funding stays at the post-sequestration levels, any action to protect one program area — such as defense — will require more severe cuts in other areas.<sup>2</sup> The fundamental problem is the low funding level required under sequestration. The Senate approach of funding discretionary programs at the BCA levels *before* sequestration and replacing sequestration with equivalent savings from elsewhere in the budget is far preferable.

Replacing sequestration would also be better for the economy, which continues to struggle to produce enough jobs. Federal Reserve Chairman Ben Bernanke took note in his recent press conference of “the strong headwinds created by current fiscal policies.” Similarly, in its recent review of the U.S. economy, the International Monetary Fund (IMF) noted that sequestration has taken a “heavy toll on growth in the short term” and recommended “repealing the sequester and adopting a more balanced and gradual pace of fiscal consolidation in the short term.” (See box.)



## Senate Appropriations Plan Excludes Damaging Cuts Under Sequestration

The Senate Appropriations Committee last week approved funding allocations for each of its 12 subcommittees. These allocations — known as 302(b) allocations after a subsection of budget law — are consistent with the discretionary funding levels for 2014 under the BCA *before* sequestration. The total provided for 2014 appropriations is \$1,058 billion.

The BCA established separate caps for defense and non-defense funding. The Senate plan adheres to those levels (before sequestration), providing \$552 billion for defense and \$506 billion for non-defense programs. While the defense appropriations bill contains the bulk of the funds in the defense category, other appropriations bills, such as the Military Construction-Veterans Affairs, Energy and Water Development, and Commerce-Justice-Science bills, also provide some defense funds.

<sup>2</sup> Joel Friedman, Sharon Parrot, and Richard Kogan, “Too Little to Go Around: House Appropriation Plan to Increase Defense and Homeland Security Requires Even Deeper Cuts in Other Programs,” Center on Budget and Policy Priorities, June 5, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3969>.

Table 1					
Discretionary Funding Levels, by Appropriations Subcommittee: 2013 Levels and 2014 Senate Appropriations Committee Allocations					
	(\$ in billions)			(Percent difference)	
	2013 before sequestration	2013 after sequestration	2014 Senate allocations	2014 Senate vs. 2013 before sequestration	2014 Senate vs. 2013 after sequestration
Agriculture	20.7	19.5	20.9	1.2%	7.1%
Commerce, Justice, Science	50.1	47.0	52.3	4.3%	11.1%
Defense	517.5	486.3	516.6	-0.2%	6.2%
Energy and Water Development	36.2	33.8	34.8	-4.1%	2.9%
Financial Services and General Government	23.0	21.6	23.0	0.3%	6.5%
Homeland Security	39.8	38.0	39.1	-1.9%	2.9%
Interior, Environment	29.8	28.2	30.1	1.1%	6.6%
Labor, Health and Human Services, Education	156.5	149.6	164.3	5.0%	9.8%
Legislative Branch	4.3	4.1	4.4	1.7%	7.0%
Military Construction, Veterans Affairs	71.8	70.8	74.4	3.5%	5.0%
State, Foreign Operations	41.6	39.8	44.1	6.1%	10.7%
Transportation, HUD*	<u>46.6</u>	<u>43.4</u>	<u>54.0</u>	<u>16.1%</u>	<u>24.5%</u>
<b>Total</b>	<b>1,037.8</b>	<b>982.4</b>	<b>1,058.0</b>	<b>1.9%</b>	<b>7.7%</b>
*Transportation, HUD, excluding housing loan guarantee programs	62.7	59.5	66.5	6.0%	11.6%

Note: 2013 figures include CBO re-estimates of enacted appropriations. (See the Appendix of <http://www.cbpp.org/cms/index.cfm?fa=view&id=3969> for details.)

Source: Congressional Budget Office, Senate Appropriations Committee

As Table 1 shows, total discretionary funding under the Senate plan would be about 8 percent higher than the 2013 level after the sequestration cuts are taken into account. (The increase would be somewhat lower if the figures were adjusted for inflation.) Relative to the 2013 level *before* sequestration, the increase is less than 2 percent, or less than the current rate of inflation. Thus, in inflation-adjusted terms, the Senate funding levels reflect a slight *decline* from the funding levels approved by Congress for 2013 before sequestration was applied.

Relative to the 2013 levels including sequestration, the Senate would provide all 12 appropriations bills with an increase in funding. The increases (without adjusting for inflation) would range from about 3 percent for the Energy and Water Development and Homeland Security bills to about 11-12 percent for the Transportation-HUD, Commerce-Justice-Science, and State-Foreign Operations bills.<sup>3</sup>

<sup>3</sup> The figure in Table 1 showing that funding for the Transportation-HUD bill in the Senate appropriations plan is 24.5 percent above the 2013 level after sequestration is misleading because of substantial changes from 2013 to 2014 in the estimated receipts from the housing loan guarantee programs run by the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA). FHA and GNMA receipts, which serve as budgetary offsets

Table 2

### Discretionary Funding Levels, by Appropriations Subcommittee: 2014 Senate and House Appropriations Committee Allocations

(\$ in billions)				
	2014 Senate allocations	2014 House allocations	House vs. Senate	
			(dollars)	(percent)
Agriculture	20.9	19.5	-1.5	-7.1%
Commerce, Justice, Science	52.3	46.8	-5.4	-10.4%
Defense	516.6	512.5	-4.1	-0.8%
Energy and Water Development	34.8	30.4	-4.3	-12.5%
Financial Services and General Government	23.0	17.0	-6.1	-26.3%
Homeland Security	39.1	39.0	-0.1	-0.3%
Interior, Environment	30.1	24.3	-5.8	-19.3%
Labor, Health and Human Services, Education	164.3	121.8	-42.5	-25.9%
Legislative Branch	4.4	4.1	-0.2	-5.2%
Military Construction, Veterans Affairs	74.4	73.3	-1.0	-1.4%
State, Foreign Operations	44.1	34.1	-10.0	-22.6%
Transportation, HUD	<u>54.0</u>	<u>44.1</u>	<u>-9.9</u>	<u>-18.4%</u>
<b>Total</b>	<b>1,058.0</b>	<b>966.9</b>	<b>-91.1</b>	<b>-8.6%</b>

Source: Senate Appropriations Committee, House Appropriations Committee

Even with these increases, the overall funding level for discretionary programs would remain tight. It would be substantially below its level in fiscal year 2010, the last year before Fiscal Commission co-chairs Alan Simpson and Erskine Bowles released their report and Congress began cutting discretionary funding. Since then, Congress has cut discretionary funding by \$1.6 trillion over the 2014-2023 period even *without* counting any sequestration savings.

Overall discretionary funding under the Senate plan would be 10 percent below the 2010 level, adjusted for inflation, reflecting reductions of 12 percent in non-defense programs and 8 percent in defense funding.

### The Fundamental Problem: Post-Sequestration Funding Level Is Inadequate

The House Appropriations Committee plan for 2014 funds discretionary programs at \$967 billion (the overall post-sequestration level set in the BCA), or \$91 billion less than the Senate Appropriations Committee plan (see Table 2).

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that reduce the net funding level in the bill, are projected to be \$3.7 billion *lower* in 2014 than in 2013, thereby distorting the comparison between the two years. When these receipts are removed from the bill totals in order to provide an apples-to-apples comparison and convey a more accurate picture of how the remaining HUD and Transportation programs would fare (as shown in the note on Table 1), the funding for the rest of HUD and the Department of Transportation would increase by 11.6 percent between the 2013 post-sequestration level and the 2014 level in the Senate plan, and by 6.0 percent relative to the 2013 pre-sequestration level.

## International Monetary Fund Calls for Replacing Sequestration

The International Monetary Fund's (IMF) most recent analysis of the U.S. economy highlights the adverse economic effects of sequestration.<sup>a</sup> The IMF expects the growth rate to slow this year due to "excessively rapid and ill-designed" deficit reduction, particularly cuts stemming from sequestration. These actions not only exert a "heavy toll on growth in the short term" but also hamper future growth by reducing education, science, and infrastructure funding, the report explains.

The IMF recommends replacing sequestration with a deficit-reduction plan that focuses on later years, when the economy has recovered, and includes both new revenues and entitlement savings — a package the IMF notes could be similar to the President's budget proposal.

"[P]olicymakers' main challenge is to support the recovery while addressing the vulnerabilities that threaten growth, public finances, and financial stability in the medium term," the IMF concludes. In terms of fiscal policy, it recommends: "repealing the sequester and adopting a more balanced and gradual pace of fiscal consolidation in the short term; expeditiously raising the debt ceiling to avoid a severe shock to the U.S. and the global economy; and implementing a comprehensive and back-loaded set of measures to restore long-run fiscal sustainability."

It is also worth noting the IMF has recently reviewed its earlier prescriptions for fiscal austerity in Greece and other Eurozone countries. The IMF now acknowledges that it and other international organizations underestimated the negative effects of immediate austerity on short-term growth during the recession. In light of this finding, the IMF now advises short-term job creation strategies coupled with medium-term fiscal adjustments that include both additional revenues and spending cuts.<sup>b</sup>

<sup>a</sup> International Monetary Fund, "Concluding Statement of the 2013 Article IV Mission to The United States of America," June 14, 2013.

<sup>b</sup> Olivier Blanchard and Daniel Leigh, "Growth Forecast Errors and Fiscal Multipliers," IMF Research Department, January 2013; "Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement," International Monetary Fund, June 2013, <http://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf>.

The House allocations are lower than the corresponding Senate allocations for all 12 subcommittees — even the defense and related security subcommittees. Under the House plan, defense and related bills receive increases relative to the 2013 post-sequestration levels, but still receive less funding than under the Senate plan. Other areas, such as the departments of Labor, Health and Human Services, and Education, receive substantial cuts under the House plan.

The House Appropriations Committee plan highlights the fundamental problem of the funding levels that result after sequestration: they are simply too low. In an attempt to protect defense and related programs yet keep total discretionary funding at the post-sequestration level, the House plan cuts other domestic programs even more deeply than sequestration does.

Under the House proposal, the appropriations bills outside Defense, Military Construction-Veterans Affairs, and Homeland Security would be 12 percent below the already austere post-sequestration levels for 2013 (and 20 percent below the Senate's proposed funding levels for 2014). The sequestration cuts in these programs are already disrupting various public services and delaying key public investments, affecting programs ranging from medical research and Head Start to weather

forecasting, Meals on Wheels, and rental assistance for poor families, seniors, and people with disabilities. In its recent review of the U.S. economy, the IMF specifically pointed out that U.S. budget cuts in education, infrastructure, and science funding can weaken future economic growth.

But if policymakers took the opposite approach and sought to protect *non*-defense programs within the overall post-sequestration level of \$967 billion, they would have to cut programs in the national defense category substantially below the 2014 post-sequestration level. This approach is not workable either.

Indeed, it is important to remember that policymakers never intended sequestration to go into effect — it was a “stick” designed to force the “supercommittee” and Congress to agree on a deficit-reduction plan in 2011. Policymakers designed the BCA sequestration to require equal cuts in defense and non-defense programs (including the entitlement programs that are subject to sequestration, such as Medicare) in order to place pressure on both parties to reach a bipartisan deficit-reduction compromise.

The pressure on Republicans was to come in large part from sequestration’s defense cuts. By largely undoing the defense sequestration cuts, the House plan tries to relieve pressure on Republican members to seek a compromise to replace sequestration with a deficit-reduction package that secures savings elsewhere in the budget, raises revenues, and provides more funding in 2014 and future years for discretionary programs than can be provided under sequestration. Yet the approach appears to be raising concerns even among some House Republican, who recognize that the resulting cuts to *non*-defense programs in the House plan would be draconian.<sup>4</sup>

When the Senate Appropriations Committee considered its 2014 allocations, Republicans on the committee expressed support for the lower, post-sequestration level in the aggregate. Yet they did not offer alternative subcommittee allocations.<sup>5</sup> That appears to be a tacit acknowledgement of the difficulty of dividing funds across competing priorities while staying within the low post-sequestration level — and of the reality that protecting one area would require unrealistic and damaging cuts to other areas.

The Senate-passed budget resolution and the President’s budget represent a far better approach: replace sequestration with a balanced deficit-reduction package that includes both new revenues and spending reductions, with the replacement savings phased in more gradually over time to avoid slowing the recovery. The Senate Appropriations Committee allocations, which fund defense and non-defense discretionary programs in 2014 at the BCA levels excluding sequestration, are consistent with this approach.

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<sup>4</sup> In particular, Rep. Harold Rogers (R-KY), chairman of the House Appropriations Committee, said last month that sequestration should be replaced, noting, “It needs to be done in the very near term so that these types of devastating cuts do not carry forward into the next fiscal year.” See Kerry Young, “Appropriations Chair Rogers Wants Sequester Deal ‘ASAP,’” CQ Roll Call, May 21, 2013.

<sup>5</sup> See the statement by Senator Richard Shelby (R-AL), vice chairman of the Senate Appropriations Committee: <http://www.shelby.senate.gov/public/index.cfm/2013/6/shelby-statement-on-appropriations-markups>.