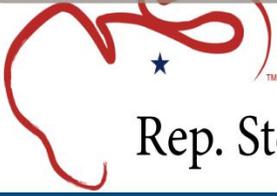


THE REPUBLICAN STUDY COMMITTEE



THE BUDGET & SPENDING TASK FORCE

Rep. Steve Scalise, Chairman

202.226.9717
rsc.scalise.house.gov

The Budget and Spending Task Force **Rep. Rob Woodall, Task Force Chairman**

Sequester Breakdown – Congressional Budget Office (CBO) Budget and Economic Outlook – February 2013

- The “sequester” refers to automatic spending cuts set to occur March 1 as part of the August 2011 Budget Control Act (BCA) and extended by H.R. 8, the American Taxpayer Relief Act.
- CBO estimates that the sequester will cut approximately \$85 billion in 2013, \$71 billion in total discretionary:
 - Defense Cuts - \$42.7 billion (7.9%), largely from discretionary defense (on top of previous cuts from the BCA)
 - Nondefense Cuts – \$42.7 billion (4.6% of total nondefense spending)
 - Discretionary - \$28.7 billion (5.4% of nondefense discretionary)
 - Mandatory Medicare - \$9.9 billion (2.0% of mandatory Medicare)
 - Other Nondefense - \$4.0 billion (5.8%)
- The CBO Baseline assumes the sequester is implemented; reducing annual deficit in FY2013 to \$845 billion.

Senators Ayotte, Inhofe, Graham, & McCain Substitute – “Down Payment to Protect National Security Act”

- Would replace the first year of the sequester with a 10% reduction in the federal workforce.
- Workforce reduction would occur with hiring only one federal worker for every three that leave.
- Pay freeze for members of Congress.
- House version to be introduced by Reps. McKeon, Thornberry, & Turner.

Debt Held by the Public vs. Gross Debt

- For messaging purposes, the Gross Debt figure is superior because it captures ALL debt that the federal government owes, both to private creditors AND to the trust funds. This figure does not include the additional tens of trillions of dollars of unfunded liabilities that the federal government will face in the coming decades.
- Economists have an ongoing debate about which measure is most economically relevant (i.e. which number to watch as a debt crisis trigger).
- Debt Held by the Public is marketable debt held by individuals, corporations, foreign governments, and other entities outside the federal government.

- According to CBO's February 2013 Budget and Economic Outlook, Debt Held by the Public stands at 76.3 percent of GDP this year (2013).
- Gross Debt comprises Debt Held by the Public *in addition to* all Treasury securities held by federal trust funds (ex. Social Security Trust Fund) and in other government accounts.
 - According to CBO's February 2013 Budget and Economic Outlook, Gross Debt stands at 106.4 percent of GDP this year (2013).

Interested in joining the Budget and Spending Task Force?

- The Budget and Spending Task Force prepares the annual RSC Budget, evaluates areas to offset federal spending, and educates members on budgetary policy. If you have a passion for reducing federal spending and would like to contribute to the task force, please ask your staff to contact either Nick Myers in Representative Woodall's office at nick.myers@mail.house.gov x: 5-4272 or Will Dunham with the RSC at will.dunham@mail.house.gov x: 6-0718.

THE WALL STREET JOURNAL.

WSJ.com

The Unscary Sequester

Washington is in a fit of collective terror over the "sequester," aka the impending across-the-board spending cuts. Trying to explain the zero economic growth at the end of 2012, White House spokesman [Jay Carney](#) blamed Republicans for "talk about letting the sequester kick in as though that were an acceptable thing." He left out that President Obama proposed the sequester in 2011.

Joe Rago and Mary Kissel discuss President Obama's call for the rolling back of the budget sequester plans. Plus, the tax reform movement in Republican states. Also, the continued income inequality in China.

Then on Tuesday Mr. Obama warned about "the threat of massive automatic cuts that have already started to affect business decisions." He proposed tax increases and "smaller" spending cuts to replace the sequester until Congress and he can agree to another not-so-grand-bargain. It's nice to see Mr. Obama worry about "business decisions" for a change, but listening to his cries of "massive" cuts is like watching "Scary Movie" for the 10th time. You know it's a joke.

The sequester that nobody seems to love would cut an estimated \$85 billion from the budget this fiscal year starting in March. Half of the savings would come from defense and half from domestic discretionary programs. Medicare providers would take a 2% cut. This "doomsday mechanism," as some in the Administration call it, was the fallback when the White House and Republicans couldn't agree during the 2011 debt-ceiling negotiations.

The White House strategy was to create a fiscal hatchet that would disproportionately carve up the defense budget to force the GOP to raise taxes. The Pentagon absorbs half the sequester cuts though it is only about 19% of the budget. This hasn't worked.

Republicans have rightly concluded after two years of being sucker-punched that the sequester is the main negotiating leverage they have and may be the only way to restrain spending. So now Democrats

and a gaggle of interest groups are denouncing Mr. Obama's fiscal brainchild because the programs they cherish—from job training to education, to the EPA and energy subsidies, to money for Planned Parenthood—are about to get chopped too.

Fear not. As always in Washington when there is talk of cutting spending, most of the hysteria is baseless. The nearby table from the House Budget Committee shows that programs are hardly starved for money. In Mr. Obama's first two years, while private businesses and households were spending less and deleveraging, federal domestic discretionary spending soared by 84% with some agencies doubling and tripling their budgets.

Spending growth has slowed since Republicans took the House in 2011. Still, from 2008-2013 federal discretionary spending has climbed to \$1.062 trillion from \$933 billion—an increase of 13.9%. Domestic programs grew by 16.6%, much faster than the 11.6% for national security.

Transportation funding alone climbed to \$69.5 billion in 2010 with the stimulus from \$10.7 billion in 2008, and in 2013 the budget is still \$17.9 billion, or about 67% higher. Education spending more than doubled in Mr. Obama's first two years and is up 18.6% to \$68.1 billion from 2008-2013.

But wait—this doesn't include the recent Hurricane Sandy relief bill. Less than half of that \$59 billion is going to storm victims while the rest is a spending end-run around the normal appropriations process. Add that money to the tab, and total discretionary domestic spending is up closer to 30% from 2008-2013. The sequester would claw that back by all of about 5%.

More troublesome are the cuts in defense, but for security not economic reasons. The sequester cuts the Pentagon budget by 7%. This fits Mr. Obama's evident plan to raid the military to pay for social programs like ObamaCare.

But at least high priorities such as troop deployments are exempt from the cuts. And there is waste in the Pentagon: Start with the billions spent on "green energy" programs at DOD, bases that are no longer needed, and runaway health-care costs. Mr. Obama could work with Congress to pass those reforms so as not to cut weapons and muscle, but he has refused.

The most disingenuous White House claim is that the sequester will hurt the economy. Reality check: The cuts amount to about 0.5% of GDP. The theory that any and all government spending is "stimulus" has been put to the test over the last five years, and the result has been the weakest recovery in 75 years and trillion-dollar annual deficits.

The sequester will help the economy by leaving more capital for private investment. From 1992-2000 Democrat Bill Clinton and (after 1994) a Republican Congress oversaw budgets that cut federal outlays to 18.2% from 22.1% of GDP. These were years of rapid growth in production and incomes.

The sequester will surely require worker furloughs and cutbacks in certain nonpriority services. But most of those layoffs will happen in the Washington, D.C. area, the recession-free region that has boomed during the Obama era.

The bad news for Congressional Democrats and their spending interests is that the noose only tightens after this year. Mr. Obama's sequester mandates roughly \$1.2 trillion of discretionary cuts over the next decade. But if Democrats really want to avoid a sequester, they should stop insisting on higher taxes and

start getting serious about modernizing the entitlements like Medicare and Medicaid that comprise the other 60% of government. If they won't, then sequester away.

BSTF Contact: Nick Myers, nick.myers@mail.house.gov, 5-4272 (Rep. Woodall)
Will Dunham, will.dunham@mail.house.gov, 6-0718 (RSC)