

TAX & BUDGET

FACT SHEET

The Fall 2013 Fiscal Fights: A Political Drama with Real Consequences for Women and Families

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When Congress addressed most of the tax issues involved in the “fiscal cliff” debates of late 2012 with the enactment of the American Taxpayer Relief Act (ATRA) in January 2013, it left many important budget issues unresolved – and more cliffhanger budget battles to come.¹ Most of these issues remain unresolved today, and now the deadlines are looming.

On October 1, 2013, the new federal fiscal year begins – but Congress has not yet agreed on any appropriations bills to fund the federal government. Another round of budget cuts from sequestration begins in fiscal year (FY) 2014, even deeper than the painful cuts in FY 2013. And in mid-October, unless the debt ceiling is raised, the nation will default on paying its bills.

As of early September 2013, negotiations are stalemated. Democratic congressional leaders and the Obama Administration have called for replacing sequestration with a mix of revenues and other spending cuts; Republican congressional leaders refuse to consider new revenues. The House and Senate budgets call for very different spending levels for FY 2014, and some Republicans insist that they will reject any bill to keep the government from shutting down unless it defunds the Affordable Care Act (“Obamacare”). House Speaker John Boehner (R-OH) insists that any increase in the debt limit must be accompanied by larger spending cuts, while President Obama refuses to negotiate over raising the debt limit, saying Congress must pay the bills it has incurred.²

The stakes are high: a government shutdown if Congress cannot pass an FY 2014 spending bill, an

economically catastrophic default by the United States if the debt ceiling is not raised, and deeper and more widespread pain if sequestration is not ended. Short-term actions to get through the next few weeks are possible – postponing deadlines and extending a politically created, unnecessary fiscal crisis. Predicting how and when Congress might address these issues is difficult, and adding the debate over Syria to the congressional agenda has further complicated the picture. However, we do know that the upcoming budget debates will focus on the following issues:

- **The sequester.** Since March 2013, automatic cuts established by the 2011 Budget Control Act (known as “sequestration” or “the sequester”) have cut billions of dollars from discretionary programs that women and their families depend on, including child care, Head Start, housing assistance, and women’s health services.³ In addition to reducing services, these deep cuts have caused job losses, undermining the economic recovery. The Congressional Budget Office estimates that canceling sequestration would boost economic growth and generate approximately 900,000 new jobs by the third quarter of calendar year 2014.⁴

The sequester is scheduled to be in effect through FY 2021. Congress can act to undo sequestration at any time, but a majority of Members have yet to agree on how to do so. President Obama’s budget and the budget passed by the Senate for FY 2014 call for a balanced package of revenue increases and spending cuts to replace the sequester; the House-passed budget plan would end the sequester only for

defense programs, while making even deeper cuts to programs that support low-income Americans and giving trillions in tax cuts to millionaires and corporations.⁵ The appropriations bills proposed to implement each chamber's budgets reflect these very different approaches – and the sequester is most likely to be addressed, if at all, in the context of the debates around FY 2014 funding levels and the debt ceiling.

- **FY 2014 appropriations.** By midnight on September 30, Congress and the President must agree on appropriations for FY 2014 so the government can continue to function when the new fiscal year begins on October 1, 2013. Appropriations committees in the House and Senate began work on FY 2014 funding bills in May. In keeping with the divergent FY 2014 budget resolutions passed by each chamber, however, the House committee has proposed cutting funding for non-defense discretionary programs even more deeply than they have been cut this year, while the Senate committee's plans would increase total funding for discretionary programs relative to FY 2013 levels.⁶

Specifically, the Senate Appropriations Committee has agreed to fund programs at the *pre-sequestration* levels set by the 2011 Budget Control Act (BCA), and presumes that the sequester will be ended through an alternative deficit reduction measure that includes increased revenues as well as other spending reductions. This approach would increase total discretionary funding in FY 2014 by about 8 percent above post-sequestration levels for FY 2013,⁷ but would still meet the reduced discretionary spending caps in the BCA. Even without sequestration, compliance with the BCA caps requires a very tight discretionary budget; funding for non-defense programs in the FY 2014 Senate appropriations bills is about 12 percent below FY 2010 levels (adjusted for inflation), and by 2017, the BCA caps would bring non-defense discretionary spending to its lowest level as a share of the economy in over 50 years.⁸

Cuts proposed by the House Appropriations Committee, however, are far more extreme. The House committee plans to keep total FY 2014 discretionary funding at the considerably lower *post-sequestration* levels established by the BCA, while avoiding any reductions to defense programs. As a result, the House appropriations bills would cut

non-defense programs even more deeply than sequestration does.⁹

The differences between the House and Senate approaches are stark and unlikely to be resolved by the September 30 deadline. A more likely outcome is a continuing resolution (CR), which would permit government agencies to continue operating for a specified period of time (most likely at current funding levels), avoiding a government shutdown. The House is expected to vote on a short-term CR by mid-September,¹⁰ which would maintain sequestration cuts.¹¹ A resolution to de-fund Obamacare could be attached in the House (and removed in the Senate), but it is unclear if conservatives will be satisfied with that approach.¹² If Congress passes a CR that funds the government for two or three months, debate around appropriations for the remainder of FY 2014, as well as the fate of the sequester, may well be rolled into a broader debate around the debt ceiling.

- **The debt ceiling.** The "debt ceiling" refers to the statutory limit set by Congress on the amount of total debt the federal government can assume. Historically, Congress has raised the debt ceiling when necessary, to avoid jeopardizing the full faith and credit of the United States. In 2011, however, Speaker Boehner refused to support an increase in the debt ceiling unless programs were cut by an equal amount – a demand that brought the nation to the brink of default, caused a downgrade in the nation's credit rating and an increase in the nation's borrowing costs, and led to more than \$2 trillion in program cuts in the Budget Control Act.

According to Treasury Secretary Jack Lew, the U.S. will be unable to pay its obligations after mid-October.¹³ By this point, if Congress does not raise the debt ceiling to authorize the government to borrow additional funds, it will trigger a government shutdown and default on existing loans – a disastrous outcome that could send the economy into another recession.

President Obama has indicated that he will not negotiate over the debt ceiling. Speaker Boehner, however, has made clear that House Republicans will attempt to leverage the debt ceiling to extract further spending cuts, demanding "cuts and reforms that are greater than the increase in the debt limit."¹⁴

With Congress so divided on these issues, it is hard to predict with any precision what will happen this fall. It appears likely, however, that sequestration, FY 2014 appropriations levels, and the debt ceiling will be debated largely simultaneously – and it is also likely that this debate will be characterized, in Congress and in the media, as a “budget crisis.”

It is essential to remember, however, that any such “crisis” is a politically manufactured one. The period from 2010 to 2013 has seen the largest three-year reduction in federal spending since the demobilization at the end of the Korean War, and projected deficits over the next 10 years have declined to manageable levels.¹⁵ Today, even if the sequester were repealed altogether through 2021 – without any offsetting spending cuts or revenue increases – projected budget deficits from 2013 through 2021 would be lower than what they were expected to be when the sequester was enacted in August 2011.¹⁶

The real crisis we face today remains the economy. Job growth has been sluggish since the recession ended in 2009; the Hamilton Project estimates that that if we gained jobs at a rate of 169,000 per month (the job growth in August), it would take nearly a decade for employment to return to pre-recession levels.¹⁷ Battling

over budget cuts is distracting at best and counterproductive at worst, since enacting more cuts will further harm the economy and the millions of families who are still struggling – and breaching the debt limit would almost certainly halt the recovery altogether.

We know that a budget debate will take place this fall, but the focus of this debate can – and should – shift toward measures that will make the federal budget work for the women, men, and children who have been left behind in the recovery. A budget that works for women and their families would end sequestration and protect programs that lower-income Americans depend on to make ends meet. It would make the investments we need to grow the economy and ensure that women and men who want to work can find good jobs. And it would look to new revenues – not new spending cuts – to fund those investments and maintain a sustainable fiscal path, since revenue increases account for only about 25 percent of the deficit reduction that Congress has enacted since FY 2011.¹⁸ Requiring the wealthiest Americans and corporations to pay their fair share of taxes is the key to a budget that promotes economic recovery and expands opportunity for all Americans.¹⁹

- 1 For a more detailed overview of the budget debates in late 2012 through mid-2013, see NWLC, A Roadmap to the 2013 Federal Budget Debates (Updated May 2013), available at <http://www.nwlc.org/sites/default/files/pdfs/federalbudgetroadmap.pdf>.
- 2 Ashley Parker, *Boehner Sees Showdown Over Raising Debt Limit*, N. Y. Times, Aug. 27, 2013, available at http://www.nytimes.com/2013/08/28/us/politics/boehner-foresees-whale-of-a-fight-over-debt-limit.html?_r=0.
- 3 See generally Coalition on Human Needs, *Sequester Impact Report: March 5 – August 25* (Aug. 2013), available at <http://www.chn.org/wp-content/uploads/2013/08/completesetofsequesterreports.pdf>. “Discretionary programs” refer to federal programs for which spending must be newly appropriated each year through the annual congressional appropriations process. Sequestration also applies to some “mandatory” programs, including Medicare to a limited extent, but not to key safety net programs such as Medicaid, SNAP, and TANF.
- 4 Letter from Douglas W. Elmendorf, Director, Cong. Budget Office, to Rep. Chris Van Hollen (Jul. 25, 2013), available at https://www.cbo.gov/sites/default/files/cbofiles/attachments/44445-SpendReductions_1.pdf.
- 5 For more information regarding the House and Senate budget resolutions and President Obama’s budget for FY 2014, see NWLC, *The Ryan House Budget FY 2014: Once Again, Gutting Vital Programs for Women and Families, Giving Trillions in Tax Cuts to Millionaires and Corporations* (March 2013), available at <http://www.nwlc.org/sites/default/files/pdfs/ryanbudgetfy2014.pdf>; NWLC, *The FY 2014 Murray Senate Budget: A Fairer Path Forward for Women and Families* (March 2013), available at <http://www.nwlc.org/sites/default/files/pdfs/murraybudgetfy2014.pdf>; and NWLC, *President Obama’s FY 2014 Budget: Key Provisions for Women and Their Families* (April 2013), available at <http://www.nwlc.org/sites/default/files/pdfs/fy2014obamabudgetreport.pdf>.
- 6 Joel Friedman, Sharon Parrott & Krista Ruffini, *Ctr. on Budget & Policy Priorities, Senate Appropriations Allocations for 2014 Reflect Better Approach Than House Plan*, at 3 (June 2013), available at <http://www.cbpp.org/files/6-25-13bud.pdf>.
- 7 Ibid.
- 8 Ibid. at 1-2.
- 9 Ibid. at 5.
- 10 Lori Montgomery & Paul Kane, *House Republican Leaders Delay Vote on New Budget Bill Until Next Week*, Wash. Post, Sept. 11, 2013, available at http://www.washingtonpost.com/business/economy/house-republicans-battle-over-leaders-new-budget-bill/2013/09/11/798165d6-1af6-11e3-82ef-a059e54c49d0_story.html?hpid=z1.
- 11 A CR at current spending levels would maintain discretionary funding at FY 2013 levels, including sequestration reductions. However, the Budget Control Act requires lower discretionary spending in FY 2014 than in FY 2013; if Congress does not pass a funding measure that meets (or modifies) the BCA spending caps by January 2014, additional sequestration would be required to comply with the law. Specifically, approximately \$20 billion would be cut from defense discretionary programs for the remainder of FY 2014. See Coalition on Human Needs, *The Human Needs Report: August Recess Edition*, at 2 (Aug. 2013), available at <http://www.chn.org/wp-content/uploads/2013/08/August-7-2013.pdf>.

- 12 Jake Sherman & John Bresnahan, *Hill Leaders to Meet on Shutdown*, Politico, Sept. 10, 2013, available at <http://www.politico.com/story/2013/09/hill-leaders-to-meet-on-shutdown-96535.html>.
- 13 Zachary Goldfarb, *U.S. Faces Mid-October Deadline to Raise Debt Limit*, Wash. Post, Aug. 26, 2013, available at http://www.washingtonpost.com/business/economy/us-faces-mid-october-deadline-to-raise-debt-limit/2013/08/26/e38c0ad8-0e87-11e3-8cdd-bcdc09410972_story.html.
- 14 Lori Montgomery, *The House GOP Is Bracing for Debt-Limit Battle and Likely to Target Obamacare First*, Wash. Post, Aug. 28, 2013, available at http://www.washingtonpost.com/business/economy/the-house-gop-is-bracing-for-debt-limit-battle-and-likely-to-target-obamacare-first/2013/08/28/4b07410a-0feb-11e3-bdf6-e4fc677d94a1_story.html.
- 15 Michael Linden, Ctr. for Am. Progress, *It's Time to Hit the Reset Button on the Fiscal Debate*, at 5-8, 21 (June 2013), available at <http://www.americanprogress.org/wp-content/uploads/2013/06/FiscalReset.pdf>.
- 16 *Ibid.* at 27.
- 17 The Hamilton Project, *Closing the Jobs Gap*, http://www.hamiltonproject.org/jobs_gap/ (calculator last visited Sept. 10, 2013). The "jobs gap" measured by the Hamilton Project is the number of jobs that the U.S. economy needs to create in order to return to pre-recession employment levels while also absorbing the people who enter the labor force each month.
- 18 Linden, *supra* note 15, at 6.
- 19 See generally Americans for Tax Fairness & NWLC, *The High Price of Tax Loopholes* (Aug. 2013), available at <http://www.americansfortaxfairness.org/files/The-High-Price-of-Tax-Loopholes.pdf>.