

United States Senate

COMMITTEE ON THE BUDGET

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June 28th, 2013

Dear Colleagues,

I know I am not alone in hearing from my constituents that they are sick of the gridlock and governing by crisis coming out of Washington, D.C. When we return in July, we will have a narrow window of opportunity to work toward a bipartisan budget deal, replace sequestration in a balanced way for this year, next year, and beyond, and prevent yet another round of uncertainty and brinkmanship in September.

The choice between the post-sequestration spending level of \$967 billion in the House Budget and the \$1.058 trillion level presented in the Senate Budget is about far more than numbers on a page. It is a choice about our country's future. We can choose austerity, or we can choose to be the kind of country with the resources to support those most in need and make the investments necessary to compete in the 21st century economy.

As we head home to meet with our constituents, I thought it would be helpful to outline why maintaining the bipartisan spending level of \$1.058 trillion that the Senate passed in our budget is so important for families and our economy, and why Republicans are divided among themselves on this issue, are in a weak position, and will have to come to the table and work with us to replace sequestration if they want to accomplish goals they care about.

This may seem like an abstract issue—but it is absolutely vital for the families and communities we represent.

This memo will show that:

- The case for austerity as a fiscal policy in the United States has dissolved.
- Instead of continuing with austerity, we should be doing everything we can to keep the economic recovery on track, continue getting Americans back to work, and make investments that secure our long-term economic strength. This requires a bipartisan budget deal that replaces sequestration and allows the Appropriations Committee to work together to write bills at the bipartisan \$1.058 trillion level for fiscal year 2014.
- The House Republican budget and spending bills that double down on sequestration would be economically irresponsible and deeply harmful to the families and communities we serve.

Finally, this memo will explain that both the Senate and House Budgets, and the Senate and House spending bills, require replacing sequestration—making it clear that it's not a question of whether we replace sequestration, but how we replace it, and whether or not we have to wait for a crisis to do it.

The House claims to adhere to sequestration by maintaining the topline spending level of \$967 billion for next fiscal year. The reality, however, is that the House is moving a defense spending bill that busts right through the defense spending cap sequestration put in place. To avoid the across-the-board cuts that come with the defense spending level Republicans have said would “hollow out the military”—and which Democrats agree is irresponsible—Republicans will need to come to the table and work with us to replace sequestration.

Chairwoman Mikulski is doing a great job leading the Appropriations Committee and working across party lines to write spending bills at the bipartisan Budget Control Act level and we need to back her up and explain to the American people why it is so important that we stick to that and not allow sequestration to continue.

On July 1st it will have been 100 days since the Senate and House have both passed their budgets, yet Republicans continue blocking us from beginning a bipartisan budget conference. I believe that we need to keep working to explain to our constituents what is holding this process up, why we could be headed for another unnecessary manufactured crisis, and what these choices mean for their lives and the future of our country.

I hope this information is useful to you, and I look forward to working with all of you to replace sequestration and appropriate in a responsible way that puts families and our economy first.

Sincerely,



Senator Patty Murray
Chairman, Senate Budget Committee

Memorandum

To: Senate Colleagues

From: Senator Patty Murray (D-WA) and Senate Budget Committee majority staff

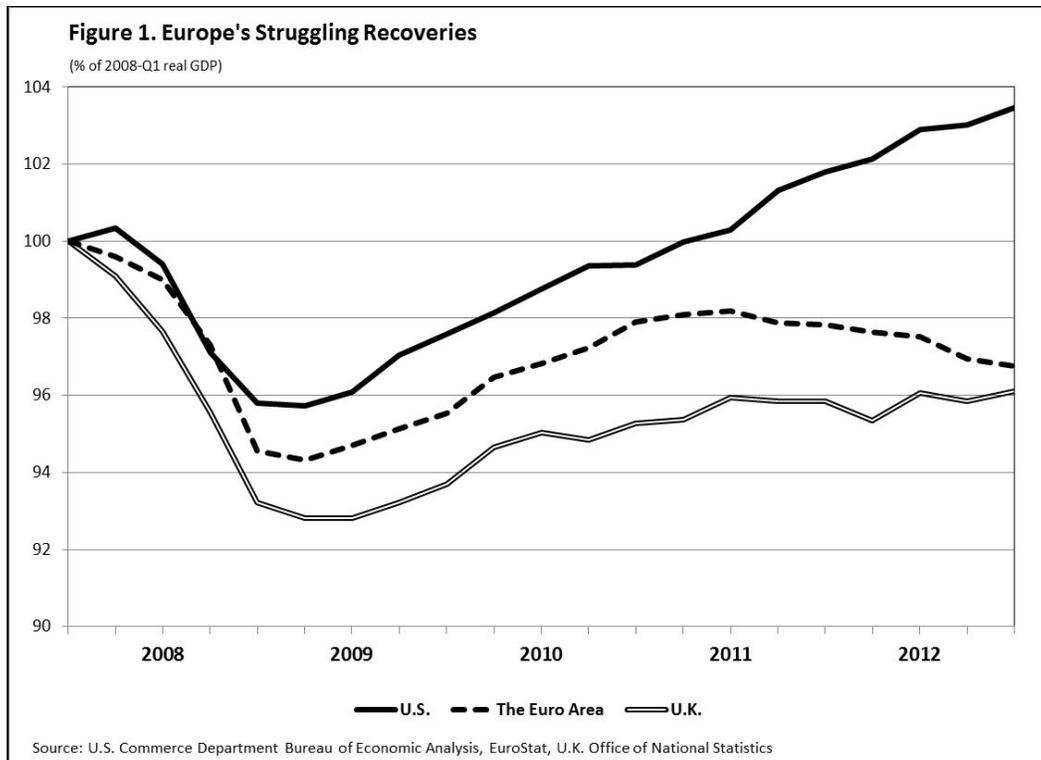
Re: The difference between Senate and House appropriations for fiscal year 2014, and why this difference matters for our future

Date: June 28, 2013

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I. The case for short-term austerity as a fiscal policy in the United States has dissolved.

Austerity has had clear, damaging impacts on other economies without improving fiscal conditions. The United Kingdom has barely grown since launching austerity, while the Eurozone is enduring its second consecutive year of recession.¹ Dr. John Makin of the American Enterprise Institute said the results of austerity in Europe helped indicate that “austerity, per se, is not the way to move to a sustainable fiscal stance.”² Michael Linden of the Center for American Progress testified before the Senate Budget Committee that the UK’s austerity measures, which were 77 percent spending cuts, plunged the country back into recession, created a stagnant economy for employers, and raised the unemployment rate.³ And, despite the economic damage caused in the UK by austerity, the cuts did not result in debt stabilization. The gross debt in the UK was 43 percent of GDP in 2006 and rose to 79.4 percent in 2010 when austerity programs were implemented. Since then, debt reached 90.3 percent in 2012, 93.6 percent in 2013, and is predicted to peak above 100 percent in 2016.⁴



¹ Michael Linden, Center for American Progress, Responses to Senate Budget Committee Hearing QFRs, 5/22/13; Eurostat, [4/13](#).

² American Enterprise Institute, [1/28/13](#).

³ Michael Linden, Center for American Progress, Responses to Senate Budget Committee Hearing QFRs, 5/22/13; Eurostat, [4/13](#).

⁴ Testimony of Simon Johnson, Senate Budget Committee Hearing, [6/4/13](#).

At the same time as the negative impact of austerity in the Eurozone has become increasingly clear, research supporting austerity has been called into question. Republicans often quoted a paper by economists Carmen Reinhart and Kenneth Rogoff to make the case for austerity.⁵ The paper found that historically when a country had debt exceeding 90 percent of GDP, its economy grew more slowly. Austerity proponents interpreted this finding to mean that debt above this threshold drags down economic growth. After Reinhart and Rogoff's report was found to exclude critical data and rely on questionable calculations, the Republican interpretation of Reinhart and Rogoff was discredited. The International Monetary Fund (IMF) admitted in the October 2012 World Economic Outlook and in other research that it previously underestimated the degree to which austerity policies hurt economic recovery.

The reality is that, consistent with mainstream economic theory, in recovering economies rapid fiscal consolidation can reduce economic growth.⁶ Especially in light of the economic growth and deficit reduction in the last two years, there is no near-term debt crisis and no need for immediate fiscal austerity in the United States.

Despite what you may hear from our Republican colleagues, we have done a significant amount over the past few years to reduce our deficit over the next ten years and stabilize our short and medium term debt. Since the 2010 Simpson-Bowles Commission, we have reduced the deficit by \$2.4 trillion before sequestration. The nonpartisan Congressional Budget Office now estimates that in fiscal year 2013, the deficit will be \$642 billion, a 40 percent decrease from the \$1.087 trillion deficit for fiscal year 2012. Relative to the size of the economy, the deficit is less than half the size it was in 2009, dropping from 10.1 percent of GDP in 2009 to 4.2 percent for fiscal year 2013. Long-term debt is over \$800 billion less than estimated in February 2013 largely due to lower projected spending on entitlements and interest on the public debt.⁷

The majority of deficit reduction put in place in recent years has consisted of spending cuts. The bipartisan deals made in 2011 cut discretionary spending by almost \$1.5 trillion over 10 years. These cuts will bring discretionary spending to its lowest level as a share of the economy in over half a century.⁸ If sequestration continues, the ratio of spending cuts to new revenue from the wealthiest would be 4:1, with the cuts overwhelmingly hurting middle class and vulnerable families. For comparison, both Simpson-Bowles and the Senate Gang of Six proposed a roughly 1:1 ratio of spending cuts to new revenue.⁹

⁵ E.g: Senator Sessions, 4/11/13; House Budget, 3/20/12.

⁶ International Monetary Fund, 10/12/12; Washington Post Wonkblog, 10/12/12.

⁷ Congressional Budget Office, 5/14/13 and 2/5/13.

⁸ Office of Management and Budget Historical Tables, Table 8.4.

⁹ Relative to a current policy baseline, not a "plausible" baseline as was originally used by both groups. Moment of Truth Project, 6/11; Senate Gang of Six Proposal, 7/11.

II. We need to focus on protecting the recovery and our long-term competitiveness—which means we need to replace sequestration and appropriate at the Senate Budget level of \$1.058 trillion for fiscal year 2014.

Over the last few years, the budget debate has become far too focused on heading off artificial crises, and that is no way to govern. Instead we need to focus on our country's real challenges—those we face over the next five years and those we will face in future decades.

We know that we need to confront our long-term debt and deficit. But we also need to replace sequestration, keep the economic recovery on track, and make the necessary investments in education, infrastructure, and research to secure our long-term competitiveness. To accomplish all of these goals, we cannot allow sequestration and lower spending levels to continue.

a. Economists agree we should prioritize economic recovery and replace sequestration

Although the economy is continuing to recover, there are still far too many Americans out of work – 11.8 million in May.¹⁰ Economists and experts agree that we should focus on boosting the recovery while working together to tackle our long-term debt and deficit challenges. MIT Professor Simon Johnson testified that there is “no meaningful evidence that we ‘need’ to cut federal deficits dramatically this year, or next year, or even over the next five years” as there is no threshold for our federal debt to trigger slower growth, higher bond yields, or any other economic problem.¹¹ Chairman of the Federal Reserve Ben Bernanke testified before the Joint Economic Committee that the short-term deficit reduction has been a headwind to a more robust recovery without doing much to solve the long-term drivers of the debt.¹²

The devastatingly low appropriations level of \$967 billion imposed by sequestration and maintained in the House Budget and appropriations bills is exactly the kind of economic headwind Chairman Bernanke referenced. And much of the impact from sequestration, including Pentagon furloughs, is still yet to be felt by families and communities across the country.¹³

Independent economists have strongly recommended replacing sequestration.¹⁴ Recently, for example, the International Monetary Fund called on the US to find a replacement, stating that “in particular, the automatic spending cuts (“sequester”) not only exert a heavy toll on growth in the short-term, but the indiscriminate reductions in education, science and infrastructure spending could also reduce medium term potential growth.”¹⁵

b. Replacing sequestration and appropriating at the Senate Budget level of \$1.058 trillion for fiscal year 2014 would allow us to continue making crucial investments in families, communities, and long-term competitiveness

Responsibly replacing sequestration and appropriating at the \$1.058 trillion level for next fiscal year would reduce the economic drag from blunt, short-term spending cuts. It would also allow us to make the kinds of

¹⁰ Bureau of Labor Statistics, 6/7/13.

¹¹ Testimony of Simon Johnson, Senate Budget Committee Hearing, 6/4/13.

¹² Federal Reserve, 5/22/13; Washington Post Wonkblog, 5/22/13.

¹³ E.g. CNN Fortune, 6/26/13, Washington Post, 5/29/13.

¹⁴ E.g. Macroeconomic Advisers, 2/19/13; Chairman Ben S. Bernanke, Semiannual Monetary Policy Report to the Congress, 2/26/13.

¹⁵ International Monetary Fund, 6/14/13.

investments that have helped to expand our middle class and strengthen our competitiveness—the kinds of investments we'll need to prioritize now in order to succeed in the 21st century global economy.

This is exactly what Chairwoman Mikulski is doing such a fantastic job of in her Appropriations Committee. And her work, along with the Democrats and Republicans she is leading, is highlighting the stark contrast with the House Appropriations Committee that is being asked to stick to unworkable House Budget levels.

Although many of the appropriations bills have not been marked up, it's already clear that the Senate appropriations levels do more with less as a result of the deep discretionary cuts already put in place, and present a responsible plan to continue crucial investments in our national security, infrastructure, and families and communities. Especially compared to House appropriations, the Senate appropriations levels are able to:

- **Protect our national security without slashing other investments:** The Senate allocation would allow Congress to fully protect Defense funding and provide the Budget Control Act level of \$552 billion for fiscal year 2014,¹⁶ ensuring the Pentagon has the allocation it needs to defend our country and meet our national security priorities. And unlike the House allocation, the Senate would do this while protecting other crucial investments.
- **Maintain our national infrastructure:** The Senate allocation would allow for continued investment in repairing and modernizing our national infrastructure. But at a time when roads, bridges, airports and airways across the country are in serious need of repair, House appropriations would require an additional 9.4 percent cut to the bill that covers transportation—on top of sequestration. This translates to more of the congestion, inefficiency, and unreliability that families and businesses see far too much of already.
- **Continue to invest in education and crucial research and development:** Especially compared with the House, the Senate level will prevent further drastic cuts to the Labor, Health and Human Services, and Education appropriations bill, which has already been significantly reduced as a result of cuts over the last two years. Under the House allocation it would receive an 18.8 percent cut on top of sequestration. This puts the National Institutes of Health, which is funded under this bill, at risk of additional significant cuts, and according to the Committee for Education Funding, could set federal support for education back a decade to below the fiscal year 2004 level.¹⁷
- **Protect programs for families and communities:** The Senate allocation would allow Congress to protect programs that families and communities use and expect. This could prevent, for example, further cuts to meals for low-income seniors, housing for struggling families, and crucial early learning for disadvantaged children—all of which are likely under House appropriations.

¹⁶ Committee on Appropriations, U.S. Senate, [6/20/13](#).

¹⁷ Committee for Education Funding Letter to Senate Appropriations Members, [5/20/13](#).

We need to find solutions to our long-term debt and deficit challenges. But we also need to think about investments in our people and infrastructure that will strengthen our country for decades to come – and could create jobs right now. Insufficiently investing in these areas will hurt our competitiveness and recovery while doing little in the long-term to improve the country’s fiscal health. Table 1 below outlines the deep cuts imposed in House allocations compared to Senate levels.

Table 1. The House Allocation Imposes Deep Cuts Compared To Senate Levels			
<i>Comparison of House Allocation And Senate Appropriations Levels For Fiscal Year 2014 (billions)</i>			
Subcommittee	FY 2014 Senate Allocation	FY 2014 House Allocation	House vs. Senate
Agriculture	20.930	19.450	-1.480
Commerce, Justice, Science	52.272	46.845	-5.427
Defense	516.624	512.522	-4.102
Energy and Water	34.773	30.426	-4.347
Financial Services	23.031	16.966	-6.065
Homeland Security	39.100	38.993	-0.107
Interior	30.100	24.278	-5.822
Labor, HHS, Education	164.330	121.797	-42.533
Legislative Branch	4.350	4.124	-0.226
Military Construction, VA	74.366	73.320	-1.046
State, Foreign Operations	44.079	34.103	-9.976
Transportation, HUD	<u>54.045</u>	<u>44.100</u>	<u>-9.945</u>
Total Discretionary BA	1,058.000	966.924	-91.076

- c. *The Senate allocation of \$1.058 trillion is a bipartisan level that Democrats and Republicans agreed on in the Budget Control Act*

As we consider the Senate and House allocations, it is helpful to remember exactly what the Senate allocation represents.

The Senate allocation of \$1.058 trillion for fiscal year 2014 is the discretionary spending level that Democrats and Republicans agreed on in the Budget Control Act and together modified further in the American Taxpayer Relief Act just months ago. In other words, Republicans have agreed to this spending level twice.

And as we all know, the Budget Control Act locked in \$900 billion in discretionary cuts over the next decade before sequestration. It also included a trigger—sequestration—that was expected to motivate Congress to reduce the deficit by an additional \$1.2 trillion over the next ten years.¹⁸

Sequestration was supposed to be so unthinkable that both sides would come together to avoid letting it go into effect. It was supposed to force a deal. And many of us on both sides of the aisle strongly believe it still should.

¹⁸ Congressional Research Service, 8/19/11.

This is why Senate Democrats put forward a proposal to responsibly replace sequestration in the Senate Budget. This proposal is consistent with the spirit of the Budget Control Act, in that it replaces sequestration with alternative, more responsible deficit reduction that is evenly divided between spending cuts and new revenue from the wealthiest Americans and biggest corporations.

III. Appropriating at \$967 billion, as the House has proposed, would be deeply harmful to our competitiveness and to the families and communities we serve.

Unfortunately, the House has taken a very different approach. Both the House Budget and appropriations bills maintain a spending level of \$967 billion, which is the sum of the defense and nondefense caps imposed in sequestration.

Especially as our economy is still recovering, this low appropriations level—which was never supposed to be enacted—is a burden on job creation and growth. And over the long-term, the cuts required to stay under this level, especially when boosting defense as the House proposes, could put our country at a significant economic disadvantage relative to competitor countries who are continuing to invest in their workforces and infrastructure.

a. The House allocation protects defense by imposing devastating cuts everywhere else

The House appropriations bills are expected to fulfill the President’s request for \$552 billion in defense spending for next fiscal year. To keep topline allocations below \$967 billion while boosting defense spending, House appropriations would slash investments in health care, education, infrastructure, and communities to devastating levels.¹⁹

Many of these programs saw significant cuts in fiscal year 2013 as a result of sequestration. Sequestration has already reduced access to critical early childhood education for thousands of disadvantaged children.²⁰ It is driving highly educated scientists to foreign countries instead of our universities and delaying lifesaving breakthroughs.²¹ The National Institutes of Health has lost \$1.7 billion in funding, which is equivalent to losing 700 research grants.²² The National Science Foundation is reducing funding for research by \$290 million this year.²³

The House would impose even deeper cuts, asking families and communities—often those most in need—to sacrifice and hurting our economic competitiveness while asking nothing more from the wealthiest Americans and biggest corporations.

To boost the defense spending level, the House sub-allocations for fiscal year 2014 spending bills would impose deep cuts on programs that have already seen significant reductions. Under House appropriations, for example, funding for defense would increase 11 percent from sequestration—to a level Democrats agree is

¹⁹ CQ, [5/22/13](#).

²⁰ Department of Health and Human Services, [3/1/13](#); National Head Start Association, [3/1/13](#).

²¹ King 5 News, [4/30/13](#); Huffington Post, [5/2/13](#); Huffington Post, [5/9/13](#).

²² National Institutes of Health, [6/3/13](#).

²³ Office of Management and Budget, [3/1/13](#).

responsible.²⁴ But to stay under \$967 billion in total for fiscal year 2014, the House would cut funding for Labor, Health and Human Services, and Education—which was already cut 4.4 percent in 2013 under sequestration—by an additional 18.8 percent.

The damage that these policies will do to our future competitiveness will compound every year of sequestration. To avoid continued irresponsible cuts that hurt families now and our economy over the long-term, we need to responsibly replace sequestration and appropriate at the bipartisan spending level of \$1.058 trillion for next fiscal year.

IV. Many Republicans do not support sequestration and the lower caps for fiscal year 2014 appropriations—and they will need to work with us on a common-sense, balanced and bipartisan solution.

Republicans are insisting on a \$967 billion topline number now, but they are going to have to come to the table and work with Democrats on a more responsible plan for next fiscal year.²⁵

The reality is that as much as they defend \$967 billion, Republicans are not happy about what it means for programs they care about. Between six and eight Senate Republicans voted for each of the four bills reported so far in the Senate Appropriations Committee, even though Republican leadership has opposed appropriating at the \$1.058 trillion level.²⁶ And many Republicans want to see sequestration replaced. House Appropriations Chairman Hal Rogers, for example, called sequestration a “guillotine” that should “be replaced in the very near term.”²⁷

And it’s important to remember that the spending level Republicans are putting forward is not current law as they argue—they’ll still need to replace sequestration to reach a defense level that is acceptable to defense hawks.

Republicans have insisted that they are adhering to the Budget Control Act, and have said they will oppose the Senate allocation because it would violate current law and impose across the board spending cuts.²⁸ They claim they are following the Budget Control Act by adhering to the topline spending level of \$967 billion for next fiscal year.²⁹

But here’s the reality: sequestration is designed as two separate caps on defense and nondefense—not a topline spending level—and it limits spending under each cap individually.³⁰

The Budget Control Act split sequestration evenly between defense and nondefense discretionary spending. It required strict post-sequestration caps for each category, resulting in \$498 billion for defense and \$469 billion

²⁴ Defense levels include all funding within the 050 budget function (Defense).

²⁵ CQ, [5/20/13](#); CQ, [6/11/13](#); CQ, [6/20/13](#); CQ, [6/24/13](#).

²⁶ E.g. Politico, [6/27/13](#), The Hill, [6/27/13](#).

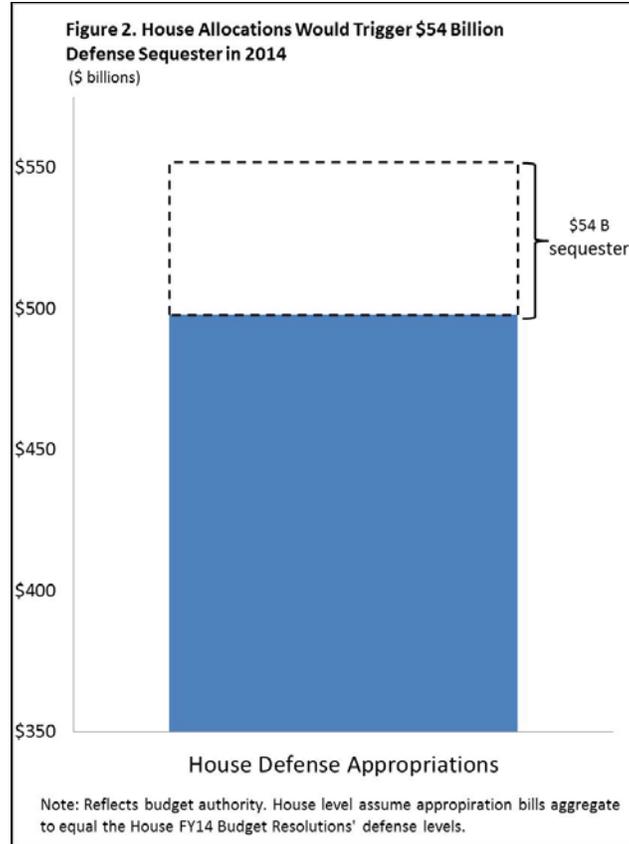
²⁷ Politico, [5/21/13](#).

²⁸ CQ, [6/11/13](#); Office of Senator Shelby, [6/20/13](#).

²⁹ CQ, [6/11/13](#); Office of Senator Shelby, [6/20/13](#).

³⁰ Congressional Research Service, [8/19/11](#); Congressional Research Service, [5/4/12](#).

for nondefense in fiscal year 2014.³¹ Based on the House-passed budget resolution, House appropriators will likely allocate \$552 billion for defense spending in fiscal year 2014, which exceeds the defense sequestration cap by about \$54 billion. As Figure 2 shows, without a replacement for sequestration, this spending level will trigger another round of defense sequestration and cut defense spending back down to \$498 billion.³²



For many Republicans, maintaining the sequestration defense cap is not an option. Republicans in both the House and Senate have made it very clear that sequestration defense spending levels would “hollow out the military.”³³

Democrats agree that sequestration-level defense spending is unacceptable. But we also think that sequestration’s impacts on domestic programs and the families and communities they serve will be equally devastating. And a bipartisan deal is going to have to address both sides of the automatic cuts. This means Republicans are going to need to join us at the table ready to make a compromise.

Over the last few months, Democrats have worked hard to pressure on Republicans to come to the table and begin formal bipartisan negotiations in a budget conference. We even persuaded a number of Senate Republicans to join our cause.³⁴ We have gone to the floor 15 times to ask consent to begin a bipartisan conference, and each time Tea Party Republicans—who are backed by Senate GOP leadership—have blocked us.

³¹ Congressional Budget Office, [5/14/13](#).

³² Office of Management and Budget, [5/20/13](#).

³³ E.g. Office of Speaker Boehner, [2/20/13](#); Office of Senator Ayotte, [3/1/13](#).

³⁴ E.g. Roll Call, [5/21/13](#); Politico, [6/4/13](#).

On July 1st, it will be 100 days since the Senate and House both passed their budgets. Democrats are going to keep fighting to make sure the American people understand why this process is being held up and why we could be headed for a completely unnecessary manufactured crisis.

It has been heartening to see that on both sides of the aisle, there are leaders who prefer common sense bipartisanship to gridlock and brinkmanship. And I am confident that if Republicans agree to come to the table ready to compromise, we can reach a fair deal that works for our economy and for the families and communities we serve.