

GOVERNMENT MATTERS

January 23, 2013

Vol. 1, No. 1

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Spending Cuts Loom Large as Budget Debate Continues

Resolution of last year's "fiscal cliff" fight was achieved in the first few hours of the new year with a tax package that made permanent [82 percent](#) of the Bush-era's tax cuts. This may have made a "grand bargain" on the deficit that balances tax and spending provisions much more difficult to achieve and heightened the likelihood of more spending cuts.

According to the White House, the new law – called the American Taxpayer Relief Act (ATRA) of 2012 (H.R. 8) – will reduce the deficit by [\\$737 billion](#) over the next ten years (2013-2022), an amount that includes over \$600 billion in new tax revenue and \$104 billion in reduced interest on the debt. But this amount is overshadowed by [\\$1.7 trillion in spending cuts](#) (including interest savings) that had already been enacted as part of the Budget Control Act of 2011. Overall, spending cuts in the two packages outweigh revenues by more than 2-1.

Shortly after he signed the latest bill, President Obama [said](#) that revenues were still on the table. "Now, if Republicans think that I will finish the job of deficit reduction through spending cuts alone ... without asking also equivalent sacrifice from millionaires or companies with a lot of lobbyists, et cetera, if they think that's going to be the formula for how we solve this thing, then they've got another thing coming. That's not how it's going to work. We've got to do this in a balanced and responsible

way. And if we're going to be serious about deficit reduction and debt reduction, then it's going to have to be a matter of shared sacrifice—at least as long as I'm president."

Unfortunately, making most of the Bush-era tax cuts permanent has also removed most of the incentive for congressional Republicans to negotiate further on revenues. On Jan. 6, Senate Republican leader Mitch McConnell (R-KY) [told](#) ABC's George Stephanopoulos, "The tax issue is finished, over, completed. That's behind us." Soon afterward, a spokesperson for House Speaker John Boehner (R-OH) told BNA, "We regard the issue as settled."

The two parties have long held different budget priorities, so their latest positions are not new or surprising. The enactment of ATRA, however, has changed their respective leverage. Before ATRA, congressional Republicans faced being blamed for the expiration of all of the Bush-era tax cuts if they did not come to an agreement on rates for upper-income taxpayers, and even then, House Republicans were badly split over the issue. Now congressional Republicans have little incentive to negotiate, possibly excepting those few who care deeply about defense spending or tax reform, and even in the latter case, they have indicated that they would only support tax reform that was revenue-neutral.

The president's leverage has been further undermined by his unwillingness to play hardball in negotiations over the fiscal cliff, which was never the danger that some thought. If negotiations had extended a few weeks into January, the associated across-the-board spending cuts (called sequestration) and tax increases could have been managed and mitigated for a short period of time by the administration. The president's unwillingness to take a stronger stand on the fiscal cliff has undermined his position on continued budget negotiations going forward, when he will have less leverage than before.

Now most of the president's leverage lies in his ability to make his case directly to the American people. So far, according to a recent [poll](#) by the Pew Research Center, he seems to be winning that battle. He will have additional opportunities to make his case in the weeks ahead, including at his State of the Union Address in February.

Winning the battle for public opinion, however, may not be enough. In the 2012 election, [five-sixths of House Republicans took more than 55 percent of the vote in their districts](#). Most House Republicans are less worried about public pressure from the president than about a potential primary challenge.

"At the end of the day, the only poll that matters is the one in people's districts. I'm focused on the people in my district," Rep. Tim Griffin (R-AR) [told the *National Journal*](#). "National polls include people in Nancy Pelosi's district, Henry Waxman's district.... I don't work for them, and I'm not real worried about the national polls."

Looking Ahead

So how will these changed political circumstances affect the budget going forward?

Congressional Republicans appear ready to use three coming decision points to force additional cuts in spending. The first is a vote to raise the debt ceiling, which will be needed by mid- to late-February to avoid a possible default on the federal debt. The second is a new deadline for across-the-board cuts from sequestration, which was delayed until March 1 by ATRA. The third is an omnibus spending bill, which must be enacted by March 27 to avoid a federal government shutdown.

Most of the media attention has focused on the debt ceiling. However, a default on the national debt could trigger a financial crisis at least equal to that in 2008, and this undermines its plausibility as a point of leverage. No party would want to be seen as responsible for the economic chaos that would ensue. A more credible threat is the one least spoken about – the omnibus budget bill. House Republicans may pass such a bill, but with considerable spending cuts attached, and dare Senate Democrats and the president not to go along with it.

It is too early to know with any certainty what spending cuts will be considered, but the best indication can be found in the deal that was developing in mid-December between House Republicans and the president before it was shelved. That deal included \$400-600 billion in cuts in health care entitlement spending over ten years (mainly in Medicare, including means-testing benefits and a possible increase in the eligibility age for Medicare to 67). It included another \$200-300 billion in non-health-related entitlement cuts. It included a change in how the consumer price index would be calculated, for an additional savings of \$130-200 billion, much of which would affect Social Security benefits. It also included another \$100-300 billion in cuts to discretionary spending (for programs like education, environmental protection, and defense), possibly including savings from winding down the war in Afghanistan.

Total cuts might be in the range of \$1 trillion over 10 years, which would be enough to lift the debt ceiling for a year under the House Republican policy (called the Boehner rule) of matching any increase in the debt ceiling with a package of equal or greater spending cuts. The package might also be used to justify canceling sequestration.

Such cuts would be far from ideal. Preventing them from occurring will require a concerted effort to educate the public about their impact and also about better revenue-based solutions, such as imposing a financial transaction tax on high-speed stock traders – an option that by itself could reduce volatility in the financial markets and achieve more deficit reduction than all of the spending cuts combined.

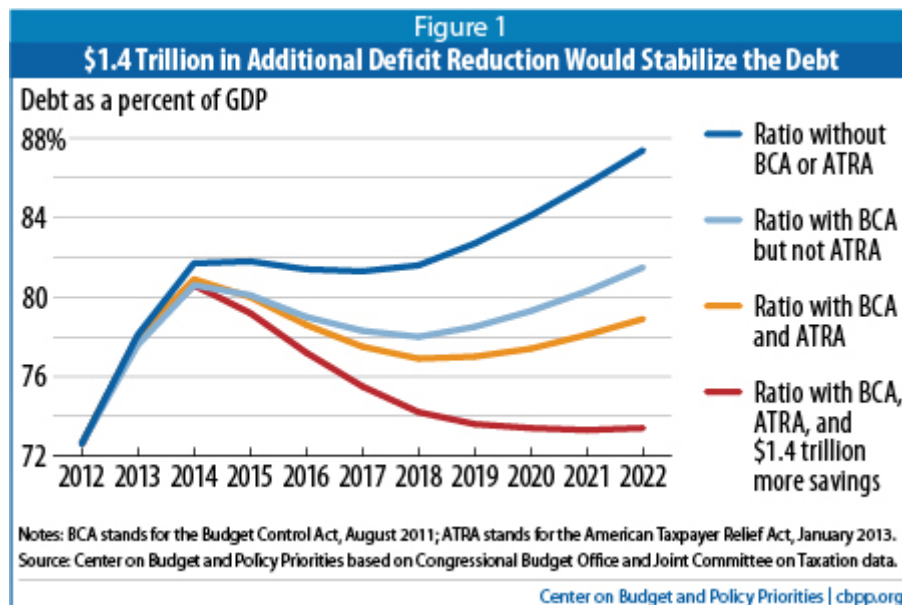
The Perils of Austerity

One important issue receiving insufficient attention in the ongoing budget debate is the impact that further deficit reduction might have on the economy. According to market analysts, the just-completed deal will trim anywhere from [1 to 1.75 percent](#) off of U.S. economic growth this year. Enacting further spending reductions, especially to the extent they occur this year, would weaken the economy even further.

Despite this, on Jan, 14, President Obama proposed reducing the deficit by an [additional \\$1.5 trillion](#), closely mirroring a recent [analysis](#) by the Center on Budget and Policy Priorities (CBPP) that indicated that another \$1.4 trillion in savings would be enough to maintain federal deficits and the public debt

at about 73 percent of GDP. In each case, most of these savings could be achieved by replacing the sequester, slated to begin March 1, with a deficit-cutting package of equal size.

But CBPP's own analysis shows that these additional cuts are not necessary, at least not immediately. CBPP's preferred option, which is similar to the president's, is shown in the red line in the graph below. However, the yellow line just above it reflects what would happen if no further budget reduction was achieved and sequestration were simply canceled. Under this option, the debt still declines as a share of the economy (although not as quickly) until about 2018, when it begins to reverse. While it may be necessary to address increasing deficits at that time, the intervening delay would give the economy further time to strengthen.



Recent developments in international economic thinking reinforce this alternate view. Last fall, the International Monetary Fund (IMF), which has long been noted for imposing austerity on developing nations in return for economic assistance, [released a report](#) calling its own austerity policies into question. The report found that the IMF's economic forecasts were consistently too optimistic for countries that pursued austerity programs, including reduced public spending and increased taxes, and too pessimistic for other countries that pursued stimulus policies.

U.S. policymakers ignore these lessons at their peril. With the U.S. economic recovery still in its infancy and the economy only beginning to absorb the impact of the most recent round of deficit reduction, now may not be the time for additional budget cuts.

The Obama Administration's Regulatory Agenda: Many Overdue Rules Need to Be Finalized to Fulfill Legislative and Public Safety Promises

Each year, the Office of Management and Budget (OMB) is supposed to publish two agendas of planned rules and at least one regulatory plan summarizing economically significant rulemakings likely to move forward in the near future. In 2012, the Obama administration skipped the spring agenda entirely and did not publish the fall agenda until December, likely because of the elections. The plan that finally emerged contains some positive measures but does not go far enough to significantly advance consumer, workplace safety, or environmental protections.

The [Unified Regulatory Agenda](#) was published on Dec. 20, 2012, as most of Washington was heading out of town for the winter holidays. OMB describes the agenda as a statement of "regulatory and deregulatory" policies. The introduction barely mentions the need to protect the public from harm and goes on to explain that agencies may never publish some of the rules listed in the agenda because, for example, a "careful consideration of costs and benefits may lead an agency to decline to proceed" with a rule it previously thought was necessary. OMB then asserts that the number of economically significant rules listed in the agenda is lower than in previous years, despite the fact that the Affordable Care Act and the Dodd-Frank financial reform law both require a significant number of new rules.

OMB ends by noting that agencies must retrospectively review existing regulations and, based on that review, may either "streamline, modify, or eliminate" rules. Significantly, OMB left out the option to *strengthen* rules, even though retrospective review may show that a particular public health protection is inadequate or that industry exaggerated the costs of compliance with the original rule. Instead, OMB emphasizes reducing costs to business. This is an unfortunate but familiar story.

The regulatory plans from individual agencies are a mixed bag. On the positive side, the FDA recently issued overdue proposals to implement the Food Safety Modernization Act, and the Consumer Financial Protection Bureau is moving forward with rules to strengthen homeowner and home buyer protections from mortgage scams, as required by the Dodd-Frank financial reform legislation. The Department of Health and Human Services is producing a stream of rules to implement the Affordable Care Act. And the president has promised to aggressively use his executive powers to adopt gun safety measures.

But the Occupational Safety and Health Administration's (OSHA) [regulatory plan](#) contains few new proposals. Under the Obama administration, OSHA has published only one new health standard, a revision to the agency's Hazard Communication standard designed to harmonize the American approach to notifying workers about chemical hazards with those of other countries. Presumably, some employees will benefit from uniform hazard information across nations, but the emphasis of this rulemaking has been on saving employers money (\$556 million by OSHA's estimate), not on improving the health and safety of affected workers.

The Unified Agenda indicates that OSHA plans to publish a proposed rule to protect workers from silica exposure. But this has been in its plan for more than two years, while OMB blocked OSHA from

publishing the proposed rule by keeping the standard in an ongoing review process. During this time, OSHA estimates that more than 100 workers have died of silica-induced lung cancer. Even if the silica proposal is finally published, the unreasonably long delay caused by OMB review means that a final standard is still years away. Because OSHA has been unable to move forward on the silica rule, other initiatives to protect worker health, such as standards to reduce worker exposure to beryllium and diacetyl, have dropped off the schedule.

The U.S. Environmental Protection Agency's (EPA) regulatory plan includes a number of important final rules that should improve environmental standards. Among the actions said to be in the final stages of development is a rule that would set greenhouse gas emission standards for new electric power plants for the first time. EPA will also revisit the air quality standard for ozone pollution that [the president ordered](#) the EPA to withdraw in September 2011. The proposed new standard limiting ground-level ozone pollution is now slated to be published in October.

Other actions remain stalled in earlier rulemaking stages, are identified only as long-term actions, or have disappeared from this year's regulatory plan altogether. Although EPA [proposed new standards](#) for the regulation of coal ash in 2010, [little progress](#) has been made toward issuing comprehensive national standards, and the rule has been pushed back to a long-term action in the last two regulatory plans. Especially troubling is the fact that EPA's proposed Chemicals of Concern List rule has languished at OMB for over two years. The proposed rule would add chemicals to a list of substances that present or may present an unreasonable risk of injury to human health or the environment and was submitted to OIRA for review in May 2010. The rule has now been excluded from EPA's regulatory plan, despite being listed in previous plans.

While EPA's plan includes a statement of the priorities established by Administrator Lisa Jackson, her departure from the agency could mean that these priorities, as well as the actions listed in the regulatory plan, will change.

This administration passed important legislation in its first term – the Affordable Care Act, the Food Safety Modernization Act, and the Wall Street Reform and Consumer Protection Act, among others. The president has promised action on climate change in his second term. But average Americans won't benefit from these laws until the regulations defining them are developed and approved. Unfortunately, the White House has not been aggressive or effective in promulgating rules, especially worker safety standards. With his "final election" behind him, and gridlock in Congress, we hope the president and his cabinet will begin to move important public health and safety rules through the regulatory process more quickly and efficiently. Without more deliberate efforts to speed the rulemaking process, the president's legislative legacy – and more importantly, the health and safety of many Americans – will be at risk.

Open Government Gets a Second Term

Four years ago, when Barack Obama assumed the office of the President of the United States, he signaled his commitment to open and accountable government with a set of directives and executive orders designed to make his administration “the most transparent in history.” Significant progress

was made in his first term, but the president's vision has not yet been translated into across-all-agencies improvements in openness, and in the area of national security, most civil liberties advocates are disappointed.

To secure its legacy as a transparency champion, the administration will need to focus more attention on improvements at the agency level, lift certain standards, and work with Congress to ensure its reforms are enshrined in law.

First-Term Foundation

In his [first inaugural address](#), President Obama pledged to "do our business in the light of day – because only then can we restore the vital trust between a people and their government." A revamped White House website went live with a promise that "President Obama has committed to making his administration [the most open and transparent in history](#)."

The administration quickly set to work to translate these commitments into action, issuing policies calling for greater use of the Internet to share documents and a new approach to administering the Freedom of Information Act (FOIA). In the early months of the administration, the White House issued additional policies tightening the standards for classified information and speeding declassification, protecting the transparency and credibility of scientific information, and reforming the system of controlled unclassified information.

But agency implementation of these policies has been mixed, according to available evidence. For instance, although several measures of FOIA performance have improved, key metrics – including the number of requests processed and the use of exemptions to withhold information – still lag behind the numbers achieved in the early years of the George W. Bush administration. In addition, when tasked with developing Open Government Plans, some agencies offered detailed blueprints for bold and innovative changes, while others submitted plans with overly general language and few details or timeframes. Similarly, there was great variation in agency policies for protecting scientific information from political interference.

Next Steps to Advance Transparency

With its second inauguration, the Obama administration has the opportunity to re-commit to the vision the president offered when he took office in 2009. Building on the lessons learned from the first four years, the administration has a number of examples of successful implementation that it can use to push recalcitrant agencies to improve performance. It also needs to strengthen its policies and work with Congress to write reforms into law.

The White House needs to provide more leadership and step up its enforcement of open government principles across the agencies. To achieve consistently high performance across the federal government, White House staff should devote more time and resources to working with agencies on implementing various open government policies. Additionally, agencies should take steps to elevate open government as a mission goal and ensure a senior point person is charged with keeping openness initiatives on track.

A second critical component of lasting open government reforms should be a proactive legislative strategy. Only by writing open government advances into law can reforms be locked in to prevent backsliding by future administrations.

FOIA will continue to be seen as a bellwether of the president's open government commitments in the second term. New technological tools, such as [FOIAOnline](#), should be scaled up across government to maximize speedier processing and service improvements. Agencies should be pushed to comply with legal deadlines. And the Justice Department needs to rethink its stance on litigating FOIA cases.

Technology has been a touchstone of the Obama administration during the first term, and its importance and use is likely to increase in the second term. Building on the many positive steps over the past four years to post more government information online, proactive disclosure needs to become the norm across all federal agencies. New government-wide standards should be established for key information that agencies should routinely post online. To make the new standards easier to implement, agencies should also modernize the way they manage information and plan earlier about how to make the data accessible.

The first term of the Obama administration focused on establishing new formal open government policies. In its second term, the administration will need to better understand the informal cultural hurdles to openness to assure continued advances. It will need to conduct a broad examination of the incentives and norms that shape the decisions of personnel charged with making disclosure decisions for a real culture of openness to be established.

The Center for Effective Government will be releasing a more complete assessment of transparency in the Obama administration's first term, including more detailed recommendations for the future, in the coming weeks.



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