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Setting the Right Course in the Next Budget Agreement

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Introduction and summary

While the economy is steadily improving, this recovery has done little or nothing for the household budgets of many middle-class and low-income Americans. This dynamic is dramatically illustrated by data compiled by economist Emmanuel Saez, which show that the top 1 percent of Americans reaped 58 percent of all income gains from 2009 to 2014.¹ Meanwhile, median wages have been stagnant since before the Great Recession, while at the same time, a middle-class standard of living has grown more expensive.²

The federal budget should address this challenge by building an economy that works for everyone—not just for the wealthy few. Instead, lawmakers have mostly spent the past several years implementing a misguided austerity agenda that pushes widespread economic growth further out of reach. Congress appears determined to enact more austerity measures this year—an action that would mean extending budget cuts from earlier years and deepening cuts to some sectors.

It is difficult to understand the full impact of these budget cuts since they affect an enormous number of sectors and programs, but many of the worst impacts can be grouped into two categories. In each category, this report examines three specific examples.

First, budget cuts reduce the economic investments that lawmakers should be making to strengthen the middle class and help Americans who are struggling to climb into the middle class. These investments, which include the three sectors outlined below, would help build an economy that works for everyone.

- **Infrastructure.** Instead of creating jobs by increasing infrastructure investment—as advocated by economic, business, and labor organizations—Congress is debating which infrastructure programs to cut.
- **Education.** Congress is cutting programs that foster improvement and innovation in public school systems, jeopardizing financial aid for college students, and scaling back efforts to expand access to high-quality early childhood education.

- **Affordable housing.** At a time when millions of Americans cannot find a safe and affordable place to live, Congress is making deep cuts to programs that increase the supply and accessibility of affordable housing.

Second, and perhaps more subtly, federal budget cuts undermine vital government functions that promote fair treatment for all Americans. Many of the agencies and programs facing cuts, including the three listed below, provide safeguards that prevent the playing field from tilting toward the wealthy few.

- **Environmental protection.** Big polluters would get a windfall from budget cuts and other restrictions on environmental programs—but these cuts would leave the American people with more pollution, deteriorating public lands, and job losses.
- **Tax assistance and enforcement.** Cutting the budget of the Internal Revenue Service, or IRS, makes it easier for large corporations and the wealthy to outmaneuver the government in order to avoid paying their fair share. Meanwhile, the IRS barely has the bandwidth to answer questions from ordinary taxpayers.
- **The legislative branch.** By hollowing out the public institutions that provide in-house expertise to Congress, lawmakers are increasingly outsourcing policy analysis to special interest groups.

The cuts that Congress is preparing to make this year can be traced back to the Budget Control Act of 2011 and its discretionary spending caps. Discretionary spending is the portion of the federal budget that Congress allocates each year in appropriations bills. The Budget Control Act also included a provision called sequestration that further lowered the spending caps and imposed separate caps for defense and nondefense funding after lawmakers failed to negotiate a follow-up deficit reduction package.

Lawmakers lifted the spending caps above sequestration levels in fiscal years 2014 and 2015, but this relief expires with the beginning of FY 2016 on October 1, 2015.³ In his FY 2016 budget, President Barack Obama called for increases of equal size to the defense and nondefense spending caps.⁴ In contrast, Congress chose austerity for nondefense programs in its budget resolution, which keeps the nondefense sequester cap in place for FY 2016 and advocates even more extreme cuts in later years.⁵ This congressional austerity does not extend to defense programs, however, where Congress is using a budget gimmick to increase defense spending to roughly the same levels that President Obama recommends.⁶

In a statement published in June, the White House wrote that President Obama “is not willing to lock in sequestration going forward, nor will he accept fixes to defense without also fixing non-defense.”⁷ If Congress and President Obama do not reach a budget deal by October 1, 2015—or pass a continuing resolution to provide more time for negotiations—the federal government will shut down.

Since Congress and the president agree that FY 2016 defense spending should be increased above sequestration levels, there are two remaining questions that must be settled before a budget deal can be completed. The first question is whether to increase the nondefense spending cap along with the defense cap; the second is whether to offset the cost of these spending increases—and, if so, determine which deficit-reducing policies to include in the deal.

To ensure that a potential budget deal takes positive steps toward building an economy that works for all, the Center for American Progress recommends the following actions:

- **Lawmakers should raise the nondefense spending cap to the presequester level and provide an equal amount of relief for the defense budget.** Given the substantial need to increase economic investment, it makes no sense to provide more relief for defense programs than for nondefense programs. This recommendation for nondefense discretionary spending is based in part on what is politically feasible for a budget deal, and it should be noted that even the presequester cap would be a relatively austere allocation for the nondefense discretionary budget.
- **Lawmakers should include new revenue in the budget deal if that deal includes deficit-reducing policies to offset the cost of sequester relief.** Federal spending projections have fallen dramatically over the past several years, and inadequate revenue has become a larger problem.⁸ But while the United States still faces long-term fiscal challenges, the short-term budget outlook is stable. Therefore, if lawmakers cannot agree on deficit reduction that includes revenue, increasing the sequestration caps without offsets would be preferable to leaving sequestration in place.

This report begins by reviewing the current fiscal landscape and the outlook for defense and nondefense programs under sequestration. The second section examines Congress’ FY 2016 appropriations bills to gauge the impacts of sequestration on a selection of key nondefense programs. The third section deals with the question of budget offsets and the necessity of including revenue in any deficit reduction agreement.

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As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

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We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

