Ensuring Necessary Funding for Ending AIDS in the U.S.

Sequestration and the Fiscal Cliff

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BUDGET CONTROL ACT
OF 2011
Overview of the Budget Control Act (BCA)

• Raising the Debt Ceiling: Established process and authorization for the President to raise the federal debt ceiling through the beginning of 2013.

• Phase One Deficit Reductions: Established 10-year discretionary spending caps to achieve nearly $1 trillion in savings.

• Phase Two Deficit Reductions: Established a joint bipartisan Congressional committee process to achieve a goal of $1.5 trillion in additional deficit reduction.

• Phase Two Deficit Reductions: Establishes an enforcement mechanism ("sequestration") to guarantee $1.2 trillion in additional spending cuts if Congress fails to act.

• Balanced Budget Amendment: Mandates a vote by House and Senate on a balanced budget amendment.
Phase One Deficit Reductions

- Estimated savings of $917 billion over the 10 years (CBO estimate).
- Sub-caps on a 50/50 basis for security* and non-security spending for FY 2012 and FY 2013. “Firewall” between the 2 sub-caps (such that security spending cannot be increased by lowering non-security spending).
- No sub-caps for FYs 2014-21.
- No effect on entitlement programs such as Medicaid and Medicare

*Note that “security” in this case includes additional groups outside the traditional definition of security. It includes defense spending, Homeland Security, Veteran Affairs, and some State Department spending.
Phase Two Deficit Reductions

'Super committee' fails to reach agreement

CNN Politics, Nov. 21, 2011
Phase Two Deficit Reductions – Sequestration

- Enforcement mechanism kicks in January 2, 2013 to make across-the-board spending cuts.
- Spending cuts split 50/50 between defense* and non-defense over 9 fiscal years, through FY 2021.
- Medicare cuts capped at 2%, from payments to providers (no direct benefit cuts).
- Entitlement programs, including Medicaid and Social Security, and a number of low-income entitlement programs are exempt from across-the-board cuts.

*In this case the traditional definition of defense spending which includes the Pentagon and spending in the Department of Energy in relation to weapons research, maintenance, cleanup, and production.
Sequestration

The automatic spending cuts—sequestration—were designed so that they would never go into effect.
Sequestration

Overview:

Deficit reduction total: $1.2 trillion
Debt service savings $216 billion
Total sequestration $984 billion
Amount per year $109.3 billion
Defense programs $54.7 billion
Non-defense programs $54.7 billion

*
Sequestration

Process for FY 2013 will be different from that for the next eight years.
In FY ‘13, there will be proportional, across-the-board cuts to non-defense discretionary (NDD) programs.
Sequestration

For fiscal years 2014-2021, spending cuts will be achieved through lowering further the spending caps mandated by the BCA.

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Sequestration

Last month, the Office of Management and Budget issued a report estimating the spending cuts for FY ‘13:

8.2 % cut in NDD programs
Sequestration

Sequestration is a blunt and indiscriminate instrument. It is not the responsible way for our Nation to achieve deficit reduction.

This report...makes clear that sequestration would have a devastating impact on important defense and nondefense programs.

OMB Report Pursuant to the Sequestration Transparency Act

*
Sequestration

On the nondefense side, sequestration would undermine investments vital to economic growth, threaten the safety and security of the American people, and cause severe harm to programs that benefit the middle-class, seniors, and children.

OMB Report Pursuant to the Sequestration Transparency Act
Possible change in deficit = $606 billion

- Bush-era tax cut expiration $221 billion
- Payroll tax relief expiration $105b
- Tax extender expiration $95b
- Budget sequester $65b
- Health care $18b reform taxes
- Emergency unemployment benefits $26b
- Medicare doctor payment cut $11b

Need a Balanced Approach

- NDD programs already have been cut by nearly $1 trillion over 10 years.
- Only viable replacement for the sequester is a balanced approach to deficit reduction.
- A bad deal is a bad deal—should not replace sequestration.
Questions and Comments?