



U.S. HOUSE OF REPRESENTATIVES

## COMMITTEE ON THE BUDGET

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### Understanding Sequester: An Update for the 115<sup>th</sup> Congress

The Budget Control Act of 2011 (BCA) created a Joint Select Committee on Deficit Reduction (the “Supercommittee”), which was tasked with reaching agreement on a comprehensive deficit reduction package. When the Supercommittee failed, backup procedures in the law created an enforcement mechanism of automatic cuts. This mechanism requires nine annual sequestrations of \$109 billion, which together with related debt service would reduce the deficit by \$1.2 trillion. The procedure was meant to spur the Supercommittee to agreement; sequestration was thought to be so outrageously imprudent – such an intensely misguided, ill-considered, and poorly targeted method to achieve deficit reduction – that negotiators would compromise before resorting to it. Unfortunately, a compromise was not reached, and thus the “sequester” took effect.

The first of these annual sequestrations took effect in March 2013. While reductions, in some form, have continued in every year since, Congress has taken steps to mitigate the harmful cuts mandated by sequestration. However, without action, vital government programs are facing significant cuts for fiscal year 2018 that would have harmful effects on Americans all across the country.

#### How the Sequester is Allocated

The required savings come half from defense programs and half from non-defense programs. The defense category is the federal budget's national defense function, which includes the Department of Defense, nuclear-weapons related activities at the Department of Energy, and the national security activities of several other agencies (such as the Coast Guard and Federal Bureau of Investigation). Non-defense is everything else.

Within each half, the savings are allocated to discretionary programs and a set of mandatory programs proportionally. Discretionary programs are funded by annual appropriations bills, while the cost of mandatory programs (also known as direct spending, or entitlement spending) is generally determined by eligibility criteria established by law. Most mandatory spending (such as Medicaid and Social Security) is exempted from sequestration. The Office of Management and Budget calculates the dollar amount of the reduction to be taken from each category.

NOTE: Unless part of a bill title or date, all years are fiscal years.

Under this formula, roughly one-third of the non-defense savings come from mandatory spending and the rest from a reduction in the discretionary caps. Because defense has almost no mandatory programs, nearly all of the defense reduction comes from discretionary programs.

As explained below, because of the negative consequences of these severe cuts, Congress has yet to allow the full discretionary sequester cuts to take place. But without action, their full impact would be felt in 2018 (This would represent a cut from the original BCA cap of \$38 billion (6.9 percent) for non-defense funding, and \$54 billion (9.0 percent) for defense funding). Mandatory spending cuts (about \$18 billion in cuts for non-defense programs and less than \$1 billion in cuts on the defense side) have largely been allowed to occur.

**“Sequester”** typically refers to the cancellation of budgetary resources after enactment.

This is true for direct spending subject to the BCA’s deficit reduction sequester, but in the case of discretionary funding, the “sequester-level spending caps” constrain total appropriations, rather than reduce funding after enactment.

### Impact on Discretionary Spending

For discretionary programs, the deficit reduction sequester is implemented by adhering to lowered defense and non-defense spending caps, and not through across-the-board cuts. Congress can choose to cut or spare individual programs through the appropriations process.

	2016	2017	2018
<b>Original BCA Caps</b>			
Defense	577	590	603
<u>Non-Defense</u>	<u>530</u>	<u>541</u>	<u>553</u>
Total	1,107	1,131	1,156
<b>Post-Sequester Levels</b>			
Defense	523	536	549
<u>Non-Defense</u>	<u>493</u>	<u>504</u>	<u>516</u>
Total	1,017	1,040	1,065
<b>BBA15 Caps*</b>			
Defense	548	551	549
<u>Non-Defense</u>	<u>518</u>	<u>519</u>	<u>516</u>
Total	1,066	1,070	1,065

Discretionary BA in billions

\*BBA15 did not change the 2018 caps

(If Congress provides more funding than allowed under the caps, an additional automatic across-the-board mechanism would be triggered to bring spending back to the cap.)

Since austerity-level sequester caps were set in motion, it has been clear that this level of spending is too low to be practical. As a result, Congress has never allowed the full cuts to take effect. Most recently, in October 2015, the Bipartisan Budget Act of 2015 provided discretionary sequester relief for 2016 and 2017. That Act also called for an increase in war funding above the President’s request. War funding is not constrained by the discretionary caps.

That Act made funding for 2016 through 2018 essentially level. While the total cap for 2016 and 2018 is almost the same in nominal terms, the 2018 level represents a real cut to purchasing

power. If the inflation rate is what the Congressional Budget Office projects, the 2018 cap represents a reduction of nearly \$50 billion compared to 2016.

**Impact on Mandatory Spending**

Under the BCA, across-the-board reductions are made to all mandatory programs that are not specifically exempt. However, most mandatory spending is exempt, including Social Security, veterans programs, Medicaid and other low-income programs, and net interest. In addition, the cut is limited for certain programs, such as Medicare, which receives cuts to providers that are capped at 2 percent regardless of the size of the sequester.

Mandatory Sequester – Percentage Cuts by Year					
	2013	2014	2015	2016	2017
Defense	-7.9%	-9.8%	-9.5%	-9.3%	-9.1%
Non-Defense					
Medicare	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Other	-5.1%	-7.2%	-7.3%	-6.8%	-6.9%

Even though the Medicare cut is limited, it still comprises about two-thirds of the non-defense mandatory sequester in dollar terms. The remaining reductions come mostly from farm programs, but student loans, the Social Service Block Grant, vocational rehabilitation, and dozens of other programs are affected.

Excluding 2013, eligible non-defense non-Medicare mandatory programs have been cut through sequester by about 7 percent; defense mandatory programs by between 9 and 10 percent. This represents the full cuts called for under the Budget Control Act. Unlike discretionary spending, sequestration of mandatory spending has never been reduced and has even been extended for more years.