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**TESTIMONY OF
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BEFORE
HOUSE ARMED SERVICES COMMITTEE**

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Mr. Chairman, Ranking Member Smith, members of the Committee, good morning.

I am here today to discuss the automatic spending reductions for fiscal year (FY) 2013 required by section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended by the Budget Control Act of 2011 (BCA), commonly referred to as “the Joint Committee sequestration,” as well as the impacts of these reductions and the actions the Administration is taking to prepare to implement the sequestration, should it be necessary, on January 2nd, 2013.

I want to start today by reiterating a point the Administration first made when the President signed the BCA last August: the Joint Committee sequestration, by design, is bad policy, and Congress should pass balanced, bipartisan deficit reduction to avoid it. The intent of including the sequestration in the BCA was to encourage Congress to enact a compromise deficit reduction plan through the threat of mutually disagreeable cuts to both defense and non-defense programs. If allowed to occur, the sequestration would be highly destructive to domestic investments, national security, and core government functions.

The BCA, which passed both chambers of Congress with bipartisan majorities, reduces the deficit through two mechanisms. First, it established binding discretionary caps that reduce the deficit by almost one trillion dollars over the next decade and reduce non-security discretionary spending to the lowest level as a share of the economy since the Eisenhower Administration. These cuts are divided between non-security and security agencies, with the Department of Defense (DOD) included as a security agency. It included a firewall between the two sides in the first two years to ensure that neither side bore the full brunt of these reductions. This commitment to shared burden is a principle that is consistent throughout the BCA deficit reduction framework. The President’s FY 2013 Budget complied with these caps as originally defined, making difficult choices across all discretionary programs.

Second, the BCA established a congressional Joint Committee charged with the task of developing a proposal that would achieve at least \$1.2 trillion in deficit reduction and provided for expedited consideration of a deficit reduction package if it received a majority of votes on the Joint Committee. However, last November the Joint Committee announced that it could not reach agreement on a balanced, comprehensive deficit reduction plan. This failure triggered an enforcement mechanism of automatic funding cuts, known as sequestration, beginning on January 2, 2013, to achieve the required deficit reduction. These cuts total approximately \$109 billion a year from FY 2013 through FY 2021, split evenly between defense and non-defense programs. In FY 2013, savings would be achieved through a blunt, across-the-board cut to Federal funding, with the bulk of the reductions coming from discretionary programs. From FY 2014 through FY 2021, the reductions in discretionary funding would be implemented by reducing the discretionary caps, and non-exempt mandatory programs would be sequestered each year.

Specific details about percentage reductions and the amount of the reduction by program, project, and activity (PPA) cannot be known at least until Congress enacts appropriations for FY 2013 and finalizes any legislation affecting mandatory programs, as both types of legislation could affect the allocation of the reduction. However, a CBO report released last September estimated that base defense discretionary funding would be cut by approximately 10 percent, while non-defense discretionary spending would be cut by almost 8 percent. In practical effect, the percentage cut would be even greater given that one-fourth of the fiscal year will have already elapsed by the date of any sequestration order on January 2, 2013.

As prescribed by the BCA, these cuts would indiscriminately impact all programs without regard to priorities or function, except for programs that Congress exempted in law. A great deal has been written about the devastating effects the sequester will have on defense programs, and I am sure that Deputy Secretary Carter will provide additional details on those impacts. But less attention has been paid to the equally destructive effects sequestration will have on non-defense programs.

An eight percent reduction in non-defense discretionary funding would cause severe harm to many of the investments most critical to our country's long term economic growth. More than 16,000 teachers and aides responsible for educating thousands of children would lose their jobs. In addition, 700,000 women and children would lose the nutrition assistance they need to remain healthy. 100,000 kids would lose places in Head Start, which helps them begin school ready to learn. The National Institutes of Health would have to halt or curtail vital science, such as research on cancer and childhood diseases. Let me underscore this point -- the across-the-board cut required by the BCA would jeopardize critical programs that improve children's health and education, adversely impacting future generations.

Beyond these sharp reductions in critical investments for children, the sequestration would also undermine basic services that Americans expect from their government. The Federal Aviation

Administration, which ensures that air travel is safe, would face significant cuts in operations. Food safety and workplace safety inspections would be slashed. The number of FBI agents, Border Patrol agents and transportation safety staff would decline — making the country less safe and secure. Numerous national parks would have to close in whole or in part. And, our nation's ability to forecast severe weather, such as drought events, hurricane, and tornadoes could be seriously undermined. The National Weather Service could face system outages at critical times, leading to reduced data availability for forecasters, and delayed upgrades in critical weather forecasting systems. These cuts — and the thousands of others that sequestration would compel — would be devastating. That is why the President believes that enacting a balanced deficit reduction package that would avoid sequestration should be the focus of Congress's efforts.

To this end, the President has put forward legislative proposals on two separate occasions to responsibly avoid these cuts: first, in the President's Plan for Economic Growth and Deficit Reduction that was presented to the Joint Committee in September, and second, in the President's FY 2013 Budget. Both of these plans made tough choices to reduce the deficit with a balanced package of spending cuts and revenue increases. Both plans included over \$4 trillion in deficit reduction (including the deficit reduction in the BCA itself), far exceeding the amount that would have been required of the Joint Committee to avoid sequestration.

Instead of working to enact a balanced deficit reduction package to avoid the threat of sequestration, some members of Congress have focused on unbalanced solutions that rely solely on spending cuts or try to alter only part of the Joint Committee sequestration. These proposals do not represent realistic ways to advance the conversation and avoid sequestration. Unlike the President's Budget, they are inconsistent with the conclusions of numerous independent and bipartisan groups that recommend a comprehensive, balanced deficit reduction package comprised of both spending cuts and revenue increases.

More recently, attention in Congress has focused on seeking information from the Administration on planning and preparing for sequestration. I want to stress that if required, OMB will be prepared to implement sequestration on January 2, 2013. However, we believe the right course of action is for Congress to act to avoid sequestration well in advance of that date.

In the unfortunate event that Congress fails to pass a balanced deficit reduction package to avoid sequestration in advance of January 2, OMB's implementation of sequestration will be governed by the procedures set forth in BBEDCA, as amended by the BCA. Under that law, OMB has very little flexibility or discretion in implementing sequestration. Due to the failure of the Joint Committee established by the BCA, annual savings of approximately \$109 billion will be required, split evenly between non-exempt defense programs, as designated by budget function 050, and all other non-exempt programs.

As I noted before, it is impossible at this time to determine the exact amount of the reductions that will be required in any given account or program. First and foremost, we do not yet know the FY 2013 funding levels, which represent the base to which the automatic reductions to discretionary spending will apply, and which must therefore be known in order to calculate the across-the-board percentage reduction. In addition, the FY 2013 appropriations will govern how the cuts will be applied within each account. BBEDCA requires that the same percentage reduction apply equally to all PPAs within a budget account. These PPAs can change from year to year and differ substantially in their level of specificity between budget accounts. In executing the sequestration, OMB would apply a uniform percentage reduction at the account level, which would apply equally across PPAs within an account as identified by agencies. The reductions required by sequestration at the PPA level cannot be fully known at least until the FY 2013 appropriations are enacted.

Beyond the FY 2013 appropriations, BBEDCA requires that unobligated balances be factored into the sequestration calculation for defense programs. The level of unobligated balances will not be known for some time. Further, baseline mandatory outlays may need to be adjusted based on legislation enacted over the coming months, which will impact the calculation of the sequestration percentage. In addition, under BBEDCA, the President may exempt all or parts of military personnel funding from sequestration, provided he notifies Congress of the manner in which he will exercise such authority on or before August 10. All of these may affect the allocation of the reductions required by sequestration.

Once the uniform percentage reduction is determined, the cut will apply to all non-exempt accounts in equal measure. In this respect, the Joint Committee sequestration would operate like other sequestrations that are used for budget enforcement purposes, such as a sequestration of discretionary funding pursuant to section 251(a) of BBEDCA to enforce the discretionary caps or a PAYGO sequestration pursuant to the Statutory Pay-As-You-Go Act of 2010. However, unlike other experiences with sequestration mechanisms, the magnitude of the Joint Committee sequestration will present unique challenges that cannot be mitigated by planning or using existing authorities to reallocate funding among accounts.

The President remains confident that Congress will act to avoid the sequestration through a balanced deficit reduction package—the very task the BCA charged Congress with accomplishing. But because Congress has not yet made progress towards enacting sufficient deficit reduction, OMB is beginning the analysis necessary to issue a potential a sequestration order on January 2, 2013. The implementation of that order will bring a host of other challenges—most prominently, the need to revise plans for agency operations during the remainder of FY 2013 in order to comply with the substantially reduced funding levels to be specified in the January 2, 2013 sequestration order. The preparation for such a devastating contingency, once undertaken, would necessarily divert scarce resources from providing other important agency services and meeting other priorities—to say nothing of the disruptive effects this exercise would have on the Federal workplace, Federal employees and contractors, and their

families. Instructing the government to prepare for significant sequestration-induced disruptions—including potentially widespread furloughs or even reductions in force—could inadvertently trigger some of the negative effects of sequestration even if sequestration never happens (as it was never intended to do). This is why it is particularly critical for Congress to take prompt action to avoid the sequestration through a balanced deficit reduction package.

Of course, OMB's preparations to issue a sequestration order on January 2, 2013 do not change the fact that the Joint Committee sequestration is bad policy, was never meant to be implemented, and should be avoided through the enactment of bipartisan balanced deficit legislation. Let me be clear: the impact of sequestration cannot be lessened with advance planning and executive action. Sequestration is a blunt, indiscriminate instrument designed to force Congressional action on achieving a balanced deficit reduction plan. It is not the responsible way for our nation to achieve deficit reduction. It is not a credible substitute for a responsible deficit reduction plan. Time remains for Members of Congress to work together to produce a balanced, bipartisan deficit reduction plan that achieves at least the level of deficit reduction agreed to in the BCA that the President can sign to avoid the sequestration. The Administration stands ready to work with Congress towards this type of plan.

Thank you. I am happy to answer your questions.