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**TESTIMONY OF
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BEFORE
SENATE APPROPRIATIONS COMMITTEE**

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Madam Chairwoman, Ranking Member Shelby, members of the Committee, good morning.

I am here today to discuss the automatic spending reductions, known as sequestration, required by section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, 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 March 1, 2013.

I want to start today by reiterating a point that the Administration has made on numerous occasions: sequestration is bad policy, and the Administration believes that Congress should pass balanced, bipartisan deficit reduction to avoid it. If allowed to occur, sequestration would have a wide range of significant and destructive consequences for domestic investments, national security, and core government services. The President believes that these indiscriminate, across-the-board cuts are not a responsible way to address our collective goals of balanced deficit reduction. Instead, what we need, and what the Nation deserves, is a comprehensive package of deficit reduction that balances additional revenues with targeted spending cuts, while continuing to make investments in research, education, and infrastructure that create jobs and strengthen the middle class.

Working together with Congress, we have already made significant progress in this regard, enacting more than \$2.5 trillion in deficit reduction over the past two years. The vast majority of this deficit reduction has come in the form of spending cuts, with roughly three dollars in spending cuts for every one dollar in additional revenue. The President believes that we need to continue to have a balanced approach to further deficit reduction that includes spending cuts as well as common-sense tax reform that can raise additional revenue. That is why he has put forward sensible reforms that would further reduce spending in Medicare and other entitlement programs as part of a broader plan to reduce the deficit by a total of over \$4 trillion, the level economists and elected officials from both parties recognize is needed to stabilize our debt. This

balanced approach, as opposed to the indiscriminate, irresponsible cuts imposed by sequestration, is the right path towards continuing to reduce our deficit.

From the beginning, the inclusion of sequestration as part of the Budget Control Act of 2011 (BCA) was meant to be a forcing mechanism to encourage Congress to pursue just this type of balanced deficit reduction. The BCA, which was passed with bipartisan majorities in both chambers of Congress and signed by the President, reduces the deficit through two mechanisms. First, it establishes binding discretionary caps that reduce the deficit by almost one trillion dollars over ten years. Coming on top of hundreds of billions of additional discretionary cuts enacted earlier in 2011, the caps reduce discretionary funding to its lowest level as a share of the economy since the Eisenhower Administration over half a century ago. These are significant and difficult cuts to discretionary spending that are already locked in, and they represented an important first step down the road towards balanced deficit reduction.

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. 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, to achieve the required deficit reduction. In fiscal year (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 budget caps, and non-exempt mandatory programs would be sequestered each year.

As part of the American Taxpayer Relief Act (ATRA) of 2012, the date on which the President would have to issue a sequestration order was delayed by two months, from January 2, 2013 to March 1, 2013. This delay was paid for in a balanced manner, with \$24 billion in deficit reduction split evenly between additional revenue and spending cuts. This approach set an important precedent of avoiding sequestration through balanced deficit reduction that combines additional revenue and spending cuts, and the President believes that Congress should adhere to this precedent in enacting additional deficit reduction.

Should Congress fail to act in the next two weeks, a sequestration of approximately \$85 billion will be imposed for the remainder of FY 2013, split evenly between Defense and non-Defense programs. As required by law, the sequestration would be applied as a uniform percentage reduction to all non-exempt budgetary accounts, and the reductions would then be implemented equally across all programs, projects and activities (PPAs) within each account. While the Office of Management and Budget (OMB) has not yet finalized the percentage reductions that would apply to all non-exempt accounts, our preliminary estimates indicate that sequestration would require a reduction of roughly 5 percent for non-Defense programs and roughly 8 percent for Defense programs. Importantly however, these percentage reductions are based on the assumptions of a full year of budget authority. In reality, should a sequestration order have to be

issued on March 1, agencies would be required to implement the cuts over the remaining seven months of the fiscal year, meaning that in many programs the effective cuts would be closer to 9 percent for non-Defense programs and 13 percent for Defense programs when compared to what agencies would spend during this period under normal circumstances. Any budgetary cuts of this magnitude would have significant repercussions, regardless of how they are applied.

The sequestration would lead to a number of deeply troubling consequences in critical government programs that we all depend on. It would mean fewer teachers to educate our children, less funding for schools to help disadvantaged students or children with disabilities, and less research into life-threatening diseases. It would cut nutrition assistance for vulnerable populations, reduce funding for essential mental health programs, and eliminate resources provided to small businesses and homeowners. It would keep Federal agencies from conducting the inspections necessary to keep our food, our air, and our water safe and clean. It would make our country less secure at home, reducing our ability to protect our borders, stay ahead of emerging cybersecurity threats, and keep crime off our streets and out of our neighborhoods. And it would make us less safe abroad by causing critical degradations in the support for and readiness of our Armed Forces.

Across the Federal Government, agencies will have to take significant and painful steps to implement sequestration. As my fellow witnesses today will testify, critical Federal grant and assistance programs would be cut, reducing or eliminating services and programs for millions of Americans. States and localities would see Federal aid slashed. The Department of Defense would have to reduce training and equipment maintenance for later deploying units, delay needed facilities maintenance, and significantly reduce investments in weapons programs. Core operations would have to be shut down or curtailed across nearly all Federal agencies. Businesses that work with the Federal Government would see their contracts reduced or terminated, which could lead to substantial job losses. And agencies would have to consider wide-ranging furloughs of hundreds of thousands of Federal employees, preventing them from carrying out their duties on behalf of the American people and slashing the paychecks they rely on to support their families.

There is no amount of planning or preparation that can avoid these damaging impacts. Prudence dictates, however, that the Federal Government take all reasonable steps to be ready to implement sequestration in the most responsible way possible. Accordingly, Federal agencies and OMB have been engaged in ongoing planning activities for months to determine how to operate under a potential sequestration.

In conducting this planning, we must keep in mind our primary responsibility to execute our core mission areas on behalf of the American people and take all appropriate steps to protect this mission to the extent possible. With that as a framework, OMB has instructed agencies to adhere to a number of specific guiding principles in their planning efforts, such as:

- identifying and addressing operational challenges that could potentially have a significant deleterious effect on the agency's mission or present risks to life, safety, or health;
- reviewing grants and contracts to determine where cost savings may be achieved in a manner that is consistent with the applicable terms and conditions, remaining mindful of the manner in which individual contracts or grants advance the core mission of the agency;
- identifying the most appropriate means to reduce civilian workforce costs where necessary; and,
- taking into account funding flexibilities, including the availability of reprogramming and transfer authority.

OMB has issued multiple memoranda to agencies to help provide guidance and clarity on navigating these issues, as well as held regular discussions with senior leadership across the Executive Branch. In September, OMB also issued a roughly 400-page report providing detail regarding the reductions that would be required in more than 1,200 budget accounts in the event of sequestration, given certain assumptions specified by law. Let me assure you that, should a sequestration order have to be issued by the President on March 1, we will be ready to implement the law.

That said, this preparation, while the prudent and appropriate thing to do, unfortunately diverts agencies' time and attention from their core missions in service of the American people, to say nothing of the disruptive effects and anxiety it imposes on Federal employees, contractors, and their families. It is wasteful and inefficient for the Government to operate under this cloud of uncertainty and to divert resources to plan for extraordinarily disruptive contingencies that are within Congress' authority to avoid.

Finally, it is important to reiterate that no amount of planning or preparation on our part, no matter how thorough or careful, can mitigate the significant and highly destructive impacts that sequestration would have. Sequestration is not a responsible way to reduce the deficit. Should Congress require more time to reach this goal and finish the job of deficit reduction, the President has made clear that the right course is to pass a small package of spending cuts and tax reforms that would delay the damaging effects of sequestration until Congress finds a way to replace these cuts with a smarter solution.

Sequestration is not a long-term solution for deficit reduction. The solution is a balanced approach of spending reductions and revenues that builds upon the significant deficit reduction we have already worked together to achieve, strengthens the middle class, protects investments critical to our Nation's continued growth and prosperity, and avoids sequestration.

Thank you. I look forward to answering your questions.