Peter G. Peterson Foundation
Our America. Our Future.

What You Should Know About the Sequester

February 28, 2013

WHAT IS SEQUESTRATION?

Sequestration is a process that cuts federal spending through across-the-board reductions. Lawmakers deliberately designed this 2013 set of automatic cuts to be undesirable, so as to encourage both political parties to develop a comprehensive deficit reduction package.

Half of the sequestration cuts will come from defense. Most of the remaining cuts will be made to non-defense discretionary spending programs — including scientific and medical research, education, national parks, food inspections, law enforcement, federal employee pay, grants to state and local governments, and the Head Start pre-school program. Notable exceptions to the cuts include:

- No cuts will be made to Social Security benefits and most other automatic spending programs, like Medicaid.
- Cuts to Medicare are limited to two percent of what the program would otherwise spend and will come out of payments to physicians, hospitals, and other providers.
- Pay for military personnel is exempt.

HOW MUCH WILL BE CUT?

In fiscal year 2013 (which ends September 30, 2013), sequestration will result in cuts of about $85 billion.

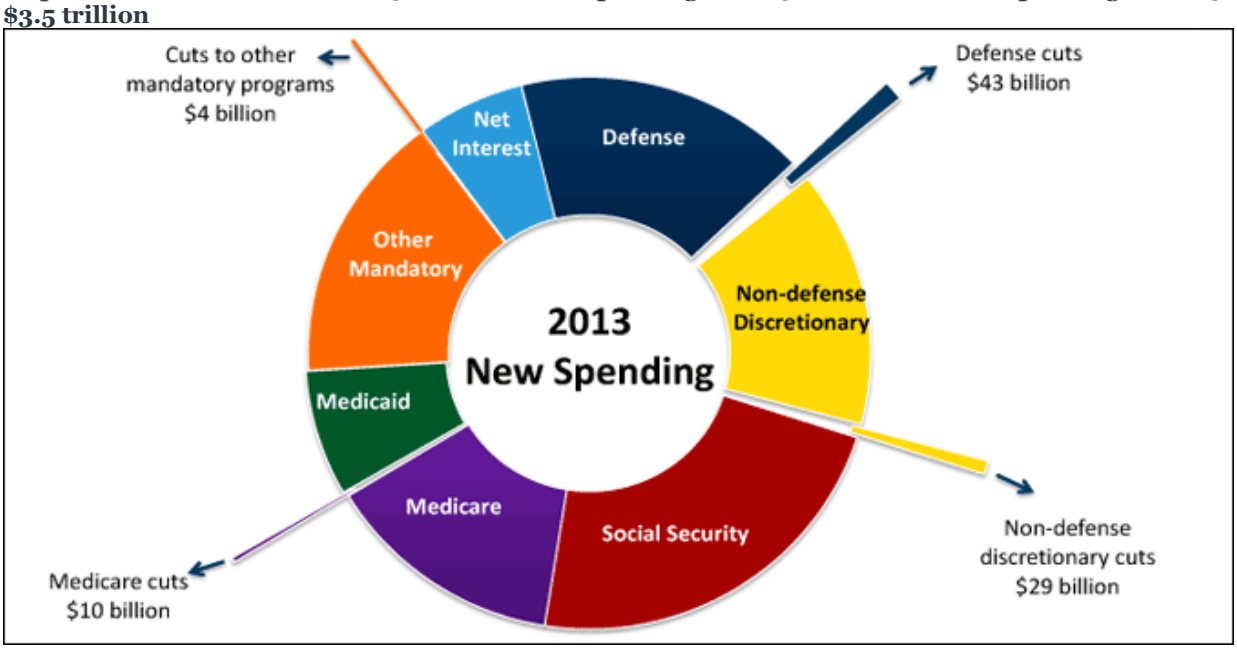
Billions of dollars

		Amount of Cut		
	Before Sequestration	$ billion	%	After Sequestration
Defense funding	648	43	6.6%	606
Non-defense discretionary	571	29	5.0%	542
Medicare	507	10	2.0%	498
Other mandatory	572	4	0.7%	568
Social Security, Medicaid, Net Interest (Exempt)	1,304	0	0.0%	1,304
Total	3,602	85	2.4%	3,517

Totals may not add due to rounding.

As a share of the total budget, the sequester is relatively small and reduces total funding for government by only 2.4 percent. However, because many programs are exempted from sequestration, the impact on the affected programs will be more pronounced.

Sequestration will eliminate $85 billion in new spending in 2013 and reduce total spending from $3.6 trillion to $3.5 trillion



SOURCE: Data from the Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013. Compiled by PGPF. In this chart, spending is measured by new budget authority, which allows agencies to obligate federal funds.

WHY IS THIS HAPPENING NOW?

The Budget Control Act of 2011 reduced deficits through 2021 by imposing caps on future discretionary spending. It also created a Congressional "Supercommittee" to identify an additional $1.5 trillion in deficit reduction. If that process failed — as it did — the fallback option included sequestration, totaling about $1.2 trillion over 10 years.

The cuts were originally scheduled to go into effect on January 2, 2013, but, as part of the fiscal cliff agreement, Congress and the President delayed the start of sequestration by two months. That is why the sequester will now go into effect on March 1.

IS SEQUESTRATION A GOOD IDEA?

Nearly everyone agrees that sequestration is not a good way to manage the budget. People on both sides of the aisle have identified flaws in the sequester process, including:

1) By enacting across-the-board cuts, federal agencies cannot protect high-priority, efficient, and well-run programs or eliminate wasteful and inefficient programs. This is not the best way to manage the federal government.

2) By focusing the vast majority of cuts on discretionary spending, the sequester does not reform the real drivers of our long-term deficits. Social Security and health care programs like Medicare and Medicaid will continue to drive spending growth, and revenues will continue to fall short of our needs. In fact, even without the upcoming automatic spending reductions, discretionary spending is already on pace to decline as a percentage of our economy over time. Furthermore, discretionary spending includes investments in education, research, and infrastructure — all areas that can be helpful to future economic growth.

3) The reductions are coming at a time when the economic recovery is still fragile. The Congressional Budget Office estimates that the economy will grow more slowly in 2013 — 1.4 percent instead of 2.0 percent — due to sequestration.

Regardless of what happens with the sequester March 1, the Peterson Foundation believes that the best way to solve our long-term fiscal challenges is for both parties to agree on a comprehensive plan that addresses the real drivers of long-term debt. As a country, we can stabilize long-term debt as a share of our economy and put it on a downward path, while still protecting the most vulnerable in our society.