The Daily Dish

Do Pass Go, Do Collect $25 Billion

GORDON GRAY | DECEMBER 9, 2022

Congress may or may not get around to fully funding federal agencies this year. Lawmakers are presently at an impasse over relative funding levels for defense and nondefense programs, among other policy considerations. Perhaps more consequential than the policy is the politics, given that the House of Representatives will have a new majority in the 118th Congress. Whether the next Congress can shape a more perfect omnibus appropriations act next year is unclear, but that hope may be sufficiently prevailing to bring out the congressional punting team this year.

One upside of the new year for those exercising the power of the purse is a new 10-year budget window. When the Congressional Budget Office (CBO) estimates the budget effects of legislation, it does so over a 10-year period known as the budget window, which currently spans the period 2023–2032. When CBO updates the baseline next year, the window will advance a year to 2033. One aspect of this shift is that, in nominal terms, federal budgetary flows get predictably bigger. Another, perhaps more meaningful, aspect of this shift is the opportunity to renew policies that expired at or near the end of the prior budget window. For one policy in particular, this means tens of billions in "offsets" that policymakers can look forward to spending away in the future. Specifically, the new window allows policymakers to renew their new favorite offset – the mandatory Budget Control Act (BCA) sequester.

Back in antiquity (2011), the BCA created the Joint Select Committee on Deficit Reduction, also referred to as the "Super Committee," charged with coming up with a plan to reduce the deficit by at least $1.2 trillion. That didn't work out, which triggered a fallback mechanism, variously referred to as the "Joint Committee Reductions," "Automatic Spending Reductions," or more colloquially as just the "sequester." This mechanism was designed to achieve the $1.2 trillion in deficit savings (including interest costs) that the Super Committee failed to deliver by lowering the existing discretionary caps further and reducing funding for certain mandatory programs, largely Medicare. These mandatory savings amounted to about $17 billion when first imposed in 2013. According to the administration, these reductions will amount to about $25 billion in FY2023.

Getting Congress to agree to a $25 billion spending cut is ordinarily a tall order, but this particular mechanism has proven to be a popular bipartisan policy, provided the savings are turned around and spent. Indeed, Congress has now extended this policy seven times since 2013, such that it is currently in place through 2031 – a decade past its original expiration. Most recently, the policy was extended as part of the Infrastructure Investment and Jobs Act.

The BCA mandatory sequester has now become a relatively painless way to reduce future spending to pay for more immediate spending. This is a habit that Congress is unlikely to break, and with the new year, Congress will have a potential two-year extension to play with, and the $40–$50 billion that comes with it.