Policy Analysis

# Cato Institute Policy Analysis No. 119: Sequestration: Gramm-Rudman's Potent Weapon for Spending Restraint

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**Executive Summary**


As the battle over the 1990 budget drags on through the year, many policymakers will solemnly state that the deficit can only be reduced if taxes are increased. News reports will dutifully note that President Bush does not have the votes in the Democratic-controlled Congress to pass his budget, further adding to the conventional wisdom that taxes should be raised. Any signs that the Bush budget's economic projections will not be fulfilled will be taken as further evidence that more revenue is needed. Combined with standard criticisms that the president's proposed budget relies on gimmicks and creative accounting, it would appear that the White House is almost powerless in the fight against higher taxes.

Overlooked in this analysis, however, is the role of the Gramm-Rudman-Hollings Deficit Reduction Act. Most importantly, sequestration--the law's procedure for automatically restraining spending growth if the projected deficit exceeds the target by more than $10 billion--is a powerful tool for the executive branch. Unless Congress can muster a two-thirds vote to pass a tax increase over a presidential veto, George Bush can use a sequester to reduce the deficit without higher taxes. Congress could repeal or modify Gramm-Rudman, but such a step would also require legislation that the president could veto. Since it is very unlikely that Congress would be able to override either veto, policymakers would have little choice but to accept the sequester or enact a budget acceptable to the White House.

Few budget experts believe sequestration is the optimal outcome of the year's budget debate. However, as Federal Reserve Board chairman Alan Greenspan stated in testimony to the Senate Budget Committee, "it is certainly desirable, 1) to a tax increase, and 2) to especially doing nothing."[1] Unlike budget agreements that rely on one-time savings and promises to behave more responsibly in the future, sequestration imposes real reductions in the growth rate of federal spending. Furthermore, the Bush administration could improve its chances to avoid higher taxes next year by choosing a sequester this year because sequestration would significantly lower the spending baseline Congress will use when preparing the 1991 budget.

Although many observers thought George Bush would be a weak president, he has the power to control the outcome of the budget debate. So long as the White House is prepared to accept a sequester rather than renege on the commitment never to raise taxes, the president's opponents in Congress are almost powerless to stop him. A sequester strategy would be attacked, but, as will be explained, the benefits of a sequester, especially when compared with the costs of higher taxes, far outweigh the imagined liabilities.


## Is There a Case for Higher Taxes?

While sometimes hidden behind diversionary tactics and side issues, the budget debate has thus far revolved around whether or not taxes should be increased. Proponents of higher taxes maintain that spending has already been cut too deeply and that the only way to reduce the deficit is with a tax increase, especially since the deficit was caused by the Reagan "tax cuts." This line may go over well on the Sunday morning talk shows, but it is contradicted by the facts. Since 1980, federal spending has grown by 93 percent, up more than $550 billion. Nor did the 1981 "tax cuts" cause the deficit. Yes, the 1981 Economic Recovery Tax Act did reduce tax rates, as did the 1986 Tax Reform Act, but lower rates are not the same as lower tax collections. Tax revenues have increased by about $465 billion since 1980, up 90 percent. As with federal spending, the increase in taxes was well beyond what was needed to keep pace with inflation. As any third-grader with a calculator can explain, the deficit grew because spending increased even more than revenues.

The tax-increasers are equally wrong with their policy prescriptions today. They claim that the deficit cannot be reduced without additional revenue, but they conveniently overlook the fact that even the Congressional Budget Office (CBO) projects that tax revenue will grow by $86 billion next year. Reducing the deficit simply means that federal spending must grow by less than $86 billion. If spending growth is strictly controlled, the deficit will fall substantially. Simply limiting overall spending growth to what would be needed to keep pace with inflation would still mean the deficit would fall $30-$40 billion.

Many think this is an optimistic scenario given all the talk about the "unacceptably deep spending cuts" that would be required to meet the $100 billion 1990 Gramm-Rudman deficit target without raising taxes. There is a good reason that these numbers are inconsistent with those quoted on Capitol Hill. Congress has developed its own definition of a spending cut. Rather than using the definition understood by the American people--a cut is when you spend less next year than you are spending this year--Congress defines a cut as spending less than you would have if all spending programs were simply left on automatic pilot. The benchmark Congress uses to judge "spending cuts" is the current-services budget. If a program's budget is increased, but not by as much as the current-services budget calls for, that increase becomes a cut.

This Orwellian abuse of language is so ingrained in many people's minds that the Washington Post noted in an article shortly after the president released his budget: "One major reason for the confusion was the White House's startling new method of accounting. In the Bush budget, a program is deemed to be cut only if its spending falls below the prior year figures."[2] What is really startling is that politicians have been able to get away with manipulating the definition of a cut for so long. Fortunately, people are finally beginning to pay attention to the current-services fraud. The majority report of the National Economic Commission called for an end to it, and Sen. Rudy Boschwitz and Rep. Bill Frenzel, both Minnesota Republicans, have introduced legislation to eliminate this use of the current-services budget.

Honest accounting shows that the deficit can be reduced without spending cuts, although some spending cuts are certainly long overdue. Indeed, since federal tax collections are projected to increase by $300 billion over the next four years, the budget deficit can be eliminated while still providing well over $100 billion for additional spending or reduction of the national debt.

**More Taxes Mean More Spending**

Proponents of higher taxes claim that more revenues are needed to reduce the deficit. By making this statement, they are explicitly assuming that a tax increase would be used for deficit reduction instead of for increased federal spending. This assumption is proven false by historical analysis. As the charts in Appendix 1 showing taxes and expenditures over time for the United States and other countries illustrate, increases in tax revenues result in higher levels of spending. Deficits remain fairly constant or even increase slightly. The statement that a tax increase would simply increase spending, however, is more than just historical hypothesis. The Gramm-Rudman law virtually ensures that every dollar of additional tax revenue will result in another dollar of federal spending.

Simply stated, the Gramm-Rudman law already determines each year's deficit target. The deficit target in 1990, for instance, is $100 billion and will remain $100 billion whether taxes are raised or not. The only effect of more taxes is to allow Congress to meet the deficit target at a higher level of spending since Gramm-Rudman limits total spending in any one year to the sum of projected revenues plus the deficit target (plus a $10 billion "margin of error" for fiscal years 1990-92). Table 1 shows how much money Congress can spend between 1990 and 1993 according to current revenue estimates.

If Congress tried to enact a budget that spends more than the amounts in Table 1, sequestration would result, bringing spending back down to the sum of projected revenues plus the deficit target (there is no $10 billion cushion with a sequester). Of course, since the budget calculations upon which the sequester would be based are projections, it is highly unlikely that the actual deficit figures will equal those projected a year ahead of time. This estimation error will be even larger if the economic assumptions and other forecast variables are too optimistic.

**Table 1**
**Maximum Spending under Gramm-Rudman (in $ billions)**

| Projected Deficit | | | Maximum | |
|---|---|---|---|---|
| Year | Revenue | Target | Cushion | Spending |
| 1990 | 1,065.6 | 100 | 10 | 1,175.6 |
| 1991 | 1,147.6 | 64 | 10 | 1,221.6 |
| 1992 | 1,218.6 | 28 | 10 | 1,256.6 |
| 1993 | 1,286.6 | -0- | -0- | 1,286.6 |

Source: "Building a Better America," Office of Management and Budget, Feb. 9, 1989.

Note: Congressional Budget Office projections differ from those of OMB, but since sequestration is based on OMB projections, most numbers in this paper will be those published by OMB.

The budget figures for next year demonstrate the taxes- spending relationship. The administration estimates that tax revenues will total about $1.065 trillion next year if its budget is enacted. Since the deficit target is $100 billion, this means total spending cannot exceed $1.165 trillion ($1.175 trillion with the $10 billion cushion). What happens if Congress passes a $15 billion tax increase? Assuming, probably incorrectly, that the tax increase does not lower tax revenues by stunting economic growth, projected tax revenues would jump to $1.080 trillion. The Gramm-Rudman deficit target would not change, of course, so the limit on total spending would rise to $1.180 trillion ($1.190 trillion with the $10 billion cushion). A $15 billion increase in tax revenue would result in a $15 billion increase in federal spending.

The only way a tax increase would result in a lower deficit is if the Gramm-Rudman law were amended so that the deficit targets were automatically reduced by the amount taxes were raised. Under the previous example, a $15 billion tax increase would result in the 1990 deficit target falling from $100 billion to $85 billion. In this case, and only in this case, would higher taxes lead to deficit reduction. Legislation to require that new tax revenues go to deficit reduction has been introduced in the House by Rep. Jack Buechner (R-Mo.), along with about 30 cosponsors from both sides of the aisle. If the tax-increasers are serious about deficit reduction, they will support the legislation.

**Sequester Strategy Guarantees Administration Budget Victory**

Conventional wisdom has already declared that George Bush has to strike a deal with Congress on the budget. After all, we are told, Democrats control both houses of Congress, and the administration's budget does not have the votes to win. Therefore, the president has no choice but to acquiesce in a tax increase.

The administration need not rely, however, on congressional approval of the president's budget. If the White House notifies Congress that failure to produce a budget acceptable to the White House will result in a sequester, lawmakers will have no choice but to comply or allow sequestration to occur. Any effort to block a sequester, whether by repealing Gramm-Rudman or by raising taxes, would require legislation, which the president could veto. So long as one- third of one house of Congress would be willing to sustain either veto, a very likely outcome, the president would win.

The president has the power to ensure that the budget deficit is reduced without a tax increase, as he so strongly and repeatedly promised during the election campaign (see Appendix 2). The only question to be answered is whether Congress is willing to work with the administration to produce a budget that reduces the deficit without taxes or whether it happens through a sequester.

**Arguments Against Sequester Are Unconvincing**

Once it became apparent that the administration was adopting a winning strategy, opponents would quickly focus their attacks on sequestration itself. According to the critics, a sequester would mean deep and arbitrary cuts, threatening vital services and government programs. A sequester would signal a breakdown of the political process, risking a panic in financial markets. Finally, a sequester would decimate the defense budget, risking our very survival as a nation.

Notwithstanding these strident accusations, a sequester is a reasonable way to reduce the deficit. Contrary to what will be asserted, a sequester does not mean "deep and arbitrary cuts." The "spending cuts" involved in a sequester are very similar to the "cuts" created by the current-services budget. A sequester lowers outlays only in comparison to the Gramm- Rudman baseline, which is a projection of next year's spending very similar to the current-services budqet baseline.

Federal spending would actually increase under a sequester by $14-$20 billion, according to OMB figures. Table 2 illustrates the effect of a sequester on different components of the budget.

As the figures demonstrate, total spending increases with sequestration. On a component basis, many of the so-called safety net programs grow quite rapidly, primarily because they are exempt from the sequester. Defense spending is reduced by $10.4 billion, which accounts for the defense community's opposition to a sequester. Other budget categories escape relatively unscathed. Commerce and housing credit spending falls substantially, but those figures are distorted because of the large one-time outlays to bail out insolvent savings and loans in the 1989 budget. Reductions in energy and agriculture are also overstated because spending in those categories was already projected to decline under current law.

Table 2
Yearly Spending Changes under Sequestration (in $ billions)
Source: "Building a Better America," Office of Management and Budget, Feb. 9, 1989; "Special Analysis: Budget of the United States Government, FY1990," Office of Management and Budget.

Just as the sequester's "cuts" are not deep, neither are they arbitrary. Congress deliberately chose what programs would be exempt from a sequester and what programs would not. At any time, legislators have the option of altering the formula that guides the sequester. Furthermore, Gramm- Rudman provides Congress an opportunity to modify a sequester by allowing the majority leaders of the House and Senate a 10-legislative-day window of opportunity to introduce a joint resolution altering a sequester. The joint resolution would be considered under expedited procedures, would not be referred to any committee, and would be subject to amendment.

In a familiar Washington routine, supporters of programs facing sequestration will predict disaster if their programs or benefits are subject to fiscal discipline. Agencies and departments will be quick to explain that a sequester would devastate the most popular, and therefore politically sensitive, portion of their activities. An example of what to expect is the document published by the White House in 1987 comparing sequestration to the budget summit agreement. In an effort to win support for higher taxes, the administration implied that a sequester would result in airplane crashes and a drug epidemic.

Exaggeration is commonplace in politics, and similar scare tactics will doubtless be used by opponents of sequestration should the need arise. Suffice it to say, however, that if some element of a sequester was a serious threat to public health or safety, policymakers would be able to take advantage of the window of opportunity to modify the sequestration package.

Critics of sequestration will argue that a sequester would signify a breakdown of the political system (others would say that eight straight years of deficits over $100 billion indicate that the system is already broken). According to this theory, financial markets and world leaders are anxiously waiting for Congress and the White House to reach an agreement to reduce the deficit, preferably one containing a large tax increase. This was the premise behind the tax increase enacted after the stock market collapsed in October 1987.

Fortunately, business and financial leaders are not so naive as to believe that giving politicians more money to spend is good economic policy. As Fed chairman Alan Greenspan stated, a sequester is preferable to a tax increase. Business and financial leaders realize that a sequester would result in real deficit reduction and permanently reduce the spending trendline into the future. These people also remember the 1987 budget summit. The agreement was supposed to reduce the deficit by $75 billion over two years. It's now two years later, and the deficit has increased by about $15-$20 billion. Harold A. Kelly, managing director and chief operat- ing officer for First Imperial Advisors of San Diego, Calif., stated: "I talk to dozens of securities traders every day. The idea that financial markets would prefer a tax increase or some package of budget gimmicks to the real deficit reduction of a sequester is laughable."[3] Steve Bell, former staff director for the Senate Budget Committee and now managing director for Salomon Brothers, Inc., one of the nation's top three securities firms, said: "Our clients and our government specialists agree that a sequester would be much preferable to a tax increase coupled with a vague promise of spending restraint. A sequester is real and not only cuts spending in the first year but also reduces the level in future years. We're all tired of promises of budget restraint that never materialize. The great appeal of a sequester is its cer- tainty."[4] Given the choice between a sequester and a tax increase, Wall Street and Main Street would both choose sequestration.

The most legitimate criticism of a sequester is that defense would be disproportionately affected. The defense budget must absorb 50 percent of a sequester even though defense spending accounts for less than 30 percent of the budget. As a result, actual defense spending would fall by more than 3 percent. By itself, a 3 percent reduction does not seem menacing, but there are other factors involved. If the president uses his authority to exempt military pay from a sequester, the brunt of a sequester will fall on defense programs, projects, and activities. Because of the way a sequester actually works, this means major problems for the Pentagon. A sequester reduces outlays by cancelling "budget authority," and since large amounts of budget authority must be cancelled to result in the required effect on outlays in many defense programs, the disproportionate effect of a sequester is magnified even further.[5] While some defense analysts would argue that significant reductions in major weapons programs would be a positive step given our improved relations with the Soviets, that choice should probably be made as part of the normal defense budgetary process.

Fortunately, there are ways to minimize a sequester's impact on defense. The president can, with some restrictions and the consent of Congress, shield different programs, projects, and activities from sequestration, though this would mean other parts of the defense budget would have to make up the difference. This procedure allows policymakers the flexibility to keep defense resources in the most-valued uses. Additionally, the president can also choose not to exempt military pay accounts from the sequester. Allowing the sequester to fall on military pay would substantially ease the sequester burden on other parts of the defense budget.

Finally, defense experts have long maintained that we can get more defense with less money if certain reforms are made. Not all of these may be possible in the short time period available to modify the sequester order, but perhaps concerns about defense spending levels in a post-sequester environment could finally spur serious reforms. Among the issues that could be addressed are burden-sharing with European and Pacific allies, procurement reform, multiyear budgeting, Davis-Bacon labor law repeal, reassessment of overseas commitments, additional military base closures, restrictions on consulting contracts, and ending congressional micro-management. Military experts could doubtless expand the list considerably.

Few people would list a sequester as their ideal budget. In the world of politics, however, decisions must often be made between two or more imperfect choices. Should Congress refuse to enact a budget that meets the Gramm-Rudman deficit target with a more desirable mix of spending restraint, a sequester could be the best alternative. It would certainly be better than a tax increase.

**Sequestration: The Only Long-Term Solution?**

In addition to using a sequester as leverage in this year's budget debate, the administration and others may wish to consider how different budget scenarios will affect the budget in the years to come. Simply stated, most budget experts believe that it will be much more difficult to reach the Gramm-Rudman deficit target in 1991, when the target drops to $64 billion, than it will be to meet the $100 billion target next year.

One scenario circulating in the budget community is that Congress will refuse to accept even the limited spending reforms in the Bush budget. Instead, the White House and Congress will be able to agree only on a package that does the bare minimum required to bring the deficit under the $110 billion sequester trigger level. Even if the economy performs well and the promised savings actually occur, this will leave the baseline deficit for 1991 considerably above the $64 billion target.

If, however, CBO's less optimistic economic assumptions are correct, or if the savings and loan crisis worsens, or if it turns out that the minimal agreement reached by the White House and Congress relies on gimmicks, one-time savings, and creative accounting, it is entirely possible that the actual 1990 deficit will be as high as $130 billion and the baseline deficit for 1991 (what the deficit would be if the government was left on automatic pilot) will be over $100 billion as well.

At this point next year, policymakers could be facing a true fiscal crisis. In order to maintain his no-tax-increase promise, and yet still comply with Gramm-Rudman, President Bush would be forced to submit a budget imposing a flat freeze on overall government spending. Barring some miraculous change in congressional attitudes, such a budget would be "dead on arrival." The president would still have the sequester on his side, but by that time the impact of a sequester on defense would probably be too much for the administration to swallow.

As a result, the administration could be left with the choice of modifying the Gramm-Rudman deficit targets or raising taxes. Either alternative would have a negative impact on the economy. Since 1990 will be an election year, the fiscal problem will also turn into a political problem. Republican candidates will find the tax option especially distasteful, since Democrats who voted for higher taxes would be able to use the Republican White House as a shield against political attack. At the very least, the political battling would not encourage a pro-growth solution to the problem.

Whether their motives are political or economic, the White House and other Republicans may not wish to put themselves in that position next year. The only way to avoid the situation, however, is to allow a sequester to take place this year. Under a sequestration scenario, the outlook for next year changes for several reasons.

First of all, a sequester will bring the projected deficit down to $100 billion, not $110 billion as would almost certainly be the case for a budget agreement between the White House and Congress. Even more important, a sequester would be real deficit reduction. Budget gimmicks, phony accounting, shifting spending from one year to the next, and various other methods politicians have used to avoid legitimate deficit reduction would be replaced with permanent elimination of spending authority.

Not only would this mean that the 1990 deficit would be much lower under sequestration than it would be under the other alternative, a sequester would also lower the spending baseline in future years. A rule of thumb used by budget analysts is that every $1 of sequester will lower the following year's baseline by $1.30. Because the baseline would be significantly lower, a sequester will make it much easier to meet the $64 billion deficit target in 1991.

Indeed, if the administration's economic assumptions are correct, and there are not unexpected demands for additional spending, a sequester would automatically bring the baseline deficit within $10 billion of the $64 billion target. On the other hand, if the economy does not perform well and/or the savings and loan situation deteriorates, the gap between the baseline deficit and the Gramm-Rudman target will increase. In either case, however, a sequester would still make it possible to meet the $64 billion deficit target in 1991 without raising taxes.

Depending on whether the administration is thinking ahead or myopically focusing on this year, its budget decisions should include some consideration of how today's choices will affect tomorrow's options. Because of the economic and political advantages that would occur next year if the administration accepts a sequester this year, the White House may want to choose the sequester route even if Congress is willing to pass a minimally acceptable packaqe.

**Conclusion: Time to Put Economic Growth First**

The paper thus far has focused on procedural topics and options before policymakers, while largely avoiding discussion of the economic issues involved. Yet to discuss fiscal policy options without allowing for consideration of the impact different choices will have on the economy is unrealistic. Adopting policies that enhance and encourage economic growth will make deficit reduction easier because a strong economy generates more tax revenue and reduces demand for government services.

When it comes to fiscal policy, the best way to maintain economic growth is to leave as many resources in the productive sector of the economy as possible. Tax increases, which transfer resources from workers, savers, investors, consumers, and businesses to bureaucrats and politicians, are a step in the wrong direction. The American people know this. That's why they responded to candidate George Bush's promise not to raise taxes. Recent polls show that the only Bush promise American voters remember from 1988 is the no-tax-increase pledge. Keeping this commitment to the voters who elected him is important, but an even more important reason that George Bush should veto any tax increase is economic growth. Far more than any government program, a strong economy improves people's lives, raises living standards, and makes progress possible.

Should Congress be unwilling to cooperate on a pro-growth deficit reduction package, as many suspect will be the case, President Bush should not hesitate to use the sequester. Not only will it do the job this year, it will also make it easier to avoid tax increases and keep the economy growing in the future.

Appendix 1

Table 1.1
Total Expenditures and Receipts of Government as a Percentage of Gross Domestic Product, 1965-86
Source: Organization for Econcmic Ccoperation and Development.

Table 1.2
Spending and Taxes as a Percentage of Gross National Product, 1950-1988
Sources: Congressional Research Service, Library of Con- gress; Office of Management and Budget.

*This column does not include the receipt or spending of grants-in-aid from the federal government, which are counted as federal expenditures.

Appendix 2

George Bush on Taxes

There's no quicker way to kill prosperity than to raise taxes.

Boston, Massachusetts
April 15, 1987

There are those who say we must balance the budget on the backs of the workers--and raise taxes again. But they are wrong. I am not going to raise your taxes--period. Houston, Texas October 12, 1987

Some people on the other side say, "Raise Taxes." Well, I've been in government a long time, and I've seen what happens when the government raises a dollar in revenues--Congress spends a dollar fifty.

You know, I've yet to have anyone walk up to me and say, "Mr. Vice President, we're not taxed enough. I hope you'll be the President to raise my taxes." I will not raise your taxes, period.

Pittsburgh, Pennsylvania
April 29, 1988

I'm the one who won't raise taxes. My opponent now says he'll raise them as a last resort, or a third resort. When a politician talks like that, you know that's one resort he'll be checking into. My opponent won't rule out raising taxes.

But I will. The Congress will push me to raise taxes, and I'll say no, and they'll push, and I'll say no, and they'll push again, and I'll say to them, "Read my lips: no new taxes."

Republican National Convention
August 18, 1988

The Republican Party restates the unequivocal promise we made in 1984: We oppose any attempts to increase taxes. Tax increases harm the economic expansion and reverse the trend to restoring control of the economy to individual Ameri- cans.

Republican Party Platform
1988

The first principle is the most important: No Tax In- creases. We cut taxes in 1981, and it worked. 17.8 million new jobs in this recovery. Productivity up. Factories at near capacity. Give people the incentive to work and they will. This summer, help wanted signs hung all over this country. When the other party was in power, black teenagers had a hard time getting a summer job--now employers have trouble finding kids for summer work.

The surest way to kill the recovery is to raise taxes. That will stifle everything from investment and personal savings to consumer spending. It will clamp down on growth. It will invite a recession.

. . . Those are my principles: no tax increases; solid, far reaching growth; individual empowerment; and international economic leadership. And here is my vision: America's low- tax, high-opportunity policies leading the world into a new era of economic growth.

Chicago, Illinois
September 13, 1988

As the world's largest economy, we have been the leaders in the movement toward economic freedom. So my first principle is, let's not reverse course with a tax increase and big dose of central government planning.

Bensalem, Pennsylvania
September 19, 1988

The people of this country backed tax reform on the promise that if we removed their shelters, we would not then turn around and raise their rates. And I am not going to betray that trust. I am not going to raise taxes. Period.

Seattle, Washington
October 16, 1988

The foundation of that growing America is low taxes. That's why the first part of my plan is simple: No new taxes.

Waterbury, Connecticut
October 24. 1988

George Bush outlined the basic economic principles that will guide his economic strategy to promote economic growth for all Americans.

1. No Tax Increases

Raising Taxes would:

o Kill the economic recovery

o Stifle investment, savings, and consumer spend- ing o Invite a recession

o Encourage Congress to spend mo

re.

Americans are not undertaxed. Taxes are about 19.4 percent of GNP, close to the record for the past 20 years and still higher than the 18.3 percent they were in the 1970's. "Leadership on the Issues," p. 71

(Republican National Committee,
December 1988)

I am opposed to tax increases. In the past several years, tax increases have been used to feed Congressional spending, not for true deficit reduction. This should be a warning to all future Presidents against tax hikes--unless you can control Congress's spending, increased revenues will go to increased spending

.

The most important action we need to take on the budget deficit is to hold the line on taxing and spending. Raising taxes would only hurt the tremendous economic recovery we have had in our Administration. So the first priority is to hold spending. I support the Gramm-Rudman deficit reduction targets.

"Leadership on the Issues,"
pp. 82-83

FOOTNOTES

[1] Alan Greenspan, Transcript of Proceedings, Senate Budget Committee, February 20, 1989.

[2] The Washington Post, February 11, 1989.

[3] Interview with author.

[4] Interview with Author.

[5] Simply stated, budget authority is money put in a checking account; outlays occur when a check is written. For many defense activities, particularly procurement, Congress will provide a certain amount of budget authority, but the Defense Department will spend the money over a period of years. For instance, Congress may provide $5 billion of budget authority to build ten Stealth bombers. Since it may take five years too build the planes, however, annual outlays would be $1 billion. If, in this simplified example, there was a $500 million sequester in the Stealth bomber program, $2.5 billion of budget authority would have to be cancelled in order to meet the necessary outlay savings.