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History of the U.S. Federal Budget, 2011 – 2013

Recently the nation has endured one Congress-made, budget-related crisis after another. National Priorities Project documents the twists and turns.

By Mattea Kramer and Samantha Dana

Beginning with a debt ceiling crisis in August 2011, lawmakers in Washington brought the nation to a series of crisis points – in which the economy, funding for most federal programs, and the nation’s credit rating and interest rates all hung in the balance. Americans endured budget cuts known as sequestration – which contributed to unemployment – while lawmakers continued to disagree over debt and deficit and government spending. Unable to put together a federal budget deal for fiscal year 2013, the political gridlock reached such heights that lawmakers shut down the government for 16 days in 2013 because they couldn’t agree on even a temporary spending bill to keep the government running.

The following are the major fiscal crisis points that occurred between August 2011 and the close of the 2013 calendar year.

August 2011

The Debt Ceiling and the Budget Control Act

During the summer of 2011, the federal debt was nearing the debt ceiling. The debt ceiling is the legal limit Congress places on its own borrowing. A faction of Republicans led by the Tea Party opposed raising the debt ceiling without significant cuts to government programs as a means of deficit reduction, and the federal government very nearly hit the debt ceiling and defaulted on interest payments on its loans.¹ In the end, lawmakers instead agreed to the **Budget Control Act of 2011** (BCA), which raised the debt ceiling and instituted multiple rounds of spending cuts that were scheduled to unfold over a decade, from fiscal 2012 through fiscal 2021.

The first wave of spending cuts was a series of annual caps on discretionary spending. By capping discretionary spending each year through fiscal 2021, the BCA would reduce discretionary spending by \$917 billion over a decade, as compared to previously projected spending levels.

In addition to those spending caps the BCA also mandated \$1.2 trillion in additional deficit reduction by 2021. The legislation established a bipartisan 12-member “super committee” to come up with a plan for achieving that \$1.2 trillion in savings, and specified that the super committee should come up with that plan no later than November 2011. The law also stated that, if the super committee failed its task, across-the-board spending cuts called sequestration would reduce discretionary spending every year for a decade in order to produce the specified \$1.2 trillion in deficit reduction. Since the super committee failed to come up with such a plan by November 2011, sequestration would thus begin in 2013, as the BCA required.

December 2012

The Fiscal Cliff

In the final months of 2012, a pending budget crisis known as the fiscal cliff became the center of attention in Washington and in national news media. This so-called cliff was a combination of tax increases and spending cuts that were all scheduled to take effect in January 2013. Generally speaking, tax cuts and expanded government spending are used to stimulate the economy during an economic downturn. The fiscal cliff would have been precisely the *opposite* of such stimulus; it was a package of tax *increases* and spending *reductions* that, according to a multitude of economists, would have had considerable negative effects on the weak economy if it had been allowed to take full effect.ⁱⁱ

Since Washington was already suffering from sharp partisanship and bickering between the parties, it’s no surprise that there was disagreement over what should be done about the fiscal cliff. In particular, the disagreement centered around the Bush-era tax cuts that were scheduled to expire at the end of the December 2012. Republicans were committed to extending the Bush tax cuts for all taxpayers, while Democrats wanted to extend them for everyone except the top 2 percent of income earners. There was also considerable disagreement over emergency unemployment benefits, which were also set to expire at the end of the year. Democrats wanted to extend unemployment benefits for the long-term unemployed while Republicans wanted those benefits to expire.

Ultimately lawmakers agreed to the **American Taxpayer Relief Act of 2012**, also known as the fiscal cliff deal, which passed on Jan. 1, 2013, and extended the Bush-era tax cuts for families making up to \$450,000 (a group roughly corresponding to the top 1 percent of earners). The deal also extended unemployment benefits.

But many parts of the fiscal cliff were allowed to go into effect. The fiscal cliff deal delayed sequestration until March 2013 but did not cancel it. And payroll taxes were allowed to increase, as a temporary payroll tax cut was allowed to expire. These policies had negative effects on the

overall economy, though the economy was better off than it would have been if lawmakers had allowed the entire package of fiscal cliff policies to take effect.ⁱⁱⁱ

February 2012 through March 2013

The 2013 Budget and the Use of Temporary Spending Bills

Lawmakers should have been at work crafting a budget for fiscal 2013 long before the fiscal year began on Oct. 1, 2012. While President Obama released his budget proposal in February as required, and the House Budget Committee passed its budget resolution as is also required, lawmakers failed to complete any other steps in the budget process. Thus the fiscal year began with a continuing resolution (CR) – a temporary spending bill – instead of an actual budget. That CR funded the government through March 27, 2013, by extending 2012 funding levels with a small overall increase.^{iv} Then, by March – halfway through the fiscal year – lawmakers still had no intention of passing an actual budget. So they passed a second CR funding the government through the end of the fiscal year. This second CR reduced spending levels to comply with the cuts of sequestration, which were now in effect.

Thus the entire fiscal year elapsed, and a new fiscal year began, without lawmakers so much as attempting to pass an actual budget. This turn toward budgeting by CR brought with it considerable negative side effects. When lawmakers fail to write an actual budget, they simply extend funding for all programs that were funded in the previous year – without reducing or canceling ineffective initiatives, or expanding funding for particularly worthy initiatives. Furthermore, this cuts ordinary Americans out of the democratic process, since there's no opportunity for debate or comment on a budget that's merely an extension of the previous year.

March 2013

Sequestration

As mandated by the BCA, sequestration went into effect in 2013, though the fiscal cliff deal delayed the cuts from beginning in January until March and reduced the level of cuts slated for fiscal 2013 from \$109 billion to \$85 billion.^v

Discretionary spending was cut across-the-board as a result of sequestration. Domestic programs like Head Start, the Special Supplemental Nutrition Program for Women, Infants, Children (WIC), the Community Development Block Grant, the Emergency Food and Shelter Program, and the Low Income Home Energy Assistance Program, among many others, saw a 5 percent funding reduction.^{vi}

The Department of Defense also saw cuts, which amounted to 7.8 percent of that department's projected budget for fiscal 2013.^{vii}

Lawmakers of both parties decried the indiscriminate nature of the cuts – since sequestration reduced funding for programs supported by Democrats and Republicans alike – yet they were unable to come together to cancel sequestration or replace it with an alternate plan. As you read above, sequestration will continue to take effect through fiscal 2021 unless lawmakers take action to stop it.

October 2013

The 2014 Budget and the Government Shutdown

Just as lawmakers failed to do the work of writing a budget for fiscal 2013, they also neglected to budget for fiscal 2014 before its start date on Oct. 1 – but this time, there were more immediate negative consequences.

As the new fiscal year approached, partisan differences reached new heights. The Affordable Care Act (ACA), the health reform legislation also known as Obamacare, was scheduled to go into effect on Oct. 1, 2013, the first day of fiscal 2014. Republicans in the House of Representatives, who strongly opposed the ACA, refused to pass a CR or other measure to fund the government unless it included provisions to defund or delay the implementation of the ACA. Democrats refused to roll back the health reform law, instead demanding a funding bill that included no such policy changes.

With lawmakers at this impasse, the new fiscal year began with no funding in place for much of the federal government – and, thus, the government shut down. Programs and agencies that require annual appropriations to fund their operations closed their doors, with an exception made for those that “protect life or property.”^{viii} Programs that closed or saw no funding during the shutdown included Head Start, WIC, cancer treatment at the National Institutes of Health, and tuition assistance for active duty military, among many others. At the same time, programs that were considered a matter of national security by Congress were allowed to remain open, including most of the Department of Defense as well as surveillance activities at the National Security Agency.^{ix}

The government shutdown was widely unpopular with the American public as well as damaging to the economy. Initial estimates suggested that the shutdown resulted in a loss of 120,000 jobs across the country.^x Up against considerable pressure to bring the shutdown to an end, the Republicans who had supported the shutdown ultimately agreed to reopen the government without any changes to the implementation of the ACA. Congress then passed the **Balanced Budget Act of 2013**, which was a CR that funded the government through mid January, 2014.

And since the federal debt was once again nearing the debt ceiling – and a debt default was once again a real threat – the legislation also temporarily suspended the debt ceiling. Finally, the agreement required House and Senate Budget Committees to pass a budget resolution by mid December in an effort to get the budgeting process back on track. A joint budget resolution would accomplish the important work of setting the level of discretionary spending – and thus allowing appropriators to do their work of writing appropriations bills. (The budget committees should have completed work on a joint budget resolution back in the spring of 2013, and appropriators then would have written appropriations bills over the summer months in advance of the new fiscal year in October, if the budget process had gone according to convention.)

In a departure from more than two years of partisan disagreement and budget dysfunction, Senate Budget Chair Patty Murray (D-Wash.), and House Budget Chair Paul Ryan (R-Wisc.), agreed on a budget resolution by the Dec. 13 deadline. They wrote the **Bipartisan Budget Act of 2013**, legislation that specified discretionary spending levels for fiscal years 2014 and 2015. It also reduced the level of sequestration cuts in those years and raised airport security fees to generate revenue. It also changed federal worker retirement programs to reduce federal spending. This was not a sweeping deal – in total, the it made \$85 billion worth of changes to federal spending and revenue, or around 2 percent of the total federal budget. Yet the deal was significant in that leaders from the two parties reached an agreement and stood side by side to announce it to the American public.

Conclusion

This series of budget crises inflicted considerable damage on the American people – from job losses and reduced economic activity to a government that failed, again and again, to do the people’s business of writing a budget that reflected the priorities of the nation.

These crises also reflect the urgent need for a more engaged electorate – an electorate that demands a government that is responsive to its needs. Regular Americans generate around 80 percent of the federal government’s tax revenue – through income taxes and payroll taxes – and thus are our nation’s primary bill payers. It is the people’s right to demand a Washington that responds to their concerns.

ⁱ As documented by the news media. See for instance Los Angeles Times <<http://articles.latimes.com/2011/may/30/nation/la-na-gop-debt-ceiling-20110530>> and The Atlantic <<http://www.theatlantic.com/politics/archive/2012/07/the-not-so-happy-anniversary-of-the-debt-ceiling-crisis/260458/>>

ⁱⁱ Congressional Budget Office, “Economic Effects of Policies Contributing to Fiscal Tightening in 2013,” 8 Nov. 2012. 17 Dec. 2013 <<http://www.cbo.gov/publication/43694>>

ⁱⁱⁱ Congressional Budget Office, The “Fiscal Cliff” Deal. 4 Jan. 2013. 3 Feb. 2014 <
<http://www.cbo.gov/publication/43835>>

^{iv} THOMAS: The Library of Congress, “Bill Summary & Status, 112th Congress (2011 – 2012), H.J.RES.117,” 28 Sept.
2012. 17 Dec. 2013 < <http://thomas.loc.gov/cgi-bin/bdquery/z?d112:HJ00117:@@D&summ2=m&>>

^v Congressional Research Service, “The American Taxpayer Relief Act of 2012: Modifications to the Budget
Enforcement Procedures in the Budget Control Act,” 4 Feb. 2013. 17 Dec. 2013 <
<http://www.fas.org/sgp/crs/misc/R42949.pdf>>

^{vi} Center on Budget and Policy Priorities, “Sequestration by the Numbers,” 22 March 2013. 17 Dec. 2013
<<http://www.cbpp.org/cms/?fa=view&id=3937>>

^{vii} Center on Budget and Policy Priorities, “Sequestration by the Numbers,” 22 March 2013. 3 Feb. 2014 <
<http://www.cbpp.org/cms/?fa=view&id=3937>>

^{viii} Congressman Sandy Levin, “Impact of Federal Government Shutdown 2013,” 30 Sept. 2013. 3 Feb. 2014 <
<http://levin.house.gov/press-release/impact-federal-government-shutdown>>

^{ix} Mattea Kramer and Jo Comerford, “Shutting Down Americans,” 17 Oct. 2013. 17 Dec. 2013 <
http://www.tomdispatch.com/blog/175761/tomgram%3A_kramer_and_comerford%2C_shutting_down_american_s>

^x Margaret Talev and Lorraine Woellert, “Obama Advisor Furman Says U.S. Shutdown Cost 120,000 Jobs,”
Bloomberg News, 22 Oct. 2013. 17 Dec. 2013 < <http://www.bloomberg.com/news/2013-10-22/obama-economic-adviser-furman-says-shutdown-cost-120-000-jobs.html>>