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Budget Sequesters: A Brief Review

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Summary

During the period encompassing FY1986-2002, the budgetary decisions of Congress and the President were guided in part by specific goals in statute enforced by a process known as sequestration. The statutory goals initially took the form of deficit targets, but later were changed to limits on discretionary spending (first effective for FY1991) and a "pay-as-you-go" requirement for direct spending and revenue legislation (first effective for FY1992). Five sequesters were triggered during years in which Congress and the President did not adhere to these statutory goals, three under the deficit targets and two under the discretionary spending limits. No sequester occurred, however, after FY1991.

In many of the years since FY1991, Congress and the President were able to avoid a sequester by ensuring that it did not enact spending or revenue legislation in violation of the statutory goals. At times, Congress and the President had to take advantage of flexibility in the procedures, such as the ability to designate certain spending as "emergency requirements," in order to achieve this outcome. In other instances, however, Congress and the President prevented a sequester that otherwise would have occurred by enacting into law provisions that intervened in the normal operation of the process.

This report will not be updated.

The Balanced Budget and Emergency Deficit Control Act of 1985 set forth deficit targets leading to a balanced budget and established the sequestration process as the means of enforcing them. The Budget Enforcement Act (BEA) of 1990 amended the 1985 act to effectively replace the deficit targets with two new enforcement mechanisms—limits on discretionary spending (*i.e.*, spending controlled through the annual appropriations process) and a "pay-as-you go" (PAYGO) requirement applicable to legislation affecting direct spending (*i.e.*, spending controlled outside of the annual appropriations process) and revenues. Procedures under the BEA of 1990 were revised and extended, affecting legislation enacted through FY2002, by several laws, including the Omnibus Budget Reconciliation Act of 1993, the Budget Enforcement Act of 1997, and the Transportation Equity Act for the 21st Century (TEA-21), among others.

Sequestration involved automatic, largely across-the-board spending reductions to bring projected budget levels in line with the statutory goals.[1] Any sequester under the discretionary spending limits, the PAYGO requirement, or both would have been triggered by a report issued by the director of the Office of Management and Budget (OMB) within 15 days after the end of a congressional session. If the OMB director's report indicated that spending cuts must be made, then the President was required to issue a sequestration order immediately, directing that the necessary cuts be made in strict conformity with the OMB director's report. In the case of discretionary spending, a further sequester for a fiscal year would have occurred during the following session (through June 30) if the enactment of a supplemental appropriations act caused a breach of the limits. The enactment of such a measure on or after July 1 would not have caused a sequester; instead, the applicable discretionary spending limits for the following fiscal year would have been reduced by the requisite amounts.

Under sequestration tied to the deficit targets, half of the required outlay savings were to be achieved by cuts in defense programs and the other half by cuts in domestic programs. Sequestration keyed to the discretionary spending limits applied to different categories of discretionary spending (*e.g.*, defense/international/domestic or defense/nondefense), which varied over time. Sequestration under the PAYGO requirement applied first to selected programs that were covered under "special rules," such as a 4% limit on Medicare cuts; any further PAYGO savings were to be achieved by uniform reductions in the remaining nonexempt programs.

Except for programs covered by PAYGO "special rules," all reductions made under a sequester had to comply with the "uniform reduction percentage" applicable to each category. The reduction percentage would have been applied uniformly to all appropriations and budget accounts within the category, and the reductions also would have had to be extended uniformly to all of the programs, projects, and activities within each account. The uniform reduction percentage could have varied from one category to another.

During the period that sequestration was in effect, beginning with FY1986, sequesters were triggered five times (see **Table 1**). The first three sequesters occurred when deficit targets were in effect and the other two occurred in the first year that the discretionary spending limits and PAYGO requirement were in effect.

The deficit targets were in effect from FY1986-1990. Initial outlay savings associated with the three deficit target sequesters were substantial: $11.7 billion for FY1986; $20.0 billion for FY1988; and $16.1 billion for FY1990. The uniform reduction percentages ranged from 4.3% to 10.5%. Except for FY1986, these savings subsequently were rescinded by a budget agreement (FY1988) or were reduced by a later law (to $4.55 billion for FY1990). Notwithstanding the implementation of a sequester for each of these three fiscal years, the deficit targets proved to be ineffective on the whole. The actual deficit for each of these years exceeded the applicable target by an average of about $60 billion.

[1] For additional information on the sequestration process, see CRS Report RL31137, *Sequestration Procedures Under the 1985 Balanced Budget Act*, by Robert Keith.

During the remaining years, covering FY1991-2002, sequestration applied to the enforcement of the discretionary spending limits and PAYGO requirement. Although the PAYGO requirement applied to legislation enacted by the end of FY2002, it also applied to the out-year effects of such legislation through FY2006.

Two sequesters under the discretionary spending limits occurred for FY1991. A drafting error in the Foreign Operations Appropriations Act for FY1991 triggered a sequester initially expected to yield $191 million in outlay savings, but the drafting error was corrected in later legislation and the savings were canceled. A supplemental appropriations act for FY1991 inadvertently caused a small breach, leading to an across-the-board cut in domestic spending of 13 ten-thousandths of one percent ($13 for every one million dollars in an account) that yielded $1.4 million in outlay savings.

No sequesters under the discretionary spending limits occurred after FY1991, although Congress and the President had to enact special legislation to avoid problems for FY2000-2002.[2] No PAYGO sequester ever occurred, but Congress and the President also had to enact special legislation to prevent PAYGO sequesters in recent years. Finally, P.L. 107-312, enacted on December 2, 2002, effectively terminated the PAYGO requirement for the out-years (FY2003-2006), thereby preventing sequesters for each of the four years.[3]

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[2] For a discussion of actions taken to avoid sequesters during this period, see CRS Report RL31155, *Techniques for Preventing a Budget Sequester*, by Robert Keith.

[3] The legislative history and impact of P.L. 107-312 is discussed in CRS Report RS21378, *Termination of the "Pay-As-You-Go" (PAYGO) Requirement for FY2003 and Later Years*, by Robert Keith.

Table 1. Summary of Sequesters: FY1986-2006
(outlays in billions of dollars)

Fiscal year	Congress/ session	Initial outlay savings	Uniform reduction percentages	Subsequent outcome
Enforcement of deficit targets				
1986	99/2	11.7	4.9% defense; 4.3% nondefense	Full savings achieved. [a]
1987	99/2	None	—	[No sequester was required]
1988	100/1	20.0	10.5%defense; 8.5% nondefense	Reductions superseded by budget agreement.[b]
1989	100/2	None	—	[No sequester was required]
1990	101/1	16.1	4.3% defense; 5.3% nondefense	Reduced to $4.55 billion by subsequent law.[c]
Enforcement of discretionary spending limits and PAYGO requirement				
1991	101/2	0.2	1.9% international; 0.0013% domestic	Reduced to $0.0014 billion by subsequent law.[d]
1992 through 2002	102/1 through 107/1	None	—	No sequesters occurred for these years, but in several instances Congress and the President enacted legislation preventing a sequester under the discretionary limits and the PAYGO requirement.[e]
2003 through 2006	107/2 through 109/1	None	—	Although the discretionary spending limits had expired at the end of FY2002, the PAYGO requirement remained in effect for the out-year impact for FY2003-2006 of legislation enacted by the end of FY2002. The PAYGO requirement effectively was terminated by P.L. 107-312, which set the balances on the PAYGO scorecard for FY2003-2006 to zero. By this action, Congress and the President prevented PAYGO sequesters for this years.[f]

[a] Outlay reductions under the FY1986 sequester were limited by the 1985 Balanced Budget Act to this amount.

[b] The FY1988 sequester was in effect from October 20 until December 22, 1987, when legislation implementing a budget summit agreement of November 20 was enacted. Outlay reductions of $20.0 billion were expected to occur had the sequester been in effect for the full fiscal year.

[c] The required outlay reduction of $16.1 billion was reduced to $5.75 billion by Section 11002 of the Omnibus Budget Reconciliation Act of 1989 and a new sequestration order, consistent with the lower amount, was issued. CBO estimated that the application of the "crediting rule" under Section 252(f) of the 1985 Balanced Budget Act would reduce the savings from $5.75 billion to $4.55 billion.

[d] Two sequesters under the discretionary spending limits occurred for FY1991. On November 9, 1990, $395 million in budget authority was sequestered in the international category, leading to estimated outlay savings of $191 million; the sequester was rescinded on April 10, 1991, by Section 401 of P.L. 102-27, a supplemental appropriations act. On April 25, 1991, $2.4 million in budget authority was sequestered in the domestic category, leading to estimated outlay savings of $1.4 million.

[e] For a discussion of actions taken to avoid sequesters during this period, see CRS Report RL31155, *Techniques for Preventing a Budget Sequester*, by Robert Keith.

[f] The legislative history and impact of P.L. 107-312 is discussed in CRS Report RS21378, *Termination of the "Pay-As-You-Go" (PAYGO) Requirement for FY2003 and Later Years*, by Robert Keith.