

(BN) Closed Campgrounds Not Scare Tactic in No-Leeway Budget Law
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(Adds market reaction on third screen. For more on sequestration, see EXT7 <GO>.)

By Jim Snyder

Feb. 27 (Bloomberg) -- Longer lines at airports. Closed campgrounds at national parks. Fewer meat inspectors.

In warning of the consequences of \$1.2 trillion in budget cuts over the next decade, President Barack Obama and his administration are choosing examples likely to resonate with voters. Some Republicans, including Louisiana Governor Bobby Jindal, say this amounts to scare tactics and that agencies should instead cut wasteful spending.

Budget experts, however, say that while Obama may be emphasizing cuts for their public-relations value, the decision of where to trim is largely out of his hands. That's because the law that mandates the automatic cuts was written to give agencies little leeway in where the budget ax falls.

The idea was "that everyone was going to suffer" under cuts so unpleasant Democrats and Republicans would agree to some alternative, said G. William Hoagland, senior vice president at the Bipartisan Policy Center, a Washington-based group that promotes legislative compromise.

"There's not a helluva lot of flexibility," said Hoagland, who as a Senate Republican aide helped negotiate the 1985 Gramm-Rudman-Hollings balanced budget act that the current sequestration law is based upon.

2011 Law

That law, created in negotiations to raise the debt limit in 2011, calls for automatic cuts split almost evenly between

defense and non-defense spending with certain exemptions such as veterans benefits and Social Security payments. It starts with an \$85 billion reduction in the remaining months of the federal budget year that ends Sept. 30. According to the law, the cuts must come equally from every “project, program and activity.”

Most federal agencies face a 5.3 percent cut, while defense programs would be reduced 7.9 percent, according to the Congressional Budget Office’s economic outlook. Danny Werfel, controller at the White House’s Office of Management and Budget, told Congress this month that the effective reductions actually would equal about 13 percent for defense programs and 9 percent for non-defense programs because they come just in the final seven months of fiscal 2013.

There is some discretion over the timing -- the Pentagon last week began slowing payments to contractors to boost its cash reserves -- though that only does so much.

“It was meant to be a burning platform,” said Daniel Gordon, associate dean of procurement law at George Washington University’s law school. “It is not meant to be a workable way to reduce the deficit.”

National Parks

The markets are unfazed by the prospect that a deal won’t be reached. The Standard & Poor’s 500 Index was up almost 5 percent this year as of yesterday.

Treasury 10-year notes have been little changed over the last month. The 10-year yield rose 2 basis points, or 0.02 percentage point, to 1.88 percent as of 5:01 p.m. New York time yesterday, according to Bloomberg Bond Trader prices.

The automatic cuts apply to all 398 national parks, according to Interior Secretary Ken Salazar. Yellowstone, which receives 3.4 million visitors a year, faces the same percentage cuts as the Herbert Hoover Presidential Library in West Branch, Iowa, which had fewer than 130,000 in 2012.

Transportation Secretary Ray LaHood said the cuts would lead to flight delays of 90 minutes at peak times at airports such as those in New York and Chicago. The Federal Aviation Administration will begin furloughing staff on April 1, and more than 230 control towers at smaller and mid-size airports may be

closed.

“Sequester doesn’t allow for moving money around,” LaHood said in a briefing for reporters last week. “It just does not.”

Hellfire Predicted

The U.S. Department of Agriculture has warned that its \$2 billion in cuts would leave less money for meat inspections, which could force slaughterhouses to shut when inspectors aren’t present.

“There have been a lot of predictions of hellfire and brimstone,” said Steve Ellis, vice president at Taxpayers for Common Sense, a Washington-based spending watchdog group. “I’m not saying there won’t be any impact, but it probably isn’t the maximal impact the Obama administration is trying to paint.”

Hoagland said the examples the administration uses to highlight the effects of sequestration weren’t accidents. Waiting at airports is an unhappy experience most Americans can relate to, he said.

According to data compiled by Bloomberg, the impact to the U.S. air traffic control system may be less severe than the administration has depicted. Most of the 72 towers that may close overnight have so little traffic at those periods the night shifts could be eliminated now under FAA guidelines.

Revenue Raising

Congressional Republicans said they’ll push a plan to try to give Obama greater control over how to implement the budget cuts. Ellis said his group agrees that Congress should give agencies more flexibility in making the cuts so that good programs aren’t put in the same pool as bad ones.

The administration has rejected the approach, saying federal spending has already been so reduced in other budget deals that the focus should now be on how to raise additional federal revenue, by repealing some corporate tax breaks for example, along with targeted budget cuts.

Republicans say Obama is exaggerating the impact to strengthen his negotiating position.

Jindal, in Washington for National Governors Association meetings, said Feb. 25 that Obama needed to “stop trying to scare the American people.”

In a Feb. 21 letter to Homeland Security Secretary Janet Napolitano, Senator Tom Coburn, an Oklahoma Republican, said the department could protect national security missions by cutting programs already identified as wasteful.

‘Significant Reductions’

By eliminating “wasteful, duplicative, ineffective and low-priority programs first,” the department “can successfully navigate sequestration and continue to perform its vital functions,” Coburn wrote.

The agency says that is not true.

“We do not have the luxury of making significant reductions to our capabilities without significant impacts,” said Marsha Catron, a spokeswoman for DHS. Coburn said in the letter that “additional legal authority” may be needed to target budget cuts.

Napolitano has told Congress the cuts could increase airport wait times and leave less money available to defend against cyber attacks.

Americans who had to cut their own budgets during the recession may not understand why it’s so hard for federal agencies to cut their budgets by the amount required in the sequestration, said John Feehery, president of Quinn Gillespie Communications in Washington.

Spend Less

“Most people believe that the government could spend a little less money,” Feehery, who was a House Republican spokesman in 1995 when a showdown with President Bill Clinton led to a government shutdown, said in an interview. “A 5 percent cut? For most folks, they’ve had to do that in their own budgets.”

Even after the March 1 deadline passes, Americans may not immediately feel an impact, said Scott Lilly, a senior fellow at the Center for American Progress, a Washington-based public

policy group aligned with Democrats. Federal workplace furloughs won't start until April, so services may continue largely unchanged for the first few weeks.

As workplace absences mount and money grows tighter, the pressure from the public will grow, Lilly said.

"It's going to be a country with its hair on fire," said Lilly, a former Democratic staff director to the House Appropriations Committee. "There are a thousand things in there that are going to upset people."

Threat's Effect

The threat of sequestration is already having an effect, said Rich Gold, a lobbyist at Holland & Knight LLP.

Gold, whose clients include First Energy Corp. in Akron, Ohio, and Dow Chemical Co., in Midland, Michigan, said the businesses and local governments he represents no longer have confidence that lawmakers can work through differences.

"The real problem is, at the end of the day, nobody knows what's going to happen," Gold said in an interview. "The uncertainty is what's really holding back the economy, and this is a major dose of uncertainty."

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--With assistance from Kathleen Hunter, James Rowley, Richard Rubin, Lisa Lerer, Nick Taborek and Roxana Tiron in Washington.
Editors: Jon Morgan, Daniel Enoch

To contact the reporter on this story:

Jim Snyder in Washington at +1-202-624-1972 or jsnyder24@bloomberg.net

To contact the editor responsible for this story:

Jon Morgan at +1-202-654-7370 or jmorgan97@bloomberg.net

