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February 2013 COGR Meeting Thursday Afternoon Presentation - Sequestration

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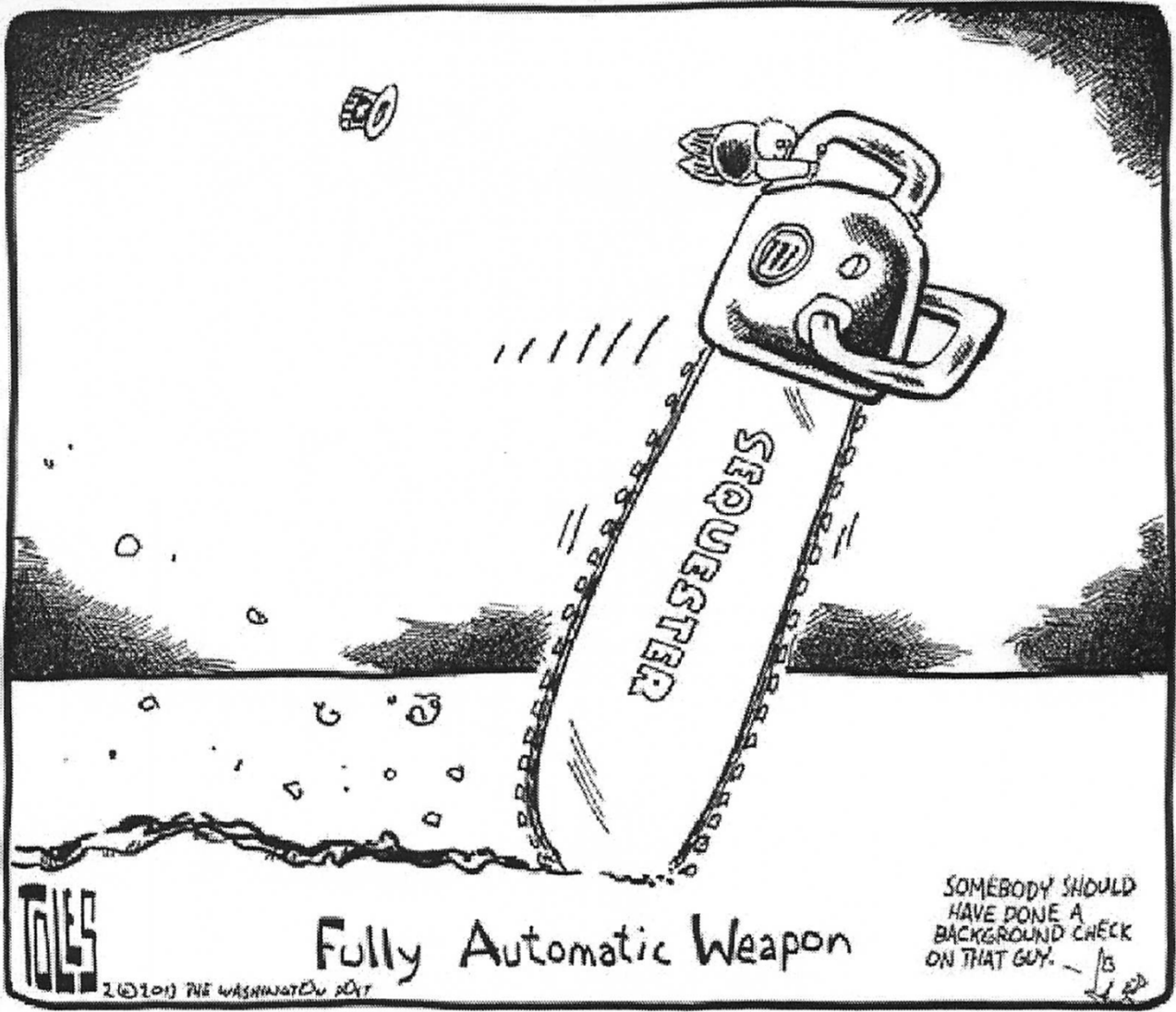
BEYOND SEQUESTRATION

Tight Budgets and Research
University Strategies for the Future

Thursday, February 21, 2013
COGR Meeting – Washington DC

AGENDA

- ▶ Where we stand in 2013 with sequestration
- ▶ What are the short, medium and long-term challenges we see?
- ▶ Messaging – what messages have we employed the last two years? Do they still work in this new environment?
- ▶ Strategies – what are some possible strategies we might use going forward?
- ▶ Not here to speak to individual institutions and strategies



Fully Automatic Weapon

SOMEBODY SHOULD
HAVE DONE A
BACKGROUND CHECK
ON THAT GUY. - JS

T.S.

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SEQUESTRATION: WHERE THINGS STAND

- ▶ Sequestration and discretionary spending caps still “law of the land”.
- ▶ **Temporary** Relief from *American Taxpayer Relief Act* >> 2 month delay
 - ▶ Cost = \$24 billion (50% from spending reductions; 50% from revenue increases)
 - ▶ A sign of times to come?
 - ▶ \$12 billion in spending cuts over next two years (equal between defense and non-defense)
 - ▶ \$4 billion change in caps for FY 2013 - Impact on conference negotiations from late 2012?
- ▶ **NEXT Cliff – MARCH 2013**
 - ▶ March 1 – Sequester set to take effect
 - ▶ March 27 - CR Expires
 - ▶ Are we back to square one?

JUDGING FROM THE PAST

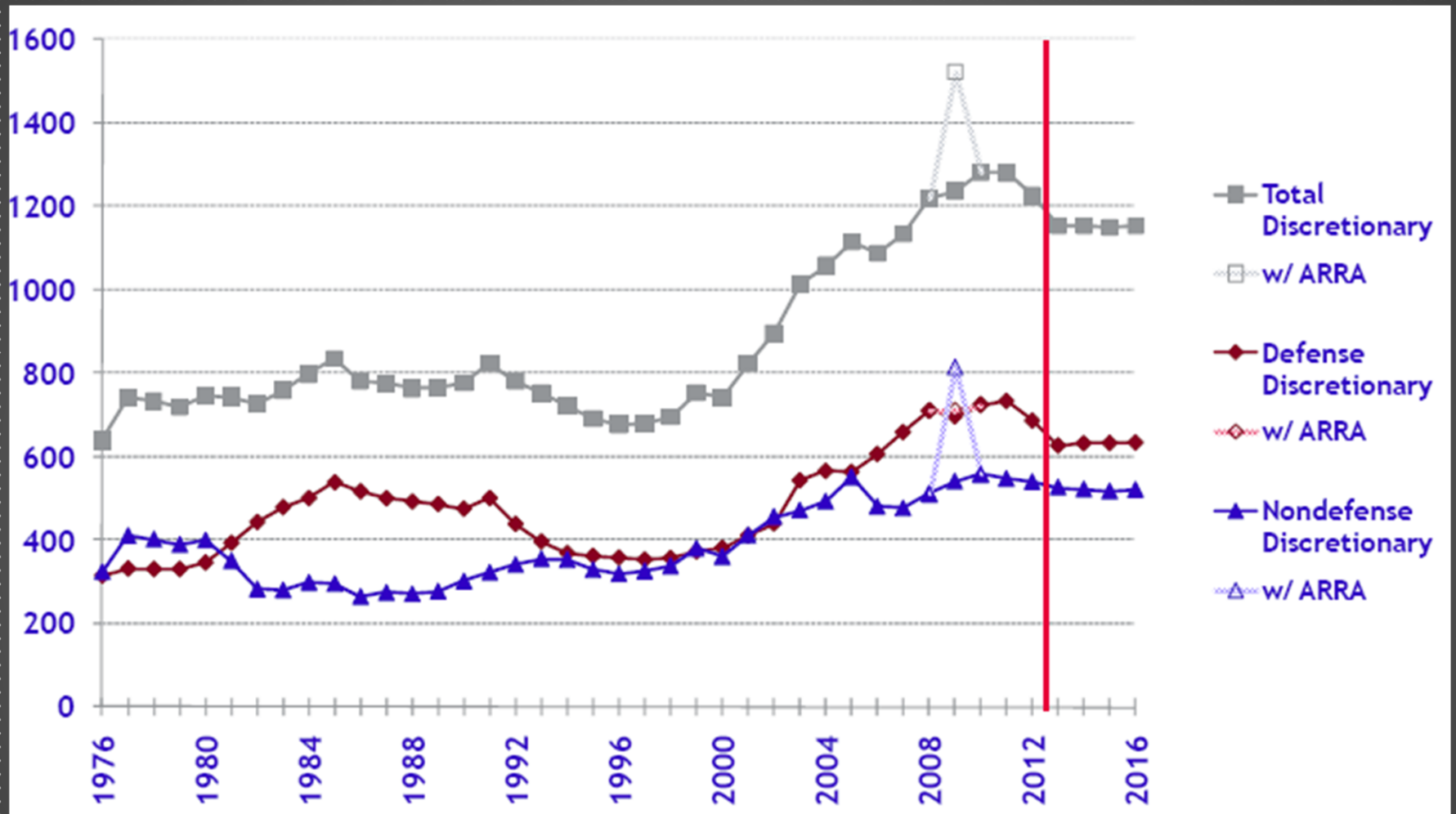
- ▶ Prior Deficit Reduction Legislation – Balance of Spending Cuts vs. Revenue Increases

Year of Deficit Reduction Legislation	Spending Cuts (Percent of Deficit Reduction)
1983	37%
1984	18%
1987	61%
1990	67%
1993	44%

- ▶ Legislation passed under “divided” government

* Source: CBO, CRS

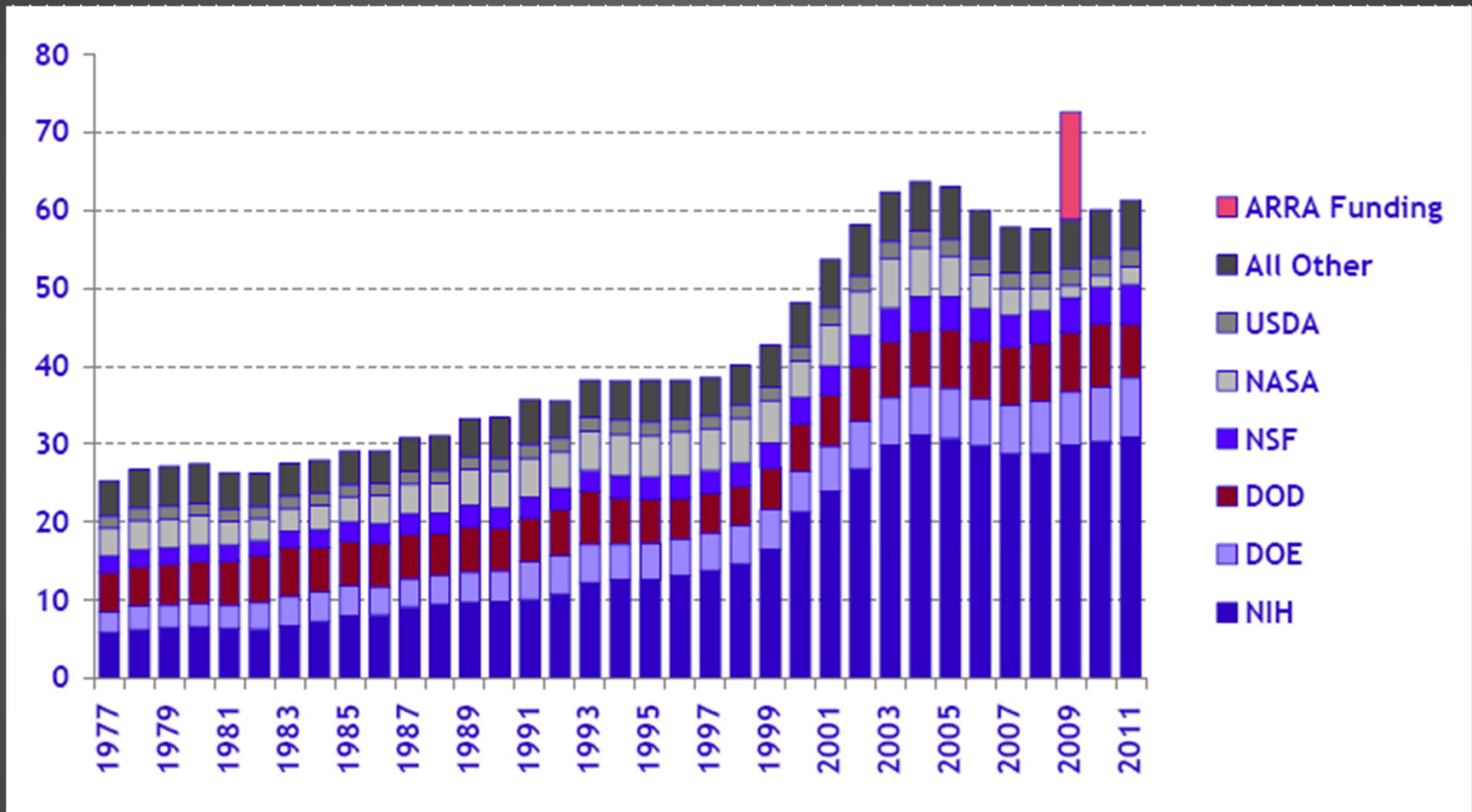
TRENDS IN DISCRETIONARY SPENDING



*Chart from AAAS website

TRENDS IN RESEARCH BY AGENCY

in billions of constant FY 2010 dollars



*Charts from AAAS website

SEQUESTRATION : AGENCY BY AGENCY

- ▶ Differential treatment among smaller programs
 - ▶ Congress seeking wider latitude for agencies
 - ▶ more discretion, more anomalies
 - ▶ Delayed solicitations, awards....fewer awards; furloughs
 - ▶ New initiatives favored but also most susceptible to delay
 - ▶ Obligated funds more protected
 - ▶ BIGGEST IMPACT ON AGENCY ATTITUDES
- ▶ Broad agreement this is bad policy :: Different Views over what's better

CHALLENGES WE FACE

- ▶ **SHORT TERM** (less than a year):
 - ▶ Overall Deficit Reduction:
 - ▶ Working through the sequestration
 - ▶ FY 13 and 14 appropriations
 - ▶ Mandatory spending reductions for healthcare, education, etc.
 - ▶ Near-term enforcement mechanisms
 - ▶ Student Loan interest rate increase
 - ▶ Tax reform planning
 - ▶ Others

CHALLENGES WE FACE

- ▶ MEDIUM TERM (113th Congress)
 - ▶ Tax reform – how will it play out and who will be affected?
 - ▶ Entitlement reform – impact on Medicare/Medicaid and Student Aid
 - ▶ Appropriations - Defense vs. Non-defense firewall issues?
 - ▶ Future “triggers” – what will those be? Will the new deadlines create paralysis among federal agencies?

CHALLENGES WE FACE

▶ LONG TERM:

- ▶ Path of discretionary spending this decade
- ▶ How will cuts in healthcare, education, and research affect each other?
- ▶ Will there be any efforts to engage in long-term differential thinking about investments to be made beyond the cuts?
- ▶ How will this environment affect university campuses and the way we do business or will do business (e.g. cost policy)?

▶ ANYTHING MISSING?

MESSAGING WE HAVE USED 2011-12

“BALANCED APPROACH TO DEFICIT REDUCTION”

- ▶ This is a “Fogger”; too confusing and overused
- ▶ Different partisan meanings



MESSAGING WE HAVE USED 2011-12

“WE ARE PART OF STRATEGIC/CRITICAL INVESTMENTS”

- ▶ **This works!**
- ▶ **Need to show “how”/outcomes**
- ▶ **Partisan views of “investment”**



MESSAGING WE HAVE USED 2011-12

“DISCRETIONARY SPENDING NOT THE CAUSE OF DEFICITS”

- ▶ Future “caps” never really hold
- ▶ We always want it both ways – against mandatory cuts to our hospitals as well
- ▶ Focus on “grow the economy”



MESSAGING WE HAVE USED 2011-12

“OTHER COUNTRIES CHALLENGING OUR ECONOMIC/MILITARY LEADERSHIP...LOSING OUR EDGE”

- ▶ **Must localize more; losing researchers**
- ▶ **Select investment comparison**
- ▶ **Point out that “peers” (e.g. UK) still making investments despite their pressures**



MESSAGING WE HAVE USED 2011-12

“WE CREATE OPPORTUNITIES FOR
PEOPLE – ESSENTIAL FOR LEADERSHIP
AND SUCCESS”

- ▶ Need to keep message on jobs and be able to quantify.



MESSAGING WE HAVE USED 2011-12

“HALF OF U.S. GROWTH OVER THE PAST
50 YEARS HAS COME FROM R&D
INVESTMENT”

- ▶ This is working up to a point



2013 MESSAGES/THEMES

- ▶ “Growth agenda” – President Obama speaks of this often
 - ▶ How do we get research “prioritized” – even more so?
 - ▶ How much SHOULD America invest in research? 3% of GDP? Is that the right target? How do we justify that or any number?
 - ▶ Should we advocate for a restructuring of the federal budget process?
- ▶ Defense v. non-defense – how should we treat that distinction?
 - ▶ Will the firewall remain?
- ▶ Lost opportunities from less spending – will Congress care?
 - ▶ Should we talk about what we are on the brink of discovering, and less about what we have already discovered? Should we speak about discoveries agency by agency?

OTHER MESSAGES

▶ GLOBAL COMPETITIVENESS

- ▶ Does that fear of losing our edge still work? China, India, etc.
- ▶ “Maintaining our leadership” -- is that the right phrase? Or should we say “regaining”?
- ▶ What about STEM education?

▶ JOB CREATION/ECONOMIC IMPACT OF RESEARCH

- ▶ Are those arguments working?
- ▶ Have these created unreasonable expectations or new pressures on tech transfer?
- ▶ Obama: emphasizes community colleges – we talk about advanced manufacturing, which increases productivity but may not increase employment – how reconcile?

ADVOCACY ACTIONS





ASSOCIATION OF
AMERICAN UNIVERSITIES



July 11, 2012

Dear Mr. President and Congressional Leaders:

We write to urge your bipartisan leadership in forging a major, balanced long-term deficit-reduction agreement that will reduce budget deficits, rein in the nation's debt, and create economic and job growth to ensure our nation's long-term fiscal health and to prevent the indiscriminate cuts of sequestration.

Sequestration is an undiscerning and blunt budget tool that would substantially harm our nation's future by blindly slashing valuable investments in education and scientific research, as well as other important discretionary programs that provide health, economic, and national security. There is much public discussion about the impact of sequestration on the defense budget but little about the proposed indiscriminate cuts to the non-defense discretionary budget. Deficit reduction until now has concentrated almost entirely on non-defense discretionary expenditures, which are only about one-sixth of the budget. Spending on these programs is not the primary cause of our rising debt. Wholesale additional reductions in these and other programs that educate and train the next generation risk undermining our nation's human capital, infrastructure, technological, and scientific needs.

A prudent and effective deficit reduction agreement should seriously and thoughtfully address a primary source of long-term spending growth: entitlement programs. Entitlement programs account for a large percentage of the budget, and they are projected to take an increasing share of federal spending in the coming decade. However, the sizable deficit reduction required cannot be achieved solely through decreasing expenditures. Substantial tax reform that is designed both to encourage economic growth and to raise revenues needed to reduce the deficit should also be part of the package.

The federal government has played and must continue to play a critical role in fostering U.S. economic competitiveness and economic growth, and therefore, even as the overall budget may be constrained, certain investments for the future must be a top priority. Americans know that investments in education and scientific research pay long-term dividends. Federal support for scientific research and student financial aid laid the foundation for the dramatic expansion of the 20th century U.S. economy and can do the same in the 21st. These investments produce the people and the ideas that lead to new products, new businesses, and entire new industries, as well as the jobs that go with them.



Eroding Our Foundation: Sequestration, R&D, Innovation and U.S. Economic Growth

BY JUSTIN HICKS AND ROBERT D. ATKINSON | SEPTEMBER 2012

*Unless changed,
sequestration will result
in significant cuts to
federal R&D investments
from 2013-2021, leading
to GDP losses of up to
\$860 billion.*

Because of the Budget Control Act, budget enforcement procedures known as *sequestration* will commence January 2013 unless Congress and the Obama Administration act otherwise. The sequester requires cuts in discretionary spending in order to achieve \$1.2 trillion in savings from 2013-2021. When compared to 2011 spending levels, this will lead to a cut of 8.8 percent (or \$12.5 billion) of federally funded research and development (R&D) in 2013 with similar cuts in the following years.¹ This cut to R&D expenditures will affect all government agencies, including the Department of Defense, the National Science Foundation, the National Institutes of Health, the Department of Energy, and NASA.

Federal R&D plays a key role in driving U.S. innovation, productivity, and overall economic growth. We estimate that the projected decline in R&D will reduce GDP by at least \$203 billion and up to \$860 billion over the nine-year period, depending upon the baseline with which sequestration is compared. At \$203 billion, the loss is equivalent to eliminating all sales of new motor vehicles for a half year, two years of airline travel, or six years of attendance at professional sporting events.² These R&D cuts will also result in cumulative job losses and forgone job creation of approximately 450,000 from 2013-2016.

We generate these estimates by comparing sequestration to three alternative benchmarks. First, we compare sequestration to a benchmark that holds discretionary expenditures constant at their 2011 rates. Under this scenario, sequestration will lead to a shortfall in federal R&D of \$95 billion from 2013-2021. Second, we introduce a benchmark where the R&D share of GDP remains constant. It should be noted that from 1994 through 2009, growth in federal R&D expenditures outpaced GDP growth by 20 percent, so even this benchmark would result in slower growth in R&D than in the past. Using this

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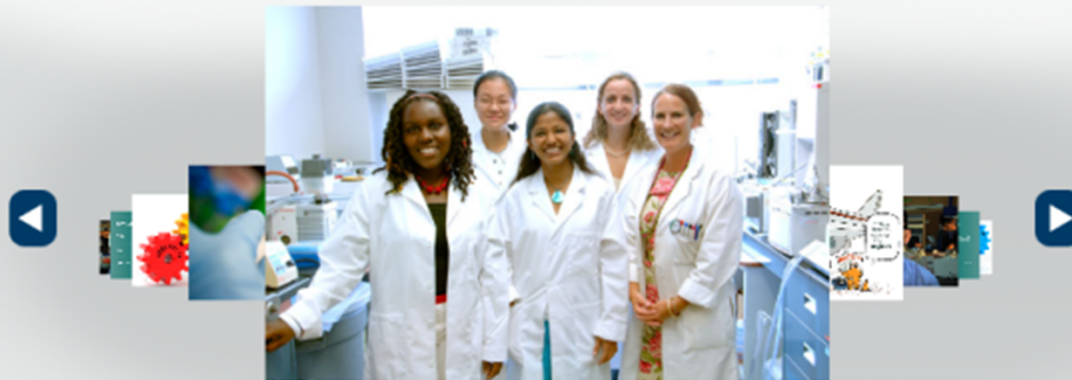
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From University Chancellors to Post-Docs, the Message to Congress is the Same: Stop the Sequester and Preserve America's Leadership in Science and Innovation

A clarion call for science

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THE IMPACT OF A SEQUESTER ON THE NATIONAL INSTITUTES OF HEALTH AND IMPLICATIONS FOR JOBS AND THE U.S. ECONOMY

Authored by Dr. Everett Ehrlich

The National Institutes of Health (NIH) plays a significant and well-documented role in the U.S. economy by advancing the frontiers of medical research while laying the foundation for new products, services and technologies. These discoveries help maintain America's leading role in an increasingly competitive global health services sector.

Given the substantial economic returns from NIH funding, it is critical to highlight the devastating impact that a possible sequester on March 1, 2013 will have on our nation's medical research enterprise and on U.S. economic growth and job creation.

A new analysis by United for Medical Research does just that. The report illustrates the impact of a 5.1 percent sequester on NIH extramural spending on our nation's economy, jobs and economic output, in all 50 states. The report found:

- At current funding levels, NIH supports roughly **402,000 jobs and \$57.8 billion in economic output.**
- A 5.1 percent sequester is estimated to **cut the total number of jobs supported by NIH extramural spending by more than 20,500 and reduce new economic activity by \$3 billion.**

Ultimately, the real impact of a sequester on NIH and the life sciences enterprise will be enhanced by the fact that the cuts will take effect in the middle of the fiscal year and will need to be absorbed over a truncated budget calendar. (The projections by States are shown in table 1.)

Policymakers find themselves at a historic juncture where they must balance the need to preserve our fragile economic recovery in the short term, with the requirement to reduce federal debt over the long term. Our nation's commitment to NIH addresses both of these issues – by preserving jobs needed to sustain our economic recovery – and by generating the discoveries that will bolster the nation's economy for decades to come. Given its many economic, societal and health benefits, lawmakers on both sides of the aisle should make preserving NIH funding and preventing sequestration a top priority.



TASK FORCE ON AMERICAN INNOVATION

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American Chemical Society
American Institute for Medical and
Biological Engineering
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American Mathematical Society
American Physical Society
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Council on Competitiveness
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Dow Chemical Company
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Experimental Biology
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Google, Inc.
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Semiconductor Research Corporation
Silicon Valley Leadership Group
Society for Industrial and Applied Mathematics
Southern Universities Research Association
TechAmerica
TechNet
Technology CEO Council
Telecommunications Industry Association
Texas Instruments Incorporated
The Science Coalition

February 11, 2013

President Barack Obama

The Honorable John Boehner
Speaker of the House of Representatives

The Honorable Harry Reid
Majority Leader, U.S. Senate

The Honorable Nancy Pelosi
Democratic Leader, House of Representatives

The Honorable Mitch McConnell
Minority Leader, U.S. Senate

The Honorable Eric Cantor
Majority Leader, House of Representatives

Dear Mr. President and Congressional Leaders:

On behalf of the Task Force on American Innovation, representing a broad and diverse cross section of companies, universities, and professional societies, we urge you to stop the pending sequester, which would make short-sighted cuts to critical scientific research investments and other important federal programs that are vital to economic growth.

Indeed, the key to solving our country's fiscal problems is strong and durable economic growth, not cuts to critical government programs. We cannot achieve economic growth without strategic investments in scientific research.

Scientific research drives innovation, productivity, job creation, and growth. Technological advances such as the laser, the Internet and the Web, GPS, and the large-scale integrated circuit had their origins in long-term research. These advances were the consequence of federal policies that directly funded long-term research, provided incentives for private investment in technology development, and stressed the importance of science and engineering education. Indeed, economic analyses generally attribute more than half of all economic growth in the United States since the end of World War II to technological advances.

Today, however, a good part of the world is catching up with our scientific competence, and in some areas has surpassed it. Nations such as China and India are pouring resources into developing their research capacities and their human capital in STEM (science, technology, engineering, and mathematics) fields. These investments will help them over the long term to challenge our economic as well as our military leadership. If we do not continue to advance our research capacity as well as remedy our nation's deficiencies in STEM education, we run the risk of falling behind our competitors.

www.innovationtaskforce.org

NDD United
Working to Strengthen America



FOR IMMEDIATE RELEASE

February 11, 2013

More than 3500 Organizations Demand End to Sequestration Cuts

Unprecedented joining of groups across all sectors sends a clear message to Congress and the White House that with 2.14 million jobs on the line, it is long past time to avert devastating sequestration budget cuts.

Washington, D.C. – More than 3500 organizations from all sectors of the economy and society joined forces today to urge Congress and President Obama to put an immediate end to sequestration budget cuts which threaten to send the economy reeling back into recession and destroy more than two million American jobs.

“Discretionary spending programs are not the reason for our growing debt, and yet they are always the first place lawmakers look for cuts,” said Emily Holubowich, Executive Director of the Coalition for Health Funding and spokesperson for NDD United. “Our goal is to speak with one voice to educate policymakers and the public about the importance of these programs. When you do the math, sacrificing these programs not only wouldn’t balance the budget, it would cripple our ability to grow in the future.”

The unprecedented array of groups involved represents a wide variety of Americans, from manufacturers to health professionals, academic researchers to social workers. Their goal in uniting today is to draw greater attention to the devastating impact of sequestration cuts to all Americans, regardless of industry or sector.

“The danger that sequestration poses to the economy and our national security cannot be overstated,” said Aerospace Industries Association President and CEO Marion C. Blakey. “More than two million jobs are at stake from all sectors. Sequestration affects all Americans and we must pull together to set it aside.”

According to a study performed by Dr. Stephen Fuller of George Mason University, sequestration budget cuts would cost 2.14 million jobs, 1.05 million from spending reductions at domestic discretionary agencies and 1.09 million from DOD spending reductions. These losses would fall across all job descriptions from manufacturing to retail, from professional business services to federal workers and from researchers to nurses. Small businesses would be hit particularly hard, losing more than 956,000 jobs.

“Our nation needs a balanced, strategic approach to its fiscal challenges. The indiscriminate budget cutting required by sequestration is not the answer,” said Wes Bush, Northrop Grumman chairman, chief executive officer and president. “We urge Congress and the Administration to work together on a solution to avoid sequestration’s devastating impacts on

DISCUSSION