

A Mardi Gras Guide to the Budget Parade

1. *The defense float received the most spending with significant investment in Space Force and technology R&D*
2. *The “Build Back Better” infrastructure bill provides several opportunities for savvy parade-goers to capitalize on new opportunities for bead catching well beyond physical construction*
3. *The agriculture, rural development, and FDA floats each received very little funding – around a 3% increase, which represents a real dollar cut due to inflation*
4. *Parade organizers plan to reduce deficits over the next 10 Mardi Gras through increased tax revenue*
5. *Despite the IRS receiving a 2% cut in this year’s appropriations, the Inflation Reduction Act allocated \$80B for IRS modernization after the fact*
6. *A substantial chunk of spending was allocated toward mitigating inflation related costs, such as salary increases, materials, and assistance for families*

The Congressional Mardi Gras Parade

- After protracted delays, the 2023 appropriations parade is here and taking center stage as carnival goers let the good times roll
- Like the Ukraine invasion that broke the 2022 budget stalemate, the bipartisan support for the 2023 budget was forged by inflation
- While most krewes turned out well in the 2023 appropriations, the Department of Defense was crowned Mardi Gras King this year
- Equally as entertaining for Mardi Gras revelers this year are the competing parade routes of the infrastructure bill and the CHIPS Act
- Even more so than in previous years, it is critical to pick your parade routes and stake out your spots carefully to catch the most beads
- The hangover from the latest budget party will be swift and severe as we head into a debt ceiling debate and 2024 budget impasse

Bulls on Parade

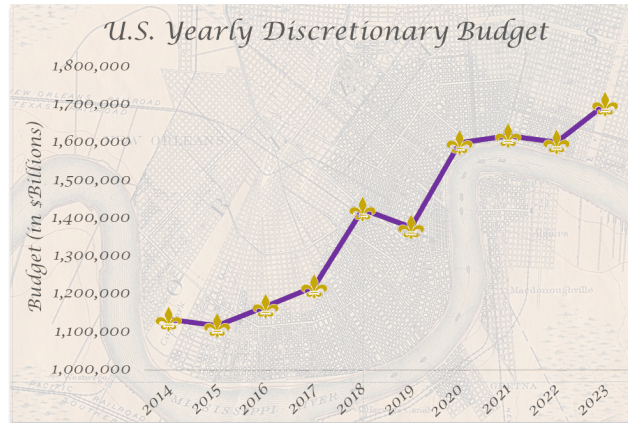
This year’s Mardi Gras parade came late. Like the krewe that procrastinates picking its theme, Congress operated under a continuing resolution and went to the brink of another government shutdown, before finally passing the 2023 budget appropriations. Behind the \$1.7T+ omnibus bill was the fallout of a lame-duck Congress – Democrats anticipated this being one of the last pieces of legislation they could pass on their watch. Ultimately inflation broke the stalemate with spending on salaries, materials, and assistance to families. Inflation had not been tied to appropriations for a long time, but recent economic realities forced Congress’ hand. On the defense front, the FY23 NDAA received a 10% increase to address, among other things, counter interference by foreign players in other countries. Rising tensions between China and Taiwan and the conflict in Ukraine instigated increased funding for the nuclear triad.

The Mardi Gras King

The Department of Defense was once again crowned as King of the Mardi Gras Parade this year, although almost everyone who attended caught beads because of spending hikes across the board. The King’s boon, \$858 billion, is a 10% increase from last year and the highest ever spend on the defense budget. Notable allocations within the defense package are a \$21B allotment for Space Force investment accounts, which received an additional \$2.3B above request to accelerate missile warning and tracking and improve spacecraft communication (to keep the Chinese Balloon krewe out of the parade, among other unsavory characters), and \$17.6 billion for continued modernization of the nuclear triad. A few civilian agencies stood empty-handed on the sidelines of this year’s parade, most prominently the IRS, who received a 2% cut. However, as a part of the Inflation Reduction Act, Biden allocated \$80B toward the IRS for systems modernization, taxpayer services, and operations, offsetting most of the funding cuts.

Competing Parade Routes

While defense may be the headline parade in this year’s appropriations, there are other parade routes to consider. Like every savvy Mardi Gras veteran knows, you cannot stake out a choice spot on every parade route, so you must make tradeoffs and allocate your resources accordingly. The Infrastructure Bill parade route allocates funding toward cyber, cloud, tech, and other infrastructure, so parade goers with a focus in IT should consider aligning. The CHIPS Act parade route is also compelling, with \$200B of the \$280B total spend directed specifically at scientific R&D. True to the indulgent spirit of the season, appropriated funds are already buoying the chip industry this Fat Tuesday – with over-supply in selected segments – yet these funds will build important domestic capacity. The obsession over protecting our and our allies’ physical and digital borders may find civilian contractors without these capabilities scrounging for crumbs of the king cake.



2023 enacted budget is markedly higher than 2022 and nearly 50% above the 2014-2015 levels that mark the most recent period of fiscal austerity.

Planning Next Year’s Parade

Because of the late passing of this year’s appropriations, it is already time to look ahead to the 2024 budget request cycle and prepare for next year’s parade. Like the unfortunate souls who clean up behind the parade routes, we could be looking at a tumultuous passage, possibly another continuing resolution, and maybe even a full year CR or shutdown threat again. Since the House flipped, gridlock between the House and Senate will become even more of a feature of the legislative process. Like the beads hanging in the trees along the parade route mid-summer, a full year continuing resolution, a shutdown, or a sequestration are ghosts of prior years. Some are worried that discretionary spending may have peaked, and we may see a return to fiscal conservatism like we experienced in 2012-2015. If these budget concerns are valid, it may be time to shake off the Mardi Gras hangover and get serious about trimming indirect expenses, shedding underperforming assets, and preparing for a period of Lenten discipline.