



BRIEF ANALYSIS GOP BUDGET PROCESS PROPOSAL

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GOP Budget Process Bill Seriously Flawed Proposal Distracts From GOP Policies Causing Deficit

The GOP budget process bill is an acknowledgment by the Republican Majority that they have failed to lead the nation on fiscal matters. They have squandered the surplus and run up large deficits. So now they are turning to a budget process proposal to appear fiscally responsible.

Republicans seem to forget that they are in control in Washington right now. It has been their policies of repeatedly reducing revenues while increasing spending that have turned record surpluses into record deficits and debt. Adopting budget process changes will have little impact on the deficit if we continue following these failed fiscal policies.

This proposal really represents an abdication of responsibility – a line item veto that allows the President to make decisions for Congress, automatic spending cuts without regard to priorities or fairness, multi-year spending caps that the GOP has disregarded in the past, partisan entitlement and spending commissions that do the work of Congress (considering issues meant for elected, accountable representatives), and budgeting every two years instead of one.

If Republicans were serious about reining in the record deficits and debt, a real bipartisan effort of elected lawmakers and the President would be under way. Instead, they have come up with this budget process proposal. In other words, instead of governing and making the hard choices that are necessary, the Republican Majority wants to put the government on auto-pilot, with automatic mechanisms and decision-making done by others.

This proposal also represents a direct threat to Social Security and other vital entitlement programs. It would remove protections for Social Security and put in place a fast-track process that could result in the privatization of the program.

LINE ITEM RESCISSION AUTHORITY

Proposal Description: The GOP budget process bill includes a proposal to give the President line item rescission authority. This proposal allows the President to request Congress remove, or rescind, discretionary, entitlement, and tax measures and then force lawmakers to vote up or down on those rescission requests on an expedited schedule. The bill provides lawmakers no opportunity to amend the President's proposed rescissions.

Although the GOP proposal fixes some of the problems with President Bush's line item rescission proposal, it is still seriously flawed and should be rejected.

An abdication of congressional responsibility – shifts power to Executive Branch

The overarching problem with the line item rescission proposal is that it represents an abdication of congressional responsibility. Under our Constitution, all legislative powers are vested in the Congress, with the President only having the power to sign or veto legislation in its entirety. The line item rescission proposal would turn this construct – carefully designed by our nation’s founders – on its head. It would give the President the power to propose cancelling items Congress has passed, package those proposed cancellations in any way he chooses (up to four times a year), and then force Congress to vote on them within 10 days of their introduction.

It would give the President far more control over the power of the purse than was ever intended by the framers of the Constitution, and would also give the President the power to use the threat of proposing particular rescission items as a bargaining chip in dealing with members of Congress.

Acting Congressional Budget Office (CBO) Director Donald Marron concluded his May 2 testimony before the Senate Budget Committee by cautioning Congress that giving the President line item rescission authority could simply shift power to the President, while doing little to restore fiscal discipline. Marron stated: *“... [I]n contemplating the bill, the Congress will have to weigh the potential for possibly modest budgetary benefits against the possible drawbacks, which include a shift of power to the executive branch and effects on the legislative process.”*

Likely to have little impact on the deficit

Giving the President line item rescission authority would likely do little to change the nation’s deteriorating budget outlook. Since President Bush took office, he has yet to issue a single veto. There is no reason to believe that granting him this additional authority would change his fiscal policies or have much of an impact in halting the growth in our nation’s debt. This new authority can’t replace a real commitment to reducing the deficit through responsible bipartisan action.

This line item rescission proposal is really just a distraction from the Bush administration’s failed fiscal record. Here is how a March 7 editorial in Virginia’s *Roanoke Times* summed up the proposal: *“...[T]he president already has the only tool he needs: The veto. That Bush has declined to challenge Congress in five-plus years is his choice. The White House no doubt sees reviving this debate as a means of distracting people from the missteps, miscalculations, mistruths and mistakes that have dogged Bush and sent his approval rating south. The current problems are not systemic; they are ideological. A line-item veto will not magically grant lawmakers and the president fiscal discipline and economic sense.”*

Provides no opportunity to amend or filibuster proposed rescissions

While the President could package rescissions in any way he chooses, sending them individually or as a group, Congress would have to “take it or leave it” exactly as proposed by the President, with no amendments in order.

Allows President to cancel new mandatory spending proposals passed by Congress

In addition to targeting discretionary spending proposals, the President also would be able to cancel new mandatory spending proposals, such as those dealing with Social Security, Medicare, veterans, and agriculture.

Tax provisions are narrowly drawn, while spending provisions are broadly drawn

Under the proposal, the President could propose to rescind virtually any spending increase, but only those tax measures the Joint Committee on Taxation (JCT) specifies as treating taxpayers differently. Since the chairs of the Senate Finance Committee and House Ways and Means Committee appoint the Chief of Staff of the JCT, they could effectively control which tax measures could be subject to rescission.

GRAMM-RUDMAN DEFICIT TARGETS

Proposal Description: The GOP budget process bill would also return to the failed Gramm-Rudman strategy of enforcing deficit targets with automatic cuts in spending, known as sequesters. The proposal sets deficit targets as a percent of GDP – declining from 2.75 percent of GDP in 2007 to 0.5 percent of GDP in 2012 and each year thereafter. Using GDP levels in the President’s 2007 budget (and CBO for 2012), the deficit targets would decline from \$378 billion in 2007 to \$88 billion in 2012. If OMB estimates that a deficit will exceed its target and Congress subsequently fails to pass legislation to meet the deficit target, an automatic sequestration – or across-the-board reduction – of mandatory spending would take place, regardless of priorities or fairness.

Fixed deficit targets failed to reduce deficits when tried before

This strategy of setting fixed deficit targets failed in the past and is likely to fail again. When Gramm-Rudman was in effect in the late 1980’s, the actual deficits always exceeded the target deficits. In fact, the deficit in 1990, the last year Gramm-Rudman was in effect, was \$221 billion, exactly the same as the deficit in 1986, the first year Gramm-Rudman was in effect. The original Gramm-Rudman target for 1990 was a \$36 billion deficit.

This performance led the Government Accountability Office (GAO) to conclude that Gramm-Rudman was ineffective. In a 1992 report, GAO wrote: *“GAO has criticized the [Gramm-Rudman] procedures for leading not to meaningful deficit reduction, but rather to a whole generation of off-budget and other misleading practices that hid the true magnitude of the deficit problem. When even these practices failed to avoid sequestration, the deficit targets were simply revised, and the date for achieving a balanced budget was postponed. Thus, instead of the government reaching a balanced budget in fiscal year 1991, the original [Gramm-Rudman] target, the deficit reached record levels.”*

Former Senator Fritz Hollings (D-SC), who was one of the original authors of the Gramm-Rudman procedures, later came to reject the strategy and called it a failure. In a 2003 statement on the Senate floor, Senator Hollings said: *“...[W]e failed with Gramm-Rudman-Hollings. ...[I]nstead of using Gramm-Rudman-Hollings to cut back some \$35 billion in spending each and every year, we were using it as a cover to increase spending \$35 billion each and every year. So I said give me a divorce from that. I don’t want my name connected with it.”*

Puts Social Security back “on-budget”

The bill would put Social Security back “on-budget” for the purpose of setting and enforcing its new deficit targets. It would ignore current requirements that prohibit including Social Security surpluses in deficit and enforcement calculations. This policy change would mask the true size of the deficit and calls into question the GOP’s commitment to protecting Social Security.

GOP’s budget resolution with omitted items would fail to conform with new deficit targets

The deficits under the GOP’s 2007 budget resolution – once omitted items are added in, such as AMT reform, CBO’s estimate of realistic war costs, and interest costs – would exceed these new deficit targets. In 2011, the last year covered by the budget resolution, deficits under the resolution with omitted items would exceed the deficit target for that year by almost \$175 billion.

Medicare, veterans’ benefits, and other entitlement programs likely to face sequester

Although Social Security benefits would be excluded from sequester, Medicare, veterans’ benefits, student loans, low-income assistance, and other entitlement programs could face across-the-board cuts under this proposal.

THREE-YEAR SPENDING CAPS

Proposal Description: The GOP budget process bill would also put in place three years of spending caps, or limits on discretionary spending. The caps would be \$873 billion in 2007, \$896 billion in 2008, and \$920 billion in 2009. The caps could be increased to allow for emergency appropriations of no more than \$90 billion in 2007, \$50 billion in 2008, and \$30 billion in 2009. If discretionary spending exceeded those amounts, the proposal would require automatic across-the-board cuts to all discretionary accounts, with no exemptions.

Repeats GOP practice of adopting spending caps and then repealing them later

This proposal repeats the GOP practice of putting in place spending caps to look fiscally responsible and then repealing or waiving those caps when it comes time to enforce them. Just this month, in passing a deeming resolution on a supplemental bill, the GOP repealed a budget enforcement provision for 2006 and repealed the three-year spending caps they put in place in their own budget resolution last year.

The GOP also increased the 2007 spending limit they set in last year's budget resolution by \$7 billion. Last year's budget resolution set a spending limit for 2007 of \$866 billion. The supplemental just passed resets the 2007 spending limit at \$873 billion. Why should anyone believe that the GOP would be any more likely to adhere to these new spending caps than they were to the old spending cap they just repealed and increased?

If adhered to, caps could result in dramatic cuts in nondefense, non-security funding

If they were actually adhered to, the discretionary spending caps in the GOP bill could result in dramatic cuts in nondefense, non-security funding. For example, if defense and homeland security programs are funded at President Bush's requested levels, the cut in purchasing power (budget authority compared to CBO baseline) for nondefense, non-security funding would be \$11 billion in 2007, \$20 billion in 2008, and \$28 billion in 2009.

Emergency spending limits could result in sequester if war costs continue at average level

The emergency spending limits in the GOP bill are well below recent levels and could result in automatic, across-the-board cuts in discretionary spending. From 2003 to 2006, the average cost of emergency supplemental funding enacted for the wars in Iraq and Afghanistan and the war on terrorism has been \$100 billion. If war costs were to continue at that level, this bill could force sequesters of \$10 billion in 2007, \$50 billion in 2008, and \$70 billion in 2009. Funding appropriated to respond to natural disasters or other emergencies would only increase the size of any required sequester.

PARTISAN ENTITLEMENT COMMISSION

Proposal Description: The GOP budget process bill would also create a partisan entitlement commission – the National Commission on Entitlement Solvency – that would essentially be charged with doing the job of Congress – coming up with a proposal to reform our entitlement programs. The commission, which would consist of 15 people (9 Republicans and 6 Democrats) appointed by Congress and the President, would be required to draft legislation by May 1, 2007 to restore the long-term solvency of Social Security, Medicare, and Medicaid. The commission's proposal, even if it were to include privatizing the Social Security program, would be given fast-track protections in Congress and could be approved with a simple majority vote.

An admission of failure by the GOP and a further abdication of congressional responsibility

This proposal represents an admission by the GOP that they are unable or unwilling to take up and consider legislation on their own to address the long-term funding challenges of our entitlement programs. Instead of working with Democrats to find real solutions to these problems, the GOP is proposing to turn the work over to yet another commission, including unelected individuals. By giving the commission's proposal fast-track status, the bill would limit the ability of Congress to carefully consider the recommendations under the regular procedures in Congress.

No room for real bipartisanship in process

The membership of the commission would favor the desired outcome of the GOP majority. Under the rules of the commission, only one Democratic vote would be required to submit the final legislative proposal. And given the current make-up of Congress, no Democratic votes would be needed to secure final passage of the commission's proposal, regardless of how sweeping the changes would be to the Social Security, Medicare, and Medicaid programs.

Past commissions have made controversial proposals that should not be fast-tracked

It is worth considering some of the controversial proposals that have come out of even supposedly "bipartisan" entitlement commissions in the past. For example, the National Bipartisan Commission on the Future of Medicare, in place in 1998 and 1999, proposed increasing the eligibility age for Medicare from 65 to 67 and capping the government contribution to health insurance for the elderly and disabled – forcing beneficiaries into cheap HMO's.

The President's Commission to Strengthen Social Security, in place in 2001, proposed creating private accounts funded by borrowing trillions of dollars and cutting the traditional benefit 46 percent by implementing price indexing, rather than wage indexing. Do these controversial proposals deserve fast-track consideration with approval by a simple majority vote?

Overrides current protections for Social Security

Notably, by giving fast-track status to the proposals of this entitlement commission, the Majority would be eliminating the current Social Security protection that provides a 60-vote point of order against fast-tracking changes to Social Security. The legislation also leaves open the possibility of cutting the Social Security benefits of current seniors.

Creates artificial, unrealistic "solvency" measures for Medicare and Medicaid

The bill's definition of Medicare solvency forces an artificial cap on general revenue financing for Medicare at 45 percent of programs costs. As a result, the commission will be forced to shift costs largely on to beneficiaries and Medicare providers.

The bill's measure of Medicaid solvency caps program costs far below what is needed to keep pace with increases in enrollment and health care costs – likely forcing new eligibility and coverage restrictions and cost-shifting to states, Medicaid beneficiaries, and the private health insurance market. The commission would be forced to propose cutting Medicaid spending by billions of dollars below the CBO baseline between 2012 and 2016.

PARTISAN SPENDING COMMISSION

Proposal Description: The GOP budget process bill would also create a partisan spending commission – the Commission on Congressional Budgetary Accountability and Review of Federal Agencies. Like the entitlement commission, the spending commission would consist of 15 people (9 Republicans and 6 Democrats) appointed by Congress and the President. The spending commission similarly would be charged with doing the job of Congress

– reviewing the effectiveness and efficiency of federal programs and agencies and making recommendations on whether to eliminate or change those programs and agencies. The commission’s proposals also would be given fast-track protections in Congress and could be approved with a simple majority vote. However, unlike the entitlement commission, Congress would not be able to offer amendments to change or strike provisions in the commission’s proposal.

GOP could exercise program and agency oversight without new commission

Under this proposal, the GOP is contracting out its elected, constitutional duty to conduct review and oversight of federal programs and agencies. This proposal represents yet another example of the GOP failing to do its job – in this case, legislative oversight – and then turning to an outside commission to do its work.

Again, no room for real bipartisanship in process

The expedited consideration process in the Senate and the House would allow for no Democratic amendments and would ensure that not a single Democratic vote would be needed to eliminate or substantially change any federal agency or program.

Commission itself is duplicative and wasteful

Although one of the key missions of the commission is to eliminate federal agencies and programs that are duplicative and wasteful, the creation of this commission itself creates a massive amount of duplication and unnecessary and wasteful spending. The powers of the commission – to hold hearings, compel testimony, employ the resources of GAO, CBO, and federal agencies, and draft legislation – are identical to the oversight and regular legislative duties of the House and Senate.

BIENNIAL BUDGETING

Proposal Description: The GOP budget process proposal would also implement biennial budgeting. Under the bill, the first session of each Congress would be reserved for budgetary actions – reviewing the President’s budget, adopting a budget resolution, considering reconciliation legislation, and enacting appropriations bills. The second session of each Congress would be reserved for authorization legislation, oversight and planning, and any needed adjustments to budgetary laws enacted in the first session or in earlier years.

Switching to a biennial budget would be a profound mistake. One of the most important responsibilities of Congress is to set the budget priorities of the federal government, and it should be done every year.

Some of the problems with biennial budgeting are:

- There is too little attention on our nation’s fiscal condition right now. Biennial budgeting would result in even less attention on it.
- It would lead to more supplemental spending, especially in the second year. There would be a temptation for budget writers to low-ball spending needs in the second year to make deficit projections look better, and then provide for those needs with supplementals. For example, the deeming resolution for 2007 appropriations included in the supplemental appropriations conference set a spending limit that is \$7 billion higher than the spending limit set in last year’s GOP budget resolution.
- While the President is calling for biennial budgeting, his own budgets for 2006 and 2007 failed to provide discretionary spending policy details beyond the first year.
- It would require Congress to rely on more speculative, long-term projections, resulting in less accurate forecasts and outdated assumptions. Under biennial budgeting, agencies

- would have to begin working on their budgets as much as 28-30 months in advance, rather than 16-18 months under an annual budget cycle.
- It would reduce Congressional ability to respond to changing budget, economic, and fiscal needs and conditions.
- And, it would weaken Congressional oversight of the Executive Branch through the budget and appropriations process.

CBO Director Douglas Holtz-Eakin criticized biennial budgeting in 2004 testimony before the House Rules Committee. He stated: “...[C]hanging to a two-year cycle could have significant drawbacks. It could diminish the effectiveness of Congressional control of spending in the appropriation process and could make adjusting to rapidly changing budgetary and economic conditions more difficult. ... Budget discipline and Congressional oversight might suffer if major policies were reviewed less frequently. And large supplemental appropriation bills could be more likely under a biennial budget process.”

CHANGES TO BUDGET RESOLUTION AND RECONCILIATION PROCESS

Proposal Description: The GOP budget process bill would also make several changes to the congressional budget resolution and reconciliation process.

The bill’s proposed changes to the budget resolution and reconciliation process would restrict bipartisan input and further undermine budget transparency, and fiscal responsibility. The proposed changes include:

- Potentially eliminating the right to amend budget resolutions and reconciliation bills;
- Installing “one man rule” for enforcing Gramm-Rudman deficit targets, where the Budget Committee Chairman alone could give directives to authorizing committees to cut spending – without review by the Budget Committee or the full Senate;
- Allowing even more abuse of the reconciliation process by weakening the Byrd rule and ignoring the full cost of reconciliation proposals; and,
- Eliminating detail from budget resolution, which would allow the GOP to conceal specific cuts being proposed.

* * *

This GOP budget process bill is not the answer to our nation’s fiscal problems. We need to begin by putting a stop to the failed fiscal policies that have driven us into the deficit ditch over the last six years. And in the end, there will have to be the political will, from both parties, to come together and make the tough choices that are needed. That is the only way we are really going to put our fiscal house back in order.