

Statement of Opposition to Budget Control Act of 2011
(Amendment in the Nature of a Substitute to S. 627 as Amended)
July 29, 2011
Congressman Tom McClintock

The “Budget Control Act of 2011” is presented as a measure to cut \$2.7 trillion from the federal budget over the next ten years, to raise the debt limit by \$2.5 trillion in two stages and to send a balanced budget amendment to the states.

There is no dispute that this measure immediately increases the debt limit by \$900 billion with conditional approval for \$1.6 trillion more. However, it is unlikely to produce \$2.7 trillion in spending cuts and the promised balanced budget provision is unenforceable and therefore meaningless. Moreover, even if it worked perfectly, it is unlikely to prevent a credit downgrade and with it, higher borrowing costs both to government and to the productive sector of the economy.

THE ACT IS UNLIKELY TO PREVENT A DOWNGRADE

Before discussing these issues or the arguments made in favor of the measure, it is important not to forget the gorilla in the room. This nation faces an unprecedented fiscal crisis because of an unprecedented spending binge by this administration and the last. Credit rating agencies are openly warning that the nation’s Triple-A credit rating may be downgraded in the immediate future if it is unable to pay its bills OR if it fails to enact a credible plan to reduce the projected 10-year budget deficit by roughly \$4 trillion.

There is no dispute it authorizes an additional \$2.5 trillion of borrowing (\$900 billion immediately and \$1.6 trillion contingent on adoption of a committee report), roughly \$8,000 for every man, woman and child in the nation or \$32,000 for a family of four.

Unfortunately, the government’s spending binge requires that the debt limit be increased and clearly, this measure does so. Not increasing the debt limit requires an immediate plan to balance the budget, and no such plan exists or has been proposed. Shutting down the entire federal government – disbanding the military, closing every department, agency and bureau and firing every federal employee – is not enough to balance.

Mandatory spending – including Social Security, Medicare, Medicaid, other welfare programs and interest on the debt – now consumes more than all federal revenues. Since Americans have based their retirement plans on these entitlement promises, the reforms necessary to restore their solvency will take years to produce savings and in the meantime, the government will have to borrow and the debt limit will have to be increased.

But without enactment of a credible workout plan NOW, continued borrowing assures the collapse of the American economy and the finances of the United States Government. This moment in time marks a crossroads for our nation.

That is why the rating agencies are saying that raising the debt limit isn't enough – the government must demonstrate that it has the political will to enact meaningful deficit reductions, which they define as roughly \$4 trillion over the next ten years.

Even if the Budget Control Act worked perfectly, (and that is highly unlikely), it will not result in more than \$2.7 trillion of deficit reduction.

Predicting the future decisions of the credit rating agencies or the economic consequences from them, is a fool's errand. Much of their economic analysis is marred by perception, psychology, political pressure and self-interest. We do not know if enactment of this measure will produce – or prevent – a downgrade. But what we do know is that on many occasions in the last month their senior analysts have called for a credible work-out plan for \$4 trillion of deficit reduction in order to maintain a Triple-A rating. We ignore these repeated and explicit warnings at our peril.

SAVINGS ARE GREATLY EXAGGERATED

The Budget Control Act purports to cut federal spending by \$900 billion immediately and set in motion another \$1.8 trillion in spending reductions by year's end, and to cut a dollar of spending for every dollar of debt limit increase.

However, the debt limit increase is immediate and the savings occur over a ten year period, heavily weighted toward the back end. In other words, it will gladly give a dollar of spending cuts over the next TEN YEARS for a dollar of debt today.

The impact on the fiscal year ending September 30, 2012 is to produce \$25 billion in actual discretionary spending reductions while increasing mandatory spending by roughly \$3 billion netting to \$22 billion of spending reductions out of a \$3.7 trillion federal budget – about two-thirds of one percent. Compared to the 28 percent increase in federal spending over the last three years, a cut of two-thirds of one percent is somewhat underwhelming.

All future savings are in the form of promises by a government that doesn't have a stellar track record of keeping promises, especially when it comes to spending cuts over ten years.

On the subject of keeping promises, over that ten year window, the Budget Control Act of 2011 authorizes discretionary spending levels a half trillion more than permitted under the House Budget Act, also known as the “Ryan Plan” passed just four months ago. And unlike the Ryan Plan, it does nothing to control mandatory spending.

Even these modest savings are questionable. The Budget Control Act exempts from budget control any measure that the Congress (by simple majority vote) declares to constitute an “emergency.” It exempts from budget control any measure the Congress and President declare to be necessary for the “Global War on Terror.” It exempts from budget control any of the mandatory spending that by itself is consuming the entire revenues of the federal government.

COMMITTEE UNLIKELY TO ACHIEVE PROMISED SPENDING CUTS

Much of the Budget Control Act of 2011 depends on a bipartisan committee that is charged with the responsibility not necessarily to cut spending, but rather to cut the deficit, by \$1.8 trillion. These are two very different things.

The 12-member committee is to be appointed by Congressional leaders, evenly divided between Democrats and Republicans and between the House and the Senate. Its recommendations on deficit reduction will be decided by majority vote and put to both houses for approval or rejection. The second tranche of debt limit increase depends on congressional approval of its recommendations.

There is little reason to be optimistic of its success for a number of reasons.

First, although the committee's formal goal is \$1.8 trillion in deficit reduction, the law only requires it to produce \$1.6 trillion in reductions in order to trigger the debt limit increase.

Second, this is not a new concept. Since 1982, there have been 17 "bipartisan" commissions charged with reducing federal spending or borrowing. As evidenced by the current crisis, all 17 have failed. The Budget Control Act of 2011 is heavily reliant on the 18th such panel actually succeeding.

This particular panel is made up exclusively of a bipartisan group of current members of Congress. It begs the question, "If a bipartisan group of *current members of Congress* (which we call, "the Congress") can't agree to reduce spending to sustainable levels at this critical moment in our history, why would we place far greater confidence in the proposed bipartisan panel of – wait for it -- *current members of Congress*?"

Third, the panel is not limited to reducing spending, but to reducing the deficit. Tax increases may also reduce deficits (while doing significant economic damage). Since the committee is to be evenly divided between Democrats and Republicans, it would take only one Republican to place a massive tax increase on the House and Senate floors. As the deadline approaches and yet another debt crisis looms, the pressure on that one Republican will be enormous, and if history is any indication, irresistible.

Such a failure of will would virtually assure that tax increases will be part of the package, and Congress would be presented with the Hobson's choice of either approving a plan that harms the economy by raising taxes, or rejecting the plan and harming the economy with another fiscal crisis caused by want of additional debt authority.

BALANCED BUDGET AMENDMENT UNENFORCEABLE

The Budget Control Act is to be amended to require a balanced budget amendment to the Constitution to be sent to the states for ratification as a further condition of raising the second tranche of the debt limit. This is fundamentally different than merely promising a Congressional vote on the amendment. I am convinced that if a genuine balanced budget amendment were sent to the states for ratification, they would do so in short order. I am convinced that a genuine balanced budget amendment would send a strong signal to markets that the United

States Government is serious about restoring the integrity of its finances. For two reasons, however, I believe the measure falls far short of this objective.

First, the amendment makes no mention of the specifications that a balanced budget amendment would have to meet. Many states have balanced budget amendments that they have circumvented to run substantial deficits. A genuine balanced budget amendment would forbid any government borrowing except by extraordinary majorities and for limited purposes. A balanced budget amendment that could be entirely circumvented through loopholes, or that could automatically trigger tax increases to finance Congressional appetites would conceivably meet the definition of a “balanced budget amendment.”

Second, it is entirely possible – indeed, likely -- that the Congress as currently constituted would not reach 2/3 agreement on the precise details of an amendment while facing another debt crisis in December. Nothing in this bill would prevent Congress from simply scrapping all requirements for the second tranche of debt and approving a debt limit increase anyway.

PROPOSERS' ARGUMENTS

We cannot balance the budget without entitlement reform and the best way to get that now is with the bipartisan commission. It is true that we cannot balance the budget without entitlement reform, which is why it is baffling that the Budget Control Act of 2011 specifically exempts all entitlement spending from its budget controls. And if the current Congress can't agree on the politically touchy issue of entitlement reform now – 16 months before the election – why would we have greater confidence in it doing so less than 12 months before the election?

This plan will cut trillions of dollars from the federal budget without raising taxes. As discussed above, it cuts at best a net of \$22 billion from current spending (about 2/3 of one percent) and has so many loopholes as to make even this modest assurance highly suspect. It does not raise taxes, but sets in motion events that make tax increases more likely.

Not supporting this measure increases the chances that worse legislation will pass. Does it? Or does it increase the chance that better legislation will pass? The answer to this question comes down to this: Is the resolve of Republicans to bring spending under control greater or less than the resolve of Democrats to continue

their spending binge? The argument that worse legislation will follow naturally assumes that Republican resolve is less.

Failure of this measure will cause a downgrade to the nation's credit.

Unfortunately, so does passing it. The nation's sovereign credit may be downgraded if the debt limit is not increased OR if a credible plan is not enacted that cuts roughly \$4 trillion from the projected deficit, according to warnings by major rating agencies over the last month. Under the best scenario, this measure does not do so. IF it passes the Senate (and 53 Senators have signed a letter vowing to defeat it), and IF it is signed into law (under protest and against the avowed recommendation of his senior advisors), it is likely that the plan will fail to pass credit agency muster.

Opponents don't even pretend to explain how defeating The Budget Control Act would produce a better policy. This argument is correct if the alternative is to do nothing. But no one suggests doing nothing. Even though the argument sets up a straw man, it does get to the heart of the strategic error that has gotten us to this point and it does ask the right question.

The argument assumes that House Republicans are responsible for the actions of the Senate and the President and therefore are responsible for crafting a measure to their specifications. These eventualities are entirely beyond the control or authority of the Republican House majority, and attempting to fulfill them would abrogate its promises to the American people.

Does that mean stalemate? Absolutely not. It means returning to the Constitutional process that has resolved stalemates like this one throughout the life of the Republic.

The House and Senate are designed to operate independently of each other. And the legislative branch is designed to operate independently of the executive.

It is the responsibility of House Republicans to produce responsible legislation and to send it to the Senate. It is the responsibility of the Senate to accept it, to modify it to its liking, or to reject it and offer alternatives.

Once both houses have acted in this manner, a conference committee is supposed to be convened to resolve differences. This process immediately identifies areas of agreement and incorporates those into the final legislative

product. It then isolates only the differences between the two houses and attempts to resolve as many of them as possible. The conference report, representing agreement between the two houses, is then ratified by the Congress and presented to the President, whose constitutional role begins only after Congress's work has concluded.

House Republicans have sent two comprehensive plans by formal vote to the Senate. The House Budget Act and the "Cut, Cap and Balance Act" reduce spending beyond the threshold set by rating agencies. Cut, Cap and Balance also increases the debt limit, making it the only legislative act that would prevent a credit downgrade. The Senate has summarily killed both plans. Meanwhile, it has sent no legislation on this issue to the House.

It is the responsibility of the House to continue to send variations of these plans to the Senate – plans that both increase the debt limit and genuinely reduce projected spending by roughly \$4 trillion. It should be doing so every few days.

As a stop-gap measure, it should also send temporary increases in the debt limit coupled with proportional spending reductions sufficient to produce a trajectory that would satisfy financial markets that genuine progress was being made.

Beyond that, the Senate must act. And House Republicans, including the Speaker, are not a viable substitute. When they set themselves up as such, they set themselves up to fail.