May 11, 1987

USING THE DEBT-CEILING VOTE TO END THE SPENDING BINGE

INTRODUCTION

At the stroke of midnight this May 15, the United States government essentially will go bankrupt--unless Congress adds another $200 billion to the national debt's current ceiling of $2.3 trillion. Without such action, the Treasury Department calculates that by the end of May, federal workers will not receive paychecks, the Treasury will begin defaulting on its loan obligations, and much of the government would have to shut down. For Congress, this would be a deserved major political embarrassment.

U.S. national indebtedness has been growing at an alarming rate. It took the nation two centuries--spanning four major wars and the Great Depression--to accumulate $1 trillion of debt, yet in just the last six years, Congress has rung up the second trillion dollars of national debt, thanks to enormous annual budget deficits. And if Congress continues to spend at its current frantic pace, the $3 trillion debt mark will be surpassed in 1991.

A Dose of Restraint. The debt ceiling bill which Congress is now considering offers the lawmakers the opportunity to inject some desperately needed spending restraint into the congressional budget process. Congress could do this by attaching to the bill a measure that would strengthen the congressional machinery that is supposed to reduce federal deficits. This machinery, of course, is the 1985 Gramm-Rudman-Hollings deficit reduction law that requires federal lawmakers to reach a balanced budget by 1991 by shrinking the size of the deficit by at least $36 billion each year over five years. Supporters of Gramm-Rudman-Hollings two years ago won approval for their measure only by attaching it to the debt bill.

Gramm-Rudman-Hollings has been weakened by a Supreme Court ruling which invalidated its automatic enforcement mechanism on the grounds that it conflicted with the constitutionally mandated separation of powers. The result of this is that liberals are proposing spending bills in Congress that would exceed the Gramm-Rudman-Hollings fiscal 1988 deficit levels by at least $40 billion.

Fixing Gramm-Rudman-Hollings. The Supreme Court struck down only one provision of Gramm-Rudman-Hollings on technical grounds. This can be fixed by reassigning the duties the bill originally gave to the General Accounting Office (an agency responsible to Congress) to the Executive Branch's Office of Management and Budget. This would restore the law's original enforcement mechanism and place Congress back on the balanced budget track. At the same time, it would be wise to make such programs as Social Security, welfare, and veterans benefits subject to the Gramm-Rudman sequestration process. For political reasons, they were exempted by the original bill.

Congress need not limit reform of the budget process to bolstering Gramm-Rudman-Hollings. Lawmakers also could begin to restore the traditional and proper balance between the President and Congress on budget matters. For instance, steps could be taken to prevent repetition of last year's incident when Congress crammed much of the entire federal budget into a giant $500 billion Continuing Resolution in the closing days of the session. This gargantuan bill was then sent to the White House, where the President had choices only of accepting the whole package or rejecting it.

Solid Popular Support. Instead of this take-it-or-leave-it process, the President should be given what is known as a line-item veto; this would enable him to reject specific items of spending while approving the remainder of the bill. This budget tool is supported by over 70 percent of Americans, according to a recent Gallup poll. Failing that, Senator Dan Quayle, the Indiana Republican, is proposing a compromise known as "enhanced rescission authority." This would beef up the President's budgetary powers by forcing Congress to take a vote on any presidential rescission--which is a request to cancel or reduce unnecessary program funding. Under existing law, Congress can kill a presidential rescission through inaction.

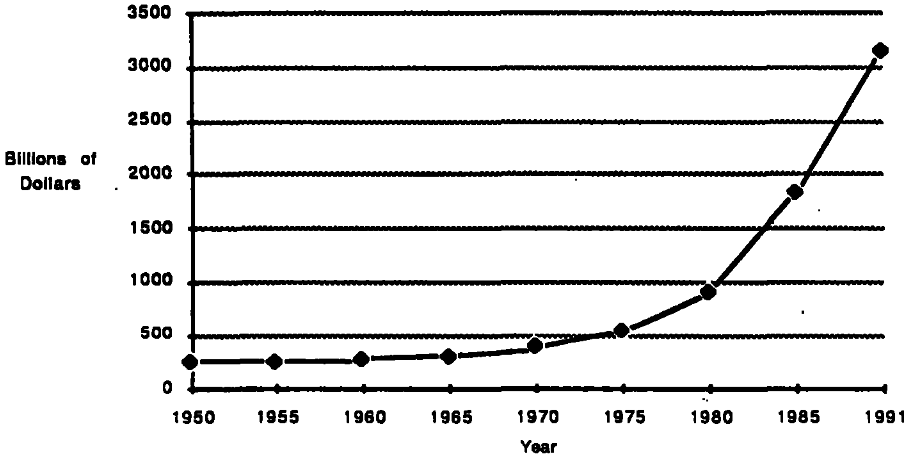
Most such sensible budget reforms have routinely been shot down by the pro-spending coalitions in Congress. The lesson of the Gramm-Rudman-Hollings legislation is that lawmakers probably will never agree to spending restraint voluntarily. The $2.5 trillion debt ceiling bill thus must be held hostage to reform. Experience shows that only the threat of bringing the federal money machine to a halt can force the big spenders to negotiate.

THE EXPLOSION OF FEDERAL RED INK

This will be the 18th straight year in which Congress has been forced to raise the debt ceiling, now an annual Capitol Hill ritual. The figure that follows shows the explosion in the national debt over the past ten years with projections through 1992 based upon current spending patterns.

The Alarming Growth in the Federal Debt

1950 to 1991 (projected)



What is causing this surge of red ink? Many lawmakers and observers wrongly have attributed the rise in deficit spending to a shrinkage in federal revenues caused by tax reductions. This has led to calls for higher taxes. Evidence reveals that federal revenues were $30 billion higher in 1986 than in 1981 (in constant 1982 dollars). But federal spending was $140 billion higher during that period. The underlying cause of the deficit then is clear: Congress has failed to control spending.

REVIVING THE GRAMM-RUDMAN-HOLLINGS DEFICIT REDUCTION LAW

When Congress enacted Gramm-Rudman-Hollings (GRH) in December 1985, it committed itself to a balanced budget by 1991, to be achieved through $36 billion annual reductions in red ink. Though the budget law has not worked as originally envisioned, even its congressional opponents acknowledge that the deficit is lower today than it would be without GRH. The law's very existence seems to inhibit deficit spending to some extent.

GRH's potential, however, can be realize if it is amended in two ways:

1) Reinsert the automatic sequestration trigger mechanism.

When Congress overwhelmingly passed the Gramm-Rudman-Hollings law in 1985, it also agreed to live by the law's fail-safe enforcement mechanism known as "sequestration." If in any year Congress failed to reduce the deficit to within $10 billion of the GRH deficit target, automatic across-the-board spending cuts would be invoked to make up the difference. These spending cuts would strike all but a handful of exempted programs--regardless of how popular or how essential. In 1986, however, the Supreme Court invalidated this sequestration process on a technicality: the agency that triggered the automatic spending cuts, the General Accounting Office, would be executing an Executive Branch power.

Congress since has demonstrated convincingly that without the threat of automatic across-the-board spending cuts, it has no intention of complying with the GRH deficit reduction targets. For this reason, several Democratic and Republican lawmakers are supporting restoring GRH's teeth.

House Majority Leader Thomas Foley of Washington, for example, proposes transferring the sequestration authority to the President. The aim of this, says Foley, is to remove from Congress the power to prevent sequestration. This would not be likely to improve GRH. The reason: a President would be reluctant to approve and take the political heat for a sequestration involving extremely unpopular spending cuts. Thus even with Foley's changes, legislators could continue budget business as usual with confidence that if they exceed the deficit target, they will pay no penalty. Worse, if the President were to push the Gramm-Rudman trigger, political anger over reduced federal programs would be directed not at Congress for its failure to cut spending, but at the White House for allowing painful cuts. In short, the Foley plan is a congressional ploy to absolve itself of fault for failing to cut spending.

Satisfying the Supreme Court. GRH will work properly only if an automatic sequestration triggering mechanism is reinserted. This is what Senator Phil Gramm, the Texas Republican, recommends. His proposal, popularly known as "Gramm-Rudman II," would transfer the dual responsibility for projecting the size of the deficit and for determining the necessary uniform percentage cut in all programs required to bring the deficit below the GRH target from the General Accounting Office to the Office of Management and Budget. This would fully satisfy the Supreme Court's objection that the original law wrongly assigned powers to the General Accounting Office, a Legislative Branch agency, that the Constitution reserves for the Executive Branch. Once the Office of Management and Budget had determined that Congress would fall short of the GRH deficit targets, Gramm-Rudman II would give Congress 30 days breathing room to enact further deficit reduction to comply with the deficit target. If Congress failed to do so, only then would across-the-board spending cuts be instituted. Gramm-Rudman II thus would restore the original spirit of the law that Congress overwhelmingly passed two years ago.

There seems to be no constitutional problem with Gramm's new proposal. According to Supreme Court Justice Antonin Scalia, the powers delegated to the Office of Management and Budget would be extremely narrow: the agency would have minimal discretion as to how the budget cuts would be distributed across programs. And it would not be permitted to use sequestration to terminate any "program, project, or activity." What Gramm-Rudman II would do is create an effective mechanism for spending reductions.

2) Make all federal programs eligible for Gramm-Rudman cuts.

As first conceived, GRH would have subjected all federal programs to the budget knife in the event of a sequestration. From military weapons acquisitions to the food stamps program, each spending item in the entire budget would have been forced to swallow the same percentage reduction in program funding to bring the deficit down to the target level. Yet politics intervened and Congress exempted Social Security, veterans benefits, and most welfare programs from sequestration. There is even a movement in Congress to exempt additional programs, such as highway funding.

By excluding almost 40 percent of the budget from GRH cuts, Congress has ensured that programs still falling under the axe would be hit particularly hard. Example: Although defense spending constitutes just 32 percent of total federal spending (excluding interest on the national debt, which cannot be cut), it must absorb 50 percent of sequestration under the current law. And, by exempting such pet liberal programs as welfare and Social Security from budget constraints, many liberals feel they have little to lose from a sequestration.

Equal Percentage. The GRH formula should be revised so that sequestration cuts every federal program by an equal percentage. For every sequestered dollar this would mean defense spending cuts of 32 cents, Social Security cuts of 23 cents, welfare programs cuts of 14 cents, farm subsidies cuts of 4 cents and so forth. Under this formula, the budget would be balanced genuinely "across-the-board," and in proportion with the spending priorities established by Congress.

RESTORING THE PRESIDENT'S BUDGETARY AUTHORITY

The expansion in federal spending and deficits over the past two decades is in part due to congressional usurpation of the President's traditional budget powers. The problem stems back to the 1974 Budget Act, when Congress repealed the President's power to "impound" funds (that is, to refuse to spend excessive program funding). This had been employed to pare congressional appropriations by almost every President since Thomas Jefferson impounded $50,000 for Navy gunboats. Presidents Kennedy, Johnson, and Nixon used impoundment routinely to cut federal spending by 5 to 8 percent annually. The 1974 Act replaced the impoundment power with two substantially weaker substitutes: the deferral and rescission authorities.

Even these reduced White House spending prerogatives have been eroded. Last year, for example, federal courts voided the use of presidential "policy deferrals"--under which the President sought to push a portion of program funding into the next fiscal year. This was a significant blow. Both Republican and Democratic presidents typically had averaged about $5 billion worth of policy deferrals each year.

Worse yet, White House rescissions have not even dented the congressional spending armor. Rescission is a request to Congress to cancel a particular spending item. When the President issues a request, the House and Senate must vote to approve the rescission within 40 days. If they do not, then the spending remains at the level appropriated by Congress. This means that Congress simply can ignore the President's rescission request without even taking a vote.[1] This has been the congressional response to virtually every Reagan rescission. The table that follows shows the figures for the number of rescissions approved by Congress during Reagan's term. As the table indicates, fewer and fewer budget austerity requests have been approved by the legislature.

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1. Virginia A. McMurtry, "Impoundment of Federal Funds: A Brief Overview," Congressional Research Service, Government Division, April 15, 1985.

Congressional Action in Response to Reagan Rescission Requests 1981-1987

	Proposed by Reagan		Accepted by Congress		Percentage of $ Amount of Rescissions Accepted by Congress
	Number	Amount	Number	Amount	
1981	133	$15,361.9	105	$11,715.2	76%
1982	32	7,907.4	5	4,364.7	55%
1983	21	1,569.0	0	0.0	0%
1984	9	636.4	3	55.4	9%
1985	244	1,843.3	96	165.6	9%
1986	83	10,126.9	4	143.2	1%
1987	73	5,835.8	0	0.0	0%
Total	595	$43,280.7	213	$16,444.1	38%

Deficit elimination depends upon restoring a proper balance between the budget powers of the Congress and those of the President. This could be achieved by amending the debt ceiling bill in a way that calls for two measures:

◆◆Give the President a Line-Item Veto

Almost every President since Abraham Lincoln has asked Congress for a line-item veto. This would empower the President to veto specific budget items in a spending bill while approving the remainder of the bill.

Last year Congress, presumably unintentionally, made a strong case for the line-item veto by stuffing every appropriations bill into a single $560 billion Continuing Resolution. The President was forced to sign the resolution or bring virtually the entire government to a standstill. Even The New York Times --a longtime opponent of the line-item veto--hinted that if Congress was going to persist in passing such budget extravaganzas then the President should be granted a more discriminating veto tool.[2]

Reagan has demonstrated on several occasions that if he had a line-item veto, he could save billions of dollars. The recent $90 billion highway bill is a case in point: it contained hundreds of parochial spending projects with a combined price tag of over $4 billion that could have been excised with a line-item veto. Congress never voted on these pork barrel projects individually; had it been forced to, most of them likely would have been turned down.

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2. "Fraud and Fantasy in Congress," The New York Times , September 26, 1986, p. A34. The editorial criticized the $562 billion Continuing Resolution by saying: "No President should be forced to swallow all that at once. Such irresponsible packaging only re-inforces the case for line-item veto power...."

At the very least, Congress should give the President a line-item veto on a four-year experimental basis to determine whether the device in practice would confer too much power to the Executive and whether it would actually limit spending.

◆◆Strengthen the President's Rescission Authority

If legislators are determined to continue opposing a line-item veto, an alternative would be to strengthen the President's rescission authority. Senator Quayle's proposal, which he calls the "pork-buster," would require Congress to vote for or against a White House rescission within 15 legislative days of that rescission.[3] This would replace the current congressional practice of revoking a rescission simply by refusing to act on it. Over the last three years, the Administration has issued over 400 rescissions with potential savings of $18 billion. Congress has not voted on even one.

Unlike the proposed line-item veto, which Congress could override only with a two-thirds vote in both chambers, the proposed enhanced rescission could be blocked by Congress by a simple majority vote in each House. The enhanced rescission, therefore, would not shift fundamental power from Congress to the White House. It merely would force Congress to vote individually on those programs or pork barrel projects that the President disapproves. It would force lawmakers to go on the record. If a program could not muster the test of winning a majority vote in both chambers, clearly it was not a priority of Congress. The Quayle "enhanced rescission" proposal at least would ensure congressional consideration of the President's rescissions.

REFORMING THE CONGRESSIONAL BUDGET-MAKING RULES

The 1974 Budget Act was designed to produce timely and responsible budgets. Neither of these objectives has been achieved. Lawmakers routinely ignore their own unenforceable procedural guidelines and miss their own deadlines. Since the Budget Act became law, the national debt has quadrupled. If there is ever to be success in the battle against red ink, Congress must take steps to tighten its own rules in four ways:

◆◆Enforce the Budget Resolution more strictly.

During the past seven years, Congress has enacted appropriations bills exceeding its own Budget Resolution "ceiling" by an annual average of $25 billion. The appropriations committees have discovered several loopholes that allow them to violate the Resolution's spending ceilings.

GRH created a new budget rule that subjects all appropriations bills reported out of committee to a point-of-order if they exceed the Budget Resolution outlay allocation. As a result of such a parliamentary challenge, the appropriation bill almost surely would be ruled out of order. A three-fifths vote is required to override a Gramm-Rudman point-of-order. This has proved an effective instrument for budget discipline in the Senate. The House, however, has waived this budget rule through the so-called Fazio exemption, named after Victor Fazio, a California Democrat. The Fazio exemption enables Congress to breach its own Budget Resolution by permitting the Appropriations Committee to report out spending bills which contain higher outlay totals than designated

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3. For a detailed analysis of Senator Quayle's "pork buster" reform, see: Congressional Record, February 5, 1987.

in the Budget Resolution. The Fazio exemption, of course, makes a mockery of the GRH attempt to balance the budget.

Ignoring Priorities. Under Congress' current budget rules, the appropriations committees are able routinely to ignore the spending priorities contained in the Budget Resolution. In particular, the House habitually robs the defense budget of funds to hike up spending for some pet domestic programs. Thus while appropriations bills that are reported out of committee include domestic spending totals that violate the Budget Resolution, the overall spending total is still below the total spending allowance. To safeguard against this practice of changing the spending priorities voted by Congress in the Budget Resolution, separate spending ceilings could be set for the defense and the nondefense portions of the budget. These separate spending ceilings would be enforced by subjecting any bill above the ceiling to a point-of-order requiring a three-fifths vote to be considered.

◆◆Penalize the use of Continuing Resolutions .

Congress rarely passes the 13 annual appropriations bills separately. It prefers instead to bundle all unfinished budget business into a year-end package called a Continuing Resolution. It is called this because the program spending levels are supposed to "continue" at the previous year's amount. In practice, however, Congress passes Continuing Resolutions with much higher spending levels. During the past four years, reliance on Continuing Resolutions has grown routine: each year the Agriculture, Treasury, and foreign operations budgets have been contained in a Continuing Resolution; and in three of the past four years Reagan has not even been presented with a separate Defense budget.

This practice could be discouraged in two ways:

1) **A line-item veto** could be enacted to allow the President to veto specific appropriations when Congress sends him a spending bill containing more than one appropriations bill;

2) **Program spending levels** in a Continuing Resolution could be limited by law to the previous year's spending levels, thus voiding all program increases. This would be in keeping with the original purpose of Continuing Resolutions.

Either of these steps would give congressional spending committees an incentive to observe budget deadlines by penalizing the packaging of spending bills.

◆◆Adopt a two-year budget cycle .

Congress now takes almost twelve months each year patching together a budget and still usually fails to complete the process before the start of the fiscal year. A biennial budget cycle may avoid this by requiring passage of two-year budget authority in the first year of each new Congress.

One advantage of this is that it would be more difficult for Congress to project illusory savings which often never materialize. Typically, Congress' budgets contain more ambitious spending reductions in the "out years" (future fiscal years than they do for the year to which the budget actually applies. Understandably, Congress prefers to push the pain of budget cuts into future years, knowing that later budgets can always hike program spending. A two-year budget cycle would bind Congress to genuine second year spending reductions.

Another advantage of the two-year budget is that it would be crafted in off-election years, thus eliminating some of the temptation to engage in special interest spending.

Multi-Year Efficiency. The most attractive feature of a two-year budget is that it would allow for more economical Pentagon spending. Single year budgets deter the Pentagon from purchasing economical quantities of weapons and spare parts. A 1986 Congressional Budget Office report reviewed 40 multiyear Defense contracts and estimated savings of "$6.2 billion in total obligation authority for these contracts, relative to costs using annual procurement."[4] The report continued: "These savings occur largely because materials and components can be purchased more efficiently using economic order quantities early in the contract period, but savings may also stem from the reduced risk that a multiyear contract affords the contractor." Though multiyear procurement by the Department of Defense has grown more common, a two-year budget would further promote this money-saving practice.

◆◆Reforms in federal credit program accounting practices .

Although the current federal budget rules require a proper accounting for federal purchases, grants, and direct monetary transfers, no such procedures exist for federal loan programs.[5] Direct loans are measured in the budget on a net cash flow basis. This disguises the implicit federal subsidy to the borrower by treating the entire face value of the loan as an asset, even though some of the loans will never be repaid.

Treatment of federally guaranteed loans makes even less sense. Since no cash outlay occurs at the time of the guarantee, loan guarantees appear on the federal books as a costless transaction, even though the federal government assumes a future liability. When there is a default on a guaranteed loan, moreover, the federal government simply pays off the lending institution and then carries the loan at face value as a direct loan. This accounting procedure, which would never be tolerated in the private economy, leads to an improper allocation of federal resources among various federal loan programs, and ultimately raises the cost of federal loan programs.

Paying for Loans. Senator John Heinz, the Pennsylvania Republican, has introduced Administration-backed legislation to place federal credit programs on the same basis as direct federal spending programs. The cornerstone of this bill is its requirement that federal agencies request appropriations to pay for the guaranteed loans and direct loans that it will underwrite during the upcoming fiscal year. To calculate properly the cost of its loan obligations during a given year, federal agencies would be required to sell all new

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4. Congressional Budget Office, "Alternative Strategies for Increasing Multiyear Procurement," Staff Working Paper, July 1986.

5. For a more detailed explanation of the need for federal credit reform, see: John Buttarazzi, "Cashing in on the Federal Quarter-Trillion Dollar Loan Portfolio," Heritage Foundation Backgrounder No. 541, October 28, 1986.

direct loans in the private secondary credit market within three months of origination. The agency would also have to purchase reinsurance for all guaranteed loans.

The Heinz credit reform package would prevent Congress from sheltering federal subsidies off budget in the federal credit market.

CONCLUSION

The 100th Congress is already losing the war against the deficit. Since it convened in January, it has voted to override two presidential vetoes of multi-billion dollar budget busting spending bills and it has rejected all of the President's requested spending cuts without proposing any new deficit reduction ideas of its own, except to continue to raise taxes. In short, the congressional spending juggernaut continues rolling.

The debt bill offers taxpayers one of their very few opportunities to strike back. The big spenders should not be permitted to raise the debt ceiling to $2.5 trillion without being forced to the bargaining table to hammer out budget reforms. These reforms, as a minimum, include:

1) **Repair Gramm-Rudman-Hollings**, or else there should be no raising of the federal debt ceiling.

2) **Alter the rules of the spending game** permanently by giving the President a line-item veto, increasing the President's rescission authority, discouraging congressional reliance on year-end Continuing Resolutions, and enacting a two-year budget. These measures will take the pro-spending tilt out of the budgetary process.

The stakes are admittedly high. There is the chance, after all, that most federal operations would be closed down if there is no debt ceiling increase. This is an issue, however, in which high stakes are warranted. Action, at last, is needed to force Congress to restrain its compulsive spending habit.

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