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Issue Brief

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A Deficit Reduction Illusion:

The Gregg bill would dangerously shift power away from Congress to the President, and would likely do little to reduce the deficit.

Last month, the Senate Budget Committee adopted legislation that purportedly would reduce the nation's deficit. The Stop Over-Spending Act, (S. 3521), dubbed the "SOS Act" by its primary sponsor Senator Judd Gregg (R-NH), may be considered by the full Senate soon.

While reducing the deficit must become a top priority of Congress, S. 3521 would likely have little impact on actual deficit reduction. The far-reaching Presidential line-item-veto authority included in the bill would dangerously expand the power of the President, and would be just as likely to increase the deficit as to reduce it. Moreover, nothing in the proposal ensures that "earmarks" – funds set aside in an appropriation bill for members' pet projects, often colloquially referred to as "pork-barrel spending" – would be curtailed. The Gregg bill also includes automatic across-the-board budget cuts based on deficit targets – an approach widely known to be a proven failure in reducing deficits.[1] Furthermore, the bill entirely neglects key deficit reduction strategies that have been used effectively in the past.

While S. 3521 would probably not reduce the deficit, it would make all domestic programs including Social Security vulnerable to the whims of unaccountable commissions, and would guarantee deep cuts in domestic services that could harm vulnerable residents and undermine critical Oregon services that sustain our state economy.

The Gregg bill includes line-item veto authority that would dangerously shift power away from Congress to the President.

The line-item veto provisions of S. 3521 go far beyond earmark reform and would give the President much more power in the legislative process – weakening Congress' role in critical decisions about our nation's future. Funding for many programs that are not typically vulnerable to earmarks – such as a measure to extend health care coverage to more uninsured children – would be subject to a line-item veto.

In addition, the line-item veto authority provisions could be used to entirely eliminate vital discretionary programs (ones that must be reauthorized by Congress each year) even if Congress voted to override the President's veto. This could occur because the President would be allowed to withhold funds for two consecutive 45-day periods that could extend to a time period after Congress voted to override the veto. This would allow a White House to withhold appropriated funds through the end of a fiscal year, which could cause the funds to lapse and the appropriation to be cancelled.

The new Presidential authority would severely constrain Congressional choices in shaping and approving legislation

The new procedure would give the President a "fast-track" to force a congressional vote on the veto package in its entirety. Filibusters would be prohibited, amendments would not be allowed, and the package could not be divided into parts. A vote would be required within 13 days after the President submitted it.

While the measure grants line-item veto power to the President, it specifically removes similar Congressional authority

The proposal restricts the ability of Congress to choose among the President's proposed vetoes. The President could submit his proposed cancellations in no more than four packages per year. Since Congress generally enacts 11 separate appropriations bills each year and a number of separate tax and mandatory spending bills, the President would both be permitted and effectively compelled to combine cancellations from a number of unrelated bills – including appropriations, mandatory and tax bills – into mega-cancellation packages. If a veto package includes ending a universally acknowledged egregious pork-barrel proposal coupled with vetoes of popular programs, members of Congress would be in a lose-lose situation. They would find it difficult to override the veto, since doing so would leave the member open to allegations of wasteful spending. On the other hand, they would not want to be responsible for eliminating funding for popular programs.

The measure would give the President a powerful tool to manipulate Congressional votes

The President could wait up to a year after enactment of an appropriations bill before proposing to cancel funding in that bill (although Congress would need to act on the President's veto proposal within days). This power would provide the President enormous latitude to threaten members to go along with his/her priorities in exchange for promises not to propose a cancellation regarding a bill the member valued that had already been enacted up to a year earlier.

The Congressional Budget Office, the Congressional Research Service, and other experts have concluded that the line item veto legislation would undermine the Congressional process and erode the quality of legislation since it would encourage backroom deal making. In addition, the line item veto authority would be as likely to increase overall spending as to reduce it because the President could use it to pressure members of Congress to support certain spending and tax-cut priorities in return for a promise not to propose canceling spending items the members favored.[2]

The Gregg bill would empower unaccountable commissions

S. 3521 would authorize unelected "sunset" commissions to make recommendations to terminate or realign discretionary programs such as Veterans benefits and Head Start, as well as mandatory programs such as Social Security and Medicaid. The bill would severely limit Congress' ability to modify or reject commission recommendations.

S. 3521 includes monumental cuts in domestic programs that would harm Oregon.

S. 3521 establishes both "fixed deficit targets" and "budget caps" that would result in drastic cuts in domestic programs. While these two provisions are unlikely to reach the Senate floor for a vote before the August recess (the line-item veto and sunset commissions may soon be voted on independently from these), if they were to be enacted in the future by Congress, it would strain state budgets and harm vulnerable Oregonians.

The level of the bill's fixed deficit targets would ratchet down from 2.75 percent of the Gross Domestic Product (GDP) in 2007 to 0.5 percent of GDP in 2012, and every year thereafter. Under the Gregg plan, if the deficit does not shrink according to this schedule, across-the-board cuts in mandatory programs – such as Medicare, Medicaid, Food Stamps and Veterans benefits – would automatically be triggered, with the cuts being set at the level needed to hit the target. Since the deficit targets would likely be missed as early as next year, the automatic annual cuts in these programs could reach 17 percent by 2011.

In addition, budget caps in the bill would cap overall discretionary funding levels for the next three years at the levels proposed in the President's 2007 budget. To meet the caps, $66 billion in cuts in critical discretionary programs over the next three years would be required. These cuts would grow deeper each year. Unlike previous proposals, S. 3521 does not spare the most vulnerable, including children, the poor, people with disabilities and veterans from severe cuts.[3]

Among the numerous proposed discretionary funding reductions proposed in the President's budget, the following critical services in Oregon would be impacted:

- Head Start would be cut by between 5 and 9 percent in 2009, which in Oregon would mean between 500 and 700 fewer Oregon kids would participate that year.
- The Commodity Supplemental Food Program would be entirely eliminated in 2007 which would deny 1,000 low-income Oregon seniors this critical nutritional support.
- Housing for people with disabilities would be slashed by 54 percent by 2009.
- Veterans benefits would be cut by 6 percent by the same year.
- Funds for school improvement would be slashed by 75 percent by 2009.
- The Community Oriented Policing Services (COPS) program that helps state and local agencies respond to gang activity and carry out homeland security activities would be cut by 75 percent by the same year.

The Gregg bill is not the solution to our nation's fiscal problems

While asking for deep sacrifice from the most vulnerable, the bill would protect the wealthy – a group that has greatly benefited from recent tax reductions – from shared sacrifice. The cumulative cost of tax cuts enacted since 2001 will reach nearly $1 trillion over the next ten years.[4] The bill fails to impose fiscal restraint on tax cuts, although tax cuts have been responsible for as much of the increase in the deficit since 2001 as all domestic, defense, and international spending increases combined, including the spending on the wars in Iraq and Afghanistan.[5] By taking almost all tax cuts off the decision table, S. 3521 would make it harder for Congress to achieve a bipartisan deficit-reduction agreement, such as that accomplished in 1990 that produced almost $500 billion in deficit reduction over five years.[6]

The Gregg bill would make the next recession worse and recovery slower

Since deficits increase when the economy slows, the budget cuts needed to meet the fixed deficit targets would be largest during times when the economy is at its weakest point. The widespread cuts in critical infrastructure that would be required to meet deficit targets during recessions would likely slow economic activity further, hampering recovery.

The Gregg bill fails to make the hard policy choices that would address the root causes of our deficit problem

Although S. 3521 proposes to slash domestic funding, it specifically protects deficit-financed tax cuts and defense spending. Moreover, it fails to include provisions that would direct Congress to make programs operate more efficiently or to establish fiscal accountability for tax cuts.

There are proven alternatives to the Gregg approach

Instead of S. 3521, Congress should choose the tools effectively used by the Reagan, George H.W. Bush, and Clinton administrations to reduce the deficit. The following effective strategies should be immediately taken up in deficit reduction debates in Congress.

Restoration of Pay-As-You-Go rules on mandatory spending increases and tax cuts

Congress should adopt the recommendations of budget watchdog groups, the Government Accountability Office, and former Federal Reserve Chair Alan Greenspan, who have all said that *both* mandatory program increases (in programs such as Social Security, Medicare, and Food Stamps), *and* tax cuts must be paid for (offset) by corresponding budget changes to prevent deficit growth.

Restoration of the "reconciliation process" as it was originally intended

The reconciliation process established during the Reagan administration made it easier for Congress to approve difficult-to-pass legislation such as program cuts and tax increases that would lower the deficit.

Regrettably, since 2001, Congress has highjacked this fast-track process to pass tax cuts that *increase* the deficit. Congress must restore the original intent of the reconciliation process by barring its use to pass bills that would increase the deficit.

Endnotes:

[1] The fixed deficit reduction targets in S. 3521 are modeled after the Gramm-Rudman-Hollings law, (1985, 1987), that is widely considered by experts to have failed to reduce the deficit. See statements by Susan J. Irving, Director of Federal Budget Analysis, Government Accountability Office made during hearing on "Considerations for Updating the Budget Enforcement Act," House Budget Committee, July 19, 2001; and Roy T. Meyers, Professor of Political Science at University of Maryland, and Philip Joyce, Professor of Public Policy and Public Administration, George Washington University, "Congressional Budgeting at Age 30: Is it Worth Saving?," *Public Budgeting and Finance,* December, 2005.

[2] See George Will, "The Vexing Qualities of a Veto," in *Washington Post*, March 16, 2006, page A2; Louis Fisher, "Item Veto: Budgetary Savings," Congressional Research Service, May 26, 2005; Douglas Holtz-Eakin, in Jonathan Nicholson, "Precursor to Line-Item 'Veto' Failed to Restrain Prior Spending, GAO Says," Bureau of National Affairs, *Daily Tax Report,* March 13, 2006, p G-6; .

[3] All budget process laws enacted since 1985, including the Gramm-Rudman-Hollings law passed in 1996, exempted basic programs for people with disabilities and the poor such as veterans' disability compensation, food stamps and school lunches for poor children, from automatic cuts. The proposed SOS Act, S 3521, departs from this approach.

[4] Wealthy persons are defined as the top 1 percent of Americans whose incomes are over $400,000 in 2006), as estimated by the Center on Budget and Policy Priorities, "Greg Bill Would Make Far-Reaching Changes in Budget Rules," revised June 26, 2006.

[5] Center on Budget and Policy Priorities, "Gregg Bill Would Make Far-Reaching Changes in Budget Rules," Revised July 5, 2006, page 3.

[6] The Center on Budget and Policy Priorities notes that in order to achieve a successful deficit reduction agreement such as that of 1990, policymakers from across the political spectrum must feel the pressure of the consequences of failing to act. By protecting tax cuts and military spending – two primary causes of our deficits, lawmakers on the right would be unlikely to see reason to come to the bargaining table nor to offer concessions in the areas they care about including tax cuts. "Gregg Bill Would Make Far-Reaching Changes in Budget Rules," Revised June 26, 2006.

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