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"Cut, Cap, and Balance Act" is a More Extreme Version of Republican Budget Resolution

Overview

The Republicans' newly introduced "Cut, Cap, and Balance Act of 2011" (H.R. 2560) is yet another attempt to enact the policies they approved with their budget resolution this spring – to end the Medicare guarantee while continuing tax breaks for special interests and the wealthy. It requires immediate and steep spending cuts starting this October that will put more Americans out of work while the country is still recovering from the worst recession since the Great Depression. It caps total spending – including mandatory spending programs, such as unemployment benefits, that are designed to grow when the economy is bad – for fiscal years 2013-2021 at lower percentages of the economy (Gross Domestic Product, or GDP). More immediately, it requires passage of a specific type of a so-called "balanced budget" constitutional amendment by both the House and the Senate before the debt limit can be increased. This new hurdle makes it even harder for Congress to increase the debt limit by August 2, which it must do to avoid fiscal calamity and higher interest costs for consumers and the government alike.

"Cut, Cap, and Balance" is a *Trojan Horse* for Republican Budget

- **Caps spending at the levels in the Republican Budget.**
- **Ends the Medicare guarantee.**
- **Extends tax breaks to special interests.**
- **Holds debt limit increase hostage to passing a balanced budget Constitutional amendment.**

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Steep Cuts in Spending for 2012

H.R. 2560 limits fiscal year 2012 discretionary and entitlement spending to the levels in the Republican budget. If spending exceeds these limits there would be an automatic sequestration that makes an across-the-board cut to most programs to bring down spending. Spending in 2012 is to be cut by a net total of $111 billion below current services.

Discretionary Cap – The bill's authors say they intend to cut non-security discretionary spending for next year by $76 billion (a roughly one quarter reduction in budget authority), to below the 2008 level, and increase security spending, matching the President's request. However, the bill does not provide separate discretionary caps except for war funding, so Congress could cut where it chooses.

Entitlement Cap – The bill exempts veterans' benefits, Medicare, Social Security, and net interest from its entitlement (or direct spending) cap. These programs comprise roughly two-thirds of all entitlement spending. The bill cuts the remaining direct spending by $51 billion (7 percent) in

2012, down to the levels in the Republican budget. The cuts will fall on programs like school lunches, student loans, food stamps (SNAP), Medicaid, and unemployment insurance – some of the very programs designed to automatically increase when the economy is down in order to lessen the impact of job losses and associated economic hardship.

As with the discretionary cap, there would be an automatic sequestration if direct spending is not sufficiently cut. Past sequestration provisions exempted specific programs, including low-income programs, but this bill repeals the broad list that has been the basis for sequestration in the past. Instead the bill exempts a smaller range of programs (but comprising about half of the budget): military personnel accounts, TRICARE for Life, military retirement, veterans benefits, Medicare, Social Security, and net interest.

Caps Spending at Low Percentage of GDP for 2013-2021

The bill further enforces the Republican budget resolution by limiting total federal outlays – including Social Security and Medicare – at the Republican budget's percentage of GDP in fiscal years 2013 through 2021. Automatic sequestration again would occur if the levels are breached.

While it is clear that the country cannot continue on an unsustainable fiscal path, the bill limits spending to a percentage of GDP that the country has rarely achieved in the past. For example, the bill limits total outlays to 19.7 percent of GDP in 2018; outlays were at or below that level in only 12 of the last 43 years (from 1997 through 2004, and from 1969 through 1972).

Holds Debt Limit Increase Hostage to Passage of Specific Type of Balanced Budget Constitutional Amendment

H.R. 2560 adds a new obstacle to increasing the debt limit before the August 2 deadline by mandating that the House and the Senate first pass a Constitutional amendment requiring a balanced budget. The bill specifies that the Constitutional amendment has to be H.J.Res. 1 or a "similar amendment" that (1) limits total outlays to no more than total receipts; (2) limits spending as a percentage of GDP; and (3) requires that tax increases be approved by a two-thirds vote in both Houses of Congress.

Achieving a balanced budget is not something that should automatically be required every year. For example, during economic downturns, the government can stimulate growth by cutting taxes and increasing spending. A constitutional amendment requiring Congress to cut spending to match revenue every year would limit Congress's ability to respond to changing fiscal conditions and would dramatically impede federal responses to high unemployment as well as federal guarantees for food and medical assistance. In particular, H.J.Res. 1 requires spending cuts even deeper than those in this bill; in fact, it requires that spending be cut to the levels in the Republican Study Committee budget, levels that were so extreme that fewer than half of House Republicans voted for that budget. Finally, requiring a two-thirds vote to approve revenue increases creates a barrier to fixing inequities in our tax code by protecting more than $1 trillion in spending through the tax code – spending that often benefits special interests, like owners of corporate jets – and well-to-do Americans.