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HENSARLING SUBSTITUTE WOULD MANDATE MASSIVE DOMESTIC PROGRAM CUTS, WHILE SANCTIONING UNLIMITED TAX CUTS

by Robert Greenstein and Richard Kogan

Rep. Jeb Hensarling will offer tonight a comprehensive substitute for budget enforcement legislation now on the House floor. The Hensarling substitute is drawn from H.R. 3800, legislation that Rep. Hensarling and various other Members introduced earlier this year and that Grover Norquist and other archconservatives have termed the "gold standard" for budget legislation. Were it to be enacted, the Hensarling substitute would represent perhaps the most extreme piece of budget legislation in recent U.S. history.

- *One-sided Pay-as-you-go Rules*: The Hensarling substitute (like the base budget enforcement bill coming to the House floor) would require that improvements in entitlement programs be paid for, while exempting tax cuts from such a requirement. It also would prohibit revenue-raising measures, such as measures to close abusive tax shelters, from being used as offsets for an entitlement expansion such as an improvement in Medicare or veterans' benefits.

- *Severe Entitlement Cap*: But the substitute goes much farther than that. It would place a cap on total expenditures in entitlement programs other than Social Security, set this cap far below the amount the entitlements would cost under current law, and require automatic entitlement cuts in any year in which Congress and the President did not enact legislation cutting entitlements enough to fit within the cap. CBO data show that the Hensarling entitlement cap would force entitlement cuts of *$1.55 trillion* over

Entitlement Cuts Over 10 Years If All Entitlements Are Cut Proportionately Under Hensarling Amendment (in billions of dollars)	
Medicare	-674
Medicaid	-332
Federal civilian retirement and disability	-99
Unemployment Compensation	-59
Military retirement and disability	-56
Supplemental Security Income	-53
Earned Income Tax and Child Tax Credits	-46
Veterans' benefits	-45
Food Stamps	-37
Family Support	-31
Child Nutrition	-19
Commodity Credit Corporation	-18
Other federal retirement and disability	-12
TRICARE for Life	-11
Foster Care and Adoption Assistance	-11
Student loans	-9
Universal Service Fund	-8
State Children's Health Insurance	-6
Social services	-6
Other miscellaneous	-19
TOTAL	**-1,551**

the next ten years.

- If all entitlements were cut by the same percentage, Medicare would have to be cut by $624 billion, Medicaid by $332 billion, military retirement and disability programs by $56 billion, veterans' benefits by $45 billion, Supplemental Security Income for the elderly and disabled poor by $53 billion, the Earned Income Tax Credit and refundable Child Tax Credit for working poor families by $46 billion, and the school lunch and child nutrition programs by $19 billion. (If Congress took no action and entitlements were cut entirely through *automatic* cuts, the specific amounts that would be cut in each program would be somewhat different, but the cuts would still total $1.55 trillion. It is unthinkable that the cuts would be achieved primarily or entirely through automatic cuts, since that would require *eliminating* many popular programs — as well as the salaries of Members of Congress and Senators — by 2009 and consequently would be politically unacceptable.)

- ***Ten-year Discretionary Spending Caps***: In addition, the Hensarling substitute would establish discretionary spending caps not for one, two, or even five years, but for *ten years*. The proposal also would establish a separate "sub-cap" on defense discretionary programs, but place no sub-cap on defense spending. This would mean that funds could be shifted from domestic programs to defense spending, but *not* from defense to domestic programs.

- ***Lowering the Baseline for Discretionary Programs***: The Hensarling substitute also would require the Congressional Budget Office to change its longstanding practice for computing the official budget "baseline" and lower the baseline for discretionary programs by *$1.1 trillion* over the next ten years. The reduction in the baseline would apply to *all* discretionary programs, including defense. The change would be effected by requiring CBO to drop the practice of setting the baseline at the current year's funding level, adjusted for inflation. Instead, CBO would be required to eliminate the inflation adjustment — and to assume in setting the ten-year baseline that all discretionary programs would be frozen for ten straight years. This is tantamount to assuming that the wages and the cost of health benefits for the men and women in the armed forces and all federal civilian employees will be frozen for ten consecutive years, along with the salaries and other costs of private contractors who perform work for the government.

Other Provisions of the Substitute Also Ill-Advised

- ***Joint Budget Resolution***: Under current law, budget resolutions are "concurrent resolutions" that do not go to the President for his signature or veto and are not laws. Also under current rules, if a budget resolution has not been approved by May 15, appropriations bills may be brought to the House floor so that the appropriations process is not inordinately delayed.

  Under the Hensarling substitute, the budget resolution would be converted into a *joint* budget resolution that is signed by the President and has the force of law. In

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addition, consideration of appropriations bills would be barred until the joint budget resolution is enacted, regardless of how many months it takes for the Senate, the House, and the President to reach agreement on the resolution. In years in which the President and Congress were in serious disagreement on the budget, those disagreements might not be resolved until the waning days of the Congressional session. Action on appropriations bills consequently could be held up until the final days of a Congressional session, with the Appropriations Committees losing months of valuable time and finding themselves under enormous pressure to assemble and pass bills in extremely compressed timeframes very late in the year.

Moreover, the President could bring Congress to a near standstill by vetoing the budget resolution until it was altered to suit him. Until the President signed the resolution, no appropriations bills — and no authorization bills with a budgetary impact — could be considered.

- *Automatic Continuing Resolution*: The substitute also would require that a year-long CR take effect automatically if a regular appropriations bill has not been enacted by October 1 and a temporary continuing resolution has not yet been passed. Such a mechanism would be likely to disrupt the appropriations process and make appropriations bills more difficult to pass, since the measure would make it much easier for Members of Congress who oppose various appropriations bills to impede progress on them. A group of as few as 41 Senators could be emboldened to maintain a filibuster against an appropriations bill, or the President could refuse to sign an appropriations bill. Pressure on the 41 Senators or the President to compromise would be greatly reduced since they would no longer face being charged with risking a government shutdown if the appropriations bill were killed.

  Currently, failing to enact appropriations bills is unthinkable. With an automatic CR, failing to appropriate could become a common occurrence.

- *Lockbox*: Another provision in the Hensarling substitute would create "Family Budget Protection Accounts" or "lock-boxes," under which amounts cut by House floor amendments from either appropriations bills or entitlement legislation could be locked away, preventing those amounts from being used elsewhere in appropriations or entitlement bills.

  House floor amendments that cut funding in appropriations bills or entitlement legislation would be tallied, and the budget savings from these cuts would be placed in a "lock-box." Once the appropriations or entitlement legislation in question had been approved by the House, the spending allocation for the committee of jurisdiction for that legislation would effectively be *reduced* by the amount placed in the "lock-box." The Budget Committee would enforce this requirement by treating the amount that had been cut on the floor and placed in

the lockbox as a cost charged against the budget allocation of the committee of jurisdiction.[1]

This approach is unbalanced in the same way as Pay-As-You-Go proposals that apply to entitlement increases but not to tax cuts. Savings from floor amendments that scale back the size of a tax-cut bill (for example, by closing a tax shelter) would *not* be placed in a lockbox — and could be used for another tax break. The Hensarling lockbox procedure would apply to spending measures only.

Conclusion

The Hensarling substitute contains a number of provisions that could have far-reaching effects on policy. These provisions could result in large cuts that harshly affect low-income children and families, veterans, the elderly and people with disabilities, among others, while allowing continued unfettered tax cuts for the most well-off and the most well-connected. More balanced and effective approaches to restoring fiscal discipline should be pursued. As a recent joint statement by the Concord Coalition, the Committee for Economic Development, the Committee for a Responsible Federal Budget, and the Center on Budget and Policy Priorities advises (and as Federal Reserve Chair Alan Greenspan recommends), the first step is to stop "digging the hole deeper" by applying pay-as-you-go rules to entitlement increases and tax cuts alike.

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[1] The sponsor of a floor amendment to cut funding in an appropriations bill or to cut expenditures in entitlement legislation could state upon offering the amendment that rather than going in the lock-box, some or all of the savings from the proposed cut would be used to finance a higher level of funding for another program in the bill or reserved for use by the relevant committee of jurisdiction. Unless such a declaration were made, the savings from the cut would go into the lock-box.