

**Board of Directors**

**Emeritus**

***For Immediate Release:***

Updated Saturday, July 16, 2011

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## STATEMENT OF ROBERT GREENSTEIN ON THE "CUT, CAP, AND BALANCE ACT" THAT THE HOUSE WILL CONSIDER ON JULY 19

The "Cut, Cap, and Balance Act" that the House of Representatives will vote on next week stands out as one of the most ideologically extreme pieces of major budget legislation to come before Congress in years, if not decades. It would go a substantial way toward enshrining Grover Norquist's version of America into law.

- The plan would lock in cuts over the next ten years at least as severe as those in the Ryan budget plan that the House passed in April, by writing spending caps into law at the year-by-year levels of spending (as a share of GDP) the Ryan budget contains.
- It also would hold the increase in the debt limit needed by August 2 hostage to approval by two-thirds of the House and the Senate of a constitutional amendment to require a balanced budget every year while effectively barring any increases in revenues. The constitutional amendment would make all revenue-raising measures unconstitutional unless they secured a two-thirds supermajority in both the House and the Senate.
- The "Cut, Cap & Balance" measure cites three constitutional balanced-budget amendments (H.J. Res 1, S.J. Res 10, and H.J. Res 56) and states that Congress must approve one of them or a similar measure before the debt limit can be raised. All three of the cited proposals would require cuts deeper than those in the Ryan budget. All three measures would establish a constitutional requirement that total federal expenditures may not exceed 18 percent of GDP, and all three would essentially require that the budget be balanced within the coming decade.

The Ryan plan, by contrast, does not reach balance until the 2030s, and its federal spending level is just below or modestly above 20 percent of GDP for most of the next two decades, equaling 20¾ percent of GDP in 2030 for example, according to the Congressional Budget Office. The only budget that comes close to meeting the requirements of these constitutional amendments is the Republican Study Committee budget, which eliminates 70 percent of non-defense discretionary funding by 2021, contains deeper Medicare cuts than the Ryan budget, cuts Medicaid, food stamps, and Supplemental Security Income for the elderly and disabled poor in half by the end of the decade, and raises the Social Security retirement age to 70.

(more)

### **Claim That Social Security and Medicare Would Not Be Touched Falls Apart Under Scrutiny**

Talking points that the legislation's proponents circulated on July 15 seek to foster an impression that the measure would protect Social Security and Medicare. Such an impression would not be accurate. The legislation would inexorably subject Social Security and Medicare to deep reductions.

The measure does not cut Social Security or Medicare in 2012. And it does not subject them to automatic cuts if its global spending caps are missed. It is inconceivable, however, that policymakers would meet the bill's severe annual spending caps through automatic across-the-board cuts year after year; if they did, key government functions would be crippled.

Policymakers would have little alternative but to institute deep cuts in specific programs. And as noted elsewhere in this statement, before the debt limit could be raised, Congress would have to approve a constitutional balanced budget amendment that essentially requires cuts even deeper than those in the Ryan budget. Reaching and maintaining a balanced budget in the decade ahead while barring any tax increases would necessitate deep cuts in Social Security, Medicare, and Medicaid. After all, by 2021, total expenditures for these three programs will be nearly 45 percent greater than expenditures for all other programs (except interest payments) combined. Big cuts in these programs would be inevitable.

Moreover, because taxes — including payroll taxes — would be virtually impossible to raise as a result of the new constitutional barrier, Social Security solvency would have to be restored entirely through benefit cuts. Balanced Social Security packages that include measures to raise Social Security's \$106,000 payroll tax cap, so that higher-income Americans do not escape the tax on much of their earnings, would effectively be ruled out.

- The “Cut, Cap, and Balance Act” would require cuts totaling \$111 billion immediately, in the fiscal year that starts 75 days from now, despite a 9.2 percent unemployment rate. These cuts would equal 0.7 percent of the projected Gross Domestic Product in fiscal year 2012 and would thus cause the loss of roughly 700,000 jobs in the current weak economy, relative to what the number of jobs otherwise would be.
- The bill overturns a feature of various bipartisan budget laws over the past quarter century, by subjecting programs for the poorest Americans to the specter of meat-axe across-the-board cuts. It does so even as it protects tax breaks and tax subsidies for the wealthy and powerful by erecting a constitutional barrier to any measure that would raise any revenue.

The “Cut, Cap, and Balance Act” that House Republican leaders are circulating achieves these results through a multi-faceted attack on the federal government. It would require that total federal spending shrink to about 20 percent of the Gross Domestic Product (GDP) starting in 2015 (by writing the Ryan budget's year-by-year expenditure levels as a share of GDP into law, as caps to be enforced through automatic across-the-board budget cuts if the caps otherwise wouldn't be met). The Ryan budget would slash non-security discretionary programs by 33 percent by 2021 (relative to CBO's January baseline), cut Medicaid by \$1.4 trillion over the decade, and cut an array of other programs from Medicare to Pell Grants, while shielding the defense budget and further cutting taxes for the wealthiest Americans.

In addition, as noted, the measure seeks to render it virtually impossible to raise new revenue by barring the necessary increase in the debt limit until both houses of Congress have approved a constitutional amendment which requires that the budget be balanced every year, that no measure raising any taxes may pass Congress unless two-thirds of the House and Senate approve it, and that budget cuts deeper than Ryan's be instituted.

Adding to the extreme nature of the measure, the legislation also reverses a feature of every law of the past quarter-century that has contained a fiscal target or standard enforced by across-the-board cuts. Since the Gramm-Rudman-Hollings law of 1985, all such laws have exempted the core basic assistance programs for the poorest Americans from such across-the-board cuts. "Cut, Cap, and Balance," by contrast, specifically subjects all such programs to across-the-board cuts if its spending caps would be exceeded.

It does so even as it seeks to erect a constitutional firewall to safeguard tax cuts and tax breaks for the most well-off Americans. Thus, an impoverished elderly widow living on Supplemental Security Income — which provides benefits that lift people to just 75 percent of the poverty line — could have her assistance cut back under the measure's across-the-board budget cuts even as millionaire hedge-fund managers retained their lucrative carried-interest tax breaks.

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