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HISTORY SHOWS SPENDING CUTS IN DEFICIT-REDUCTION PACKAGES "STICK"

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Some opponents of including any revenue increases in a deficit-reduction deal — no matter how outweighed by spending cuts — argue that such cuts never "stick." They claim — as Grover Norquist's Americans for Tax Reform recently did — that "when bipartisan deals are struck promising to cut spending and raise taxes, the spending cuts don't materialize but the tax hikes do," and they invariably cite the 1982 and 1990 budget agreements as proof.[1] Yet an examination of the 1982 and 1990 agreements finds no basis for this assertion. As detailed below, Congress largely followed through with the spending cuts in both agreements.

Congress did not fully adhere to two significant spending cuts — the 1997 Balanced Budget Act's caps on discretionary funding and its reductions in Medicare payments to physicians — but they represent unique circumstances and are the exception to the rule. The 1997 discretionary caps, which were designed to help balance the budget, fell by the wayside when budget *surpluses* unexpectedly emerged in 1998. From 1990 to 1997, the discretionary caps in place *were* adhered to. Moreover, the Balanced Budget Act's reductions in Medicare provider payments were adhered to until 2002; they did not stick after that because the provision in question was badly designed and would have resulted in much deeper cuts in physician reimbursements than Congress expected when it passed the provision. Even so, this provision produced larger spending reductions than the modest amount of savings that the Congressional Budget Office (CBO) estimated — and Congress expected to get — when the provision was enacted.

1990 and 1982 Agreements Led to Promised Spending Cuts

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90) implemented the deficit-reduction measures that President Bush and congressional leaders agreed to at the 1990 budget summit. The Budget Enforcement Act (or BEA — title XIII of OBRA-90) aimed to ensure continued compliance with the budget agreement by establishing annual caps on discretionary spending and a "pay-as-you-go" (PAYGO) procedure requiring that legislation affecting mandatory spending or revenues not add to the deficit.

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[1] Americans for Tax Reform, *WSJ Editorial Board, Walker, Rubio, Rebuke Jeb Bush's "Grand Bargain" Tax Increase*, June 15, 2012, http://www.atr.org/wsj-editorial-board-walker-rubio-rebuke-a6974.

Claims that the spending cuts agreed to in the 1990 budget agreement never occurred are soundly refuted by CBO. In a December 1990 interim assessment, CBO reported that OBRA-90 reduced mandatory spending and increased revenues by a total of $238 billion over the 1991-1995 period — 97 percent of the $246 billion savings target established in the Congressional budget resolution.[2] In a later retrospective analysis of both the BEA (which spanned the 1991-1995 period) and its successor, the 1993 Omnibus Budget Reconciliation Act (which covered 1994-1998 and actually *tightened* the 1990 deal), CBO found that lawmakers complied with the dollar caps for discretionary spending.[3] CBO also found that "between 1991 and 1997, most new revenue and mandatory spending laws that were enacted were consistent with the PAYGO requirement to be deficit neutral."

Those who charge that promised spending cuts never occur claim that the 1982 deficit-reduction agreement between President Reagan and congressional leaders — which led to that year's Tax Equity and Fiscal Responsibility Act (TEFRA) and a separate reconciliation bill — promised $3 in spending cuts for every $1 of higher taxes but the spending cuts "never materialized." This charge, too, is incorrect; leading policymakers of *both* parties during this period have flatly contradicted it. As Rep. William Gray III (D-PA), then-chairman of the House Budget Committee, explained:

> The Washington Times . . . claims that Congress reneged on an "agreement" with the president to implement $280 billion in spending cuts in exchange for $100 billion in tax increases over 1983-1985, as assumed in the 1983 Congressional budget. This canard apparently has been enshrined in Washington folklore and in the mind of [President Reagan], so an appeal to the facts may be futile. However, let's try it one more time.
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> With respect to the "agreement," Republican Rep. Robert Dole of Kansas perhaps described it best as "an agreement between the president and his speechwriters." But put that aside, since the 1983 budget resolution did indeed project $284.7 billion in 1983-1985 outlay reductions. What are the facts about subsequent spending and tax actions?
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> First, less than *half* of the $285 billion in spending reductions depended on action by Congress. The other savings were either interest savings or "management savings" which depend on executive actions. With respect to the spending reductions which were dependent on Congress, a careful 1983 analysis by the House Budget Committee staff showed that Congress implemented 72 percent of these and achieved 92 percent of the ratio of spending cuts to tax increases in the 1983 budget. An analysis in the then-Republican Senate came to essentially the same conclusion. Sen. Dole explained this to the president in a letter of January 16, 1984, in which he wrote: "I respectfully submit, Mr. President, that you were not 'taken in' by this budget plan."
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> Second, to the extent that spending eventually exceeded the targets, legislation proposed or supported by the *administration* after passage of the budget resolution played a major role[, as]

[2] Congressional Budget Office, *The 1990 Budget Agreement: An Interim Assessment*, December 1990, http://cbo.gov/sites/default/files/cbofiles/ftpdocs/64xx/doc6471/90doc217.pdf.

[3] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2004-2013," January 2003, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/40xx/doc4032/entirereport_witherrata.pdf; see Appendix A.

Republican Sen. Pete Domenici of New Mexico, then chairman of the Senate Budget Committee, noted during the Fiscal Year 1984 budget conference.[4]

Similarly, David Stockman, who served as director of the Office of Management and Budget under President Reagan when the 1982 agreement was struck, later stated that Congress upheld its end of the 1982 bargain. Stockman blamed the Reagan Administration for failing to identify management savings and for resisting defense cuts. He wrote:

> Of the spending cuts Congress allegedly owed, $100 billion consisted of savings in debt service that Congress couldn't do anything about; $40 billion was management savings that we had promised to come up with, and hadn't; another $30 billion had actually been delivered in Medicare reimbursement reforms and other measures. Most of the remainder was the $50 billion in three-year defense cuts Howard Baker was proposing to cut again – and which Weinberger was refusing to cut again. So as of April 1983 we were sitting in the mud and denouncing the Congress for all the wrong reasons.[5]

Cases in Which Spending Cuts Didn't Stick Are the Exception, Not the Rule

The two primary cases in recent decades in which policymakers have *not* adhered to spending cuts included in a comprehensive, bipartisan budget agreement involve two elements of the Balanced Budget Act (BBA) of 1997. Both reflect unusual circumstances and provide little support for the argument that Congress habitually fails to produce promised spending reductions.

The first was the BBA's caps on overall discretionary spending, which proved to be unrealistically tight, especially in light of the fact that after nearly three decades of deficits the federal budget unexpectedly reached surplus in 1998 — four years ahead of the BBA's target date of 2002. Surpluses continued in 1999-2001. In fact, by 2001, both CBO and the Office of Management and Budget projected that if policies remained unchanged, the federal government would amass large surpluses — $5.6 trillion over ten years, in CBO's estimation.[6]

It is not surprising that these developments weakened policymakers' resolve to stay within the BBA's strict discretionary caps. It is highly unlikely that the budgetary situation that made Congress more receptive to exceeding the caps will be repeated, since there is virtually no chance that sustained budget surpluses will reappear in the foreseeable future.

The second example is Congress's repeated refusal since 2003 to let the reductions in physician reimbursement rates under Medicare's sustainable growth rate (SGR) mechanism take full effect. The SGR cuts represented a poorly designed measure that was not intended to produce large savings — CBO estimated in 1997 that the SGR savings would amount to only $12 billion over ten years, or

[4] William H. Gray, III, *The Washington Times*, Letter to the editor. The letter appeared in the late 1980s, but we cannot identify the precise year, which most likely was 1986 or 1987.

[5] David A. Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed,* New York: Harper & Row, 1986, pp. 368-9.

[6] Congressional Budget Office, "Changes in CBO's Baseline Projections Since January 2001," June 7, 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-07-ChangesSince2001Baseline.pdf.

3 percent of the BBA's total Medicare savings — but that unexpectedly turned into a blunt instrument that would have produced drastic cuts far in excess of what was anticipated. If allowed to take full effect, these cuts could have significantly reduced beneficiaries' access to physicians' services. Congress's decision to forestall large SGR cuts was consequently justified on policy grounds. Moreover, even though Congress has not allowed the full cuts required under the SGR formula to take effect, it has still cut physician reimbursement rates substantially over the years.

Significant savings in Medicare have been a major component of every major deficit-reduction package enacted since 1990. In the vast majority of cases, a careful analysis has found, these savings were implemented with little or no modification, despite political pressures to keep them from going into effect. For example, nearly all of the substantial Medicare savings in the 1990 and 1993 budget reconciliation bills went into effect, and virtually all of the savings enacted in the 2005 Deficit Reduction Act took effect as well.[7]

Conclusion

The evidence does not support the argument that policymakers should oppose any revenue increases in a deficit-reduction agreement because the promised spending cuts will never stick. Both revenue increases and spending reductions were part of most major deficit-reduction packages of the 1980s and 1990s, under Democratic and Republican administrations alike.[8] Revenues are currently low both by U.S. historical standards and in comparison with other developed countries. And our debt challenge is much too big to be addressed by spending cuts alone.[9] It is essential that the next package include both spending restraint and revenue increases, along with honest scoring and effective enforcement rules.

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[7] James R. Horney and Paul N. Van de Water, *House-Passed and Senate Health Bills Reduce Deficit, Slow Health Care Costs, and Include Realistic Medicare Savings,* Center on Budget and Policy Priorities, December 4, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=3021.

[8] Kathy Ruffing, *The Composition of Past Deficit-Reduction Packages – And Lessons for the Next One,* Center on Budget and Policy Priorities, November 14, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3617.

[9] Paul N. Van de Water, Chye-Ching Huang, Chuck Marr, Chad Stone and Brian Highsmith, *"Supercommittee" Should Develop Balanced Package of Tax Increases and Spending Cuts,* Center on Budget and Policy Priorities, September 27, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3591.