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CBPP STATEMENT

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STATEMENT OF ROBERT GREENSTEIN, PRESIDENT, ON NEW DEBT CEILING AGREEMENT

The new debt ceiling agreement will achieve the essential goal of avoiding a potentially catastrophic default in the days ahead. But to say that the deal is likely to lead to highly unbalanced results would be an understatement. The deal places the nation on a disturbing policy course and sets what may become important precedents that are cause for serious concern.

The agreement starts with nearly $1.1 trillion (or $840 billion, depending on the budget baseline used) in discretionary (i.e., non-entitlement) spending cuts over ten years, enforced by binding annual caps through 2021. It also calls for a Joint Select Committee on Deficit Reduction to propose, by November 23, steps to reduce the deficit by at least another $1.5 trillion over ten years, and for the House and Senate to consider the proposal under fast-track procedures that guarantee an up-or-down vote in both bodies, with a simple majority needed for passage. If policymakers achieve less than $1.2 trillion in deficit reduction through this process, an automatic across-the-board cut in non-exempt discretionary and entitlement programs will take effect to make up the difference between what they accomplished and the $1.2 trillion target.

Multi-year discretionary caps were included in the major 1990 and 1993 deficit reduction agreements — but as part of larger deals that also included revenue increases. As we have noted repeatedly in recent years, establishing multi-year discretionary caps without an agreement on increased revenues makes it even harder to secure revenue increases for deficit reduction in the future. That's because the only way to secure a bipartisan agreement that includes increased revenues is to provide anti-tax policymakers with significant spending cuts in return, likely including substantial savings from imposing discretionary caps. With 10-year discretionary caps already in place (and with the potential for across-the-board cuts that would further cut discretionary programs), there will be little prospect to exchange substantial discretionary cuts in return for revenue increases unless policymakers who support a meaningful federal governmental role are willing to accept even deeper, more draconian cuts in discretionary programs than the $1.1 trillion in such cuts the agreement already requires.

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To be sure, the joint committee will have the legal *authority* to produce a balanced package that includes revenue increases as well as program cuts. But House Speaker John Boehner, in an effort to secure votes for the deal, is undermining the joint committee before it's even established. Boehner has circulated documents to his caucus claiming the agreement requires the use of a "current-law revenue baseline," thus "making it impossible for Joint Committee to increase taxes." That's flatly not true, as my colleague Jim Horney has ably explained; the agreement does *not* require the joint committee to use any particular baseline, and the joint committee is free to adopt revenue-raising measures if it so chooses.

But the fact that one party is being led to believe that the deal *does* bar the joint committee from raising tax revenue is not helpful, to say the least. And coupled with Speaker Boehner's pledge not to name any members to it who will raise any tax revenue at all and to defeat any joint committee-produced package on the House floor if it raises any revenue, this seems to give the joint committee only three places to go — severe cuts in entitlement programs, deep cuts in entitlements coupled with even deeper cuts in discretionary programs (i.e., cuts on top of the at-least $1.1 trillion in discretionary cuts that the annual caps will produce), or a failure to meet its target.

If the joint committee were only to cut entitlement programs to reach its target, how deep would those cuts be? The deal that President Obama and Speaker Boehner were negotiating several weeks ago would have raised Medicare's eligibility age, raised Medicare cost-sharing charges, shifted significant Medicaid costs to states, modified cost-of-living adjustments in Social Security and other benefit programs (and in the tax code), and instituted other entitlement savings. Those steps would have saved $650 billion to $700 billion over ten years. The joint committee would have to produce cuts *twice as deep* — and roughly twice as deep as those in the Gang of Six plan.

Democrats on the joint committee would not conceivably agree to entitlement cuts, or a mixture of entitlement and deeper discretionary cuts, that deep. Hence, if Speaker Boehner honors his pledge to keep revenue increases off the table, the committee will surely fail — and gridlock and policy warfare will continue.

The joint committee *could* agree on a much smaller amount of savings without revenues, but nothing close to $1.2 trillion to $1.5 trillion. Thus, unless Republicans back off their refusal to consider any increase in revenues, the joint committee will fail to produce savings anywhere close to $1.2 trillion — triggering across-the-board cuts that are of unprecedented depth and will remain in place for nine years.

In key respects, then, this deal postpones the biggest battle over deficit reduction, creating an even more cataclysmic clash that would occur most likely in a lame-duck congressional session after the 2012 election. At that point, *three* huge events will loom: 1) across-the-board cuts in January 2013, with half of them coming from defense (amidst likely charges that they will jeopardize national security); 2) the scheduled expiration of President Bush's tax cuts at the end of 2012; and 3) the renewed specter of default if policymakers do not raise the debt ceiling quickly again by early 2013. Where all of that will lead policy debates and outcomes is impossible to predict at this point.

Anticipating the policy battles to come, we should not lose sight of an alarming development. Those who have engaged in hostage-taking — threatening the economy and the full faith and credit

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of the U.S. Treasury to get their way — will conclude that their strategy worked. They will feel emboldened to pursue it again every time that we have to raise the debt limit in the future.

They also will likely continue insisting, in future hostage-taking efforts, that for every dollar we raise the debt ceiling, we must cut spending by a dollar, with no revenue allowed. When one considers that even the harsh budget plan of House Budget Committee Chairman Paul Ryan would require policymakers to raise the debt limit by nearly $9 trillion over the coming decade, one begins to understand the extraordinary results such a policy path would produce over time. Substantial parts of the federal government, including important parts of the Great Society and even the New Deal, would be cut sharply or eliminated. That would put us on a path toward achieving anti-tax activist Grover Norquist's vision of shrinking government to the point where "we can drown it in the bathtub."

Having said all this, the agreement has some partially — but important — redeeming features. For one thing, the Administration ensured that half of the automatic cuts that could be triggered will come from defense programs, and that basic entitlement assistance programs for low-income Americans, as well as Social Security, will be exempt from such cuts. This could provide helpful leverage for a more balanced solution in the showdown likely in the 2012 lame-duck session. For another, the deal raises the debt ceiling until about early 2013, so the nation's credit will not be threatened in coming months by election-year politics. (On a smaller front, the Administration secured beneficial provisions related to Pell grants.)

Our grim assessment of the agreement, its very disturbing implications, and the policy and political trajectory that we now face are not arguments for defeating the agreement on Capitol Hill. There is an adage that, as bad as things get, they can always get worse. If Congress defeats the package, one or both of two very troubling developments may well occur: we may experience a default, with potentially catastrophic consequences for the economy and the nation's future; or policymakers may quickly rejigger the deal, making it still more unbalanced in order to secure more arch-conservative votes. These are risks that are simply too dangerous to take — despite the deeply troubling problems that this deal poses.

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