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USING THE $2.3 TRILLION DEBT CEILING TO BALANCE THE BUDGET

(Updating Backgrounder No. 579, "Using the Debt-Ceiling Vote to End the Spending Binge," May 11, 1987.)

The federal debt ceiling time bomb is still ticking. Unless Congress defuses it by raising the federal debt ceiling limit above $2.3 trillion before July 15, the Treasury Department will be prohibited from issuing any new debt and will run out of operating funds near the end of July. This could bring the government to a standstill, and for the first time in history, the United States government might default technically on its loan obligations.

This is the second time this year that Congress has stared federal bankruptcy in the face. In May, a group of Senate Republicans, led by Phil Gramm of Texas, warned that they would hold up the debt bill extension until Congress agreed to budget process reforms to restrain the flow of red ink permanently. But rather than face the issue head on, Congress postponed the day of reckoning by enacting the three-month debt ceiling extension that is now running out.

Rare Opportunity. Senate Republicans see the debt ceiling crisis as a rare opportunity to force Congress to restore the enforcement mechanism to the 1985 Gramm-Rudman-Hollings Balanced Budget Act. This bipartisan budget law established deficit targets that would shrink the deficit to zero by 1991. If Congress were to miss its annual deficit target, the law provided for automatic spending cuts. Because of a technical flaw, however, this procedure for automatic spending cuts--called sequestration--was struck down last summer by the Supreme Court. The Gramm group wants Congress to pass an amendment to deal with this deficiency.

Saving Gramm-Rudman-Hollings is important. After five years of congressional floundering, it is the only device that has slowed the tide of red ink. The deficit has shrunk by about $50 billion since Gramm-Rudman-Hollings was enacted. More important, if Gramm-Rudman-Hollings is not repaired, the prospect for future deficit reduction is bleak. Without the threat of politically painful automatic spending cuts, there is no pressure on Congress to cut spending. Indeed, Congress is eager to add dozens of new spending plans in the fiscal 1988 budget. The price tag of these programs: an estimated $8 billion. Without Gramm-Rudman-Hollings, this will only be the beginning of a new bout of runaway spending.

Putting the Teeth Back. Gramm will offer an amendment, dubbed Gramm-Rudman-Hollings II, to the July debt ceiling bill. This is intended to put teeth back into the Balanced Budget Act while complying with the Supreme Court's original objections to the law. The Court ruled that the participation of the General Accounting Office in the sequestration process delegated to this Legislative Branch agency authority that the Constitution reserves for the Executive Branch. The Gramm proposal would require an Executive Branch agency, the Office of Management and Budget, to determine the final sequestration amounts.

This would not give the Office of Management and Budget excessive power. OMB in fact would have minimal discretion in determining the overall extent of the program cuts and no discretion whatsoever in the distribution of the budget cuts, since that is specified in the existing law in exacting detail. All OMB would do is determine the percentage cut for each program as prescribed by the law. Gramm also has added a safety provision to his amendment which would lead to expedited Court consideration of any challenge to OMB sequestration.

In an effort to derail Gramm-Rudman-Hollings II, Representative Thomas Foley, the Washington Democrat, has proposed his own repair of the Balanced Budget Act. Rather than making sequestration automatic, Foley's plan would give the President sole authority to invoke sequestration if the Gramm-Rudman-Hollings deficit targets are breeched. But this would put every President in a no-win situation. The reason: lawmakers could proceed with budget busting business as usual throughout the year and then hand the Gramm-Rudman sledge hammer to the President. Public wrath then probably would turn against the President and force him to accept new spending. It seems strange that House of Representatives liberals, who have refused on every occasion to accord Ronald Reagan even a modicum of additional budget power, would so enthusiastically endow the presidency with the sweeping authority to invoke sequestration.

A Question of Priority. Legislators are anxious to pass a debt extension bill before the July 15 deadline to avert the political embarrassment of a temporary shutdown of the federal government. The question is whether Congress will also seize the opportunity to slow the future tide of red ink, or whether it will simply give the pro-spending constituencies yet another lease on life without receiving any budgetary concessions in return. If lawmakers neglect to add a Gramm-Rudman-Hollings fix to the debt bill, they will be sending a clear signal to the American public that, despite recent rhetoric, deficit reduction remains a low congressional priority.

Experience teaches that the debt ceiling extension vote is the one occasion of the year when the big spenders have their backs to the wall and can be brought grudgingly to the bargaining table. By threatening to slam the brakes on the federal money machine in 1985, Senators Gramm, Rudman, and Hollings were able to win original passage of the Balanced Budget Act--a law that is still supported by almost 70 percent of the American public. Only another debt ceiling showdown will force Congress to reaffirm its commitment to deficit reduction.

Stephen Moore
Policy Analyst