

Gramm-Rudman as a Deficit Control Device
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The deficit debate of today is eerily similar to the debate that occurred in 1985, when Gramm-Rudman became law. Yet the conditions demanding action today are far more compelling and far more dangerous. The deficit today would have been unimaginable in 1985. The economy in 1985 was booming, Social Security had been reformed, the Cold War was being won and a massive peace dividend was on the horizon. The retirement of Baby Boomers was a distant concern. Today we are experiencing the weakest recovery of the post-war period. Baby Boomers are retiring in great numbers, plunging first Medicare and then Social Security deep into the red. And as we fight three simultaneous conflicts, the American defense budget is stretched thin. If now is not the time for dramatic action -- for entitlement reform, for binding restraints on spending -- will that time ever come?

Gramm-Rudman was introduced in September of 1985 as an amendment to legislation increasing the debt limit from \$1.8 trillion to \$2 trillion. The debt limit today is an astonishing \$14 trillion. Gramm-Rudman had 43 bi-partisan co-sponsors and received 75 votes in the Senate.

As it is today, in 1985 it was easy for policymakers to oppose the deficit solutions presented by those with the foresight and courage to offer specific plans. But nobody was willing to argue against the need to address the deficit. Then, as now, you could be against someone else's plan, but you couldn't be against every plan. Doing nothing was not a tenable political option.

Gramm-Rudman set a declining series of maximum deficit targets for each of the years 1986 through 1991. The targets were enforced by automatic spending cuts, called sequesters, that cut both defense and non-defense expenditures by equal amounts. The cuts were across programs, projects, and activities so as to preserve Congress' relative priorities; but there was some flexibility and there were some constraints. The law allowed Congress to meet the deficit targets with priorities of its choosing, but if the deficit targets for each year were not met, then the sequester would kick in and make up the difference with across the board spending cuts. Gramm-Rudman's greatest strength was that by threatening across the board cuts, it gave Congressmen and Senators an incentive to make hard choices and provided a shield against those who criticized their choices. You didn't necessarily have to agree with specific policies being implemented, but they were generally better than across the board cuts.

Our experience with Gramm-Rudman showed clearly that if you hoped to deal with the deficit by building a four-sided fort, pulling up the

drawbridge and going back to sleep, you were going to be disappointed. Probably the best that any mechanism can provide is to help force action and tilt the process to encourage hard choices and compromise. At its best it can become a good stone wall to your back in a gunfight.

Did Gramm-Rudman work? I would say the answer is yes -- but a qualified yes. Under Gramm-Rudman, spending growth plummeted to 4.7% in 1986 and to just 1.4% in 1987 -- the slowest annual growth rate in 20 years. For the entire period when Gramm-Rudman was in effect, spending grew at the lowest rate since the 1950s. The only new entitlement created during the Gramm-Rudman period was Medicare Catastrophic Coverage. It was then and still is today the only entitlement ever created in American history that was truly paid for. And since people had to pay for it, they hated it, and it was subsequently repealed. Under Gramm-Rudman, the deficit declined substantially from 5.1% of GDP to 2.8% of GDP by 1989 -- the last full year before Gramm-Rudman was automatically de-triggered by the first Iraq war and the 1990 recession. Under the language of Gramm-Rudman, a war or a recession was deemed an emergency and the law was set aside.

Based on our experience with Gramm-Rudman, and with 20/20 hindsight, I believe a series of changes should be made in it or any other mechanism that is used to help address the nation's fiscal crisis. Super majority points of order should apply to both Houses of Congress, not just to the Senate. The law should include a look-back sequester which corrects for deficit overages when the actual deficit spending totals for

the year are calculated. This would allow for mid-course corrections to keep the nation on a deficit reduction glide-path before the deficit targets become unachievable. If you get behind on the deficit reduction targets, your process no longer threatens the deficit. Instead, the magnitude of the deficit begins to threaten your process.

The most abused part of Gramm-Rudman was the so-called "emergency" designation. That process was also abused under subsequent budget measures. In the extreme case, funding for the Decennial Census was designated as an "emergency" despite the fact that the Constitution had required that a census be taken every decade for 200 years. I would recommend that an emergency be declared only with the approval of 60% of the members of both Houses of Congress. In reality, if you can't get that vote, you don't have a real emergency.

The only forcing mechanism that Congress has ever employed has been automatic spending cuts. They were used in Gramm-Rudman and adopted as part of the 1990 budget summit agreement, which was supported by both Speaker Foley and Majority Leader Mitchell. Most recently, they were part of the pay-as-you-go provision adopted under Speaker Pelosi and Majority Leader Reid and signed into law by President Obama as part of raising the debt ceiling on February 12, 2010. While the pay-as-you-go provision was always waived, had it not been waived, there would have been a spending sequester quite similar to the sequester employed under Gramm-Rudman.

The logic of this enforcement mechanism is straightforward. Spending programs are a creation of Congress and represent the priorities of its members. Anything that threatens those priorities is a forcing mechanism for action. It was never the objective of Gramm-Rudman to trigger the sequester; the objective of Gramm-Rudman was to have the threat of the sequester force compromise and action. Recent proposals that would trigger automatic tax increases if Congress and the President fail to meet spending or deficit targets would, in my opinion, have a pernicious effect on the whole process. The idea that if elected officials fail, then taxpayers pay the price is a "heads, I win, tails, you lose" process that will virtually guarantee that targets are not met. Under Democrat and Republican Presidents and Democrat and Republican Congresses, spending triggers have been chosen because they make sense. Automatic tax increases have never been employed because they don't make sense.

America has no special dispensation that guarantees we will always be the greatest, richest, and freest people in the world. America can be as strong as we make it or as weak as we allow it to become. We must face up to our national debt crisis or be overcome by it. And we must do it now. To raise the debt ceiling again without requiring action now to deal with the problem is irresponsible and dangerous to the future of America.