

THE CONCORD COALITION



Issue brief

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Debt Limit Increase Offers an Opportunity to Enact Positive Reforms

Before leaving town in December, Congress raised the statutory debt limit by \$290 billion to \$12.39 trillion. This was a short-term patch that will only provide enough borrowing authority to last until mid-February. Congress must, therefore, address the issue again as one of its first actions in 2010.

Debt limit votes are normally an exercise in political theater. They provide an opportunity to exchange predictable partisan sound bites on fiscal policy differences but the outcome is inevitable -- the limit must be increased to avoid a default on the nation's debt.

This year, however, the debt limit vote could be a catalyst for reforms aimed at improving the nation's fiscal outlook. With public concern growing over the sharp rise in debt, members of Congress have a strong motivation to combine the "must pass" debt limit increase with measures demonstrating a commitment to rein in future deficits.

Three such measures will likely be voted on in the Senate this week. An amendment, offered by Budget Committee Chairman Kent Conrad (D-ND) and Ranking Member Judd Gregg (R-NH), would establish a task force to make recommendations for fiscal sustainability. Another amendment, offered by Majority Leader Harry Reid (D-NV), would enact statutory pay-as-you-go (PAYGO) rules for entitlement expansions and tax cuts. A third measure offered by Senator Jeff Sessions (R-AL), would establish statutory caps on discretionary spending (appropriations).

The Concord Coalition has long supported spending caps, statutory PAYGO and a deficit reduction task force or commission. This combination provides the best chance of improving our unsustainable fiscal outlook. Comprehensive budget reform requires all three measures because they address separate problems.

A cap on discretionary spending is designed to enforce trade-offs among competing priorities within the portion of the budget allocated through the annual appropriations process. However, this just amounts to roughly one-third of the budget and the cap would do nothing to control the growth of entitlement programs.

Statutory PAYGO, like the existing House and Senate rules, is aimed at ensuring that new legislation to expand entitlement spending or reduce taxes would be deficit neutral. This would help to prevent the fiscal outlook from getting any worse. However, even if

strictly enforced, PAYGO would not do anything to address the unsustainable path of current policies.

Additional steps are needed to attain fiscal sustainability and that would be the critical function of the task force. It would have a broad mandate to make deficit reduction recommendations. There would be no preconditions, it would be bipartisan, and its recommendations would receive an up-or-down vote in Congress without amendment.

We recognize that the three current proposals are not perfect. The Sessions amendment could be improved by adding an enforcement mechanism, such as sequestration to protect against a breach of the spending caps, and by suspending the caps during a recession. The Reid amendment could be improved by eliminating its PAYGO exemptions for the extension of several existing policies. While some of these exemptions are time-limited, including them would still make the task of deficit reduction more difficult. The Conrad-Gregg amendment could be improved by allowing limited, savings-neutral, amendments to the task force recommendations and by requiring public hearings around the country to receive input and improve the transparency of its deliberations. These changes would mirror a similar proposal in the House sponsored by Representatives Jim Cooper (D-TN) and Frank Wolf (R-VA).

It must also be made clear that the goal of these fiscal responsibility amendments should not be to slam the brakes on a fragile economy. Instead, the goal should be to put in place a framework for implementing the hard choices needed to remedy the structural deficits that are projected to persist even after the economy has fully recovered.

It is encouraging that the debt limit vote has prompted President Obama and leaders of both parties in Congress to at least begin debating a way out of the fiscal morass. The elements of a meaningful reform package are all before the Senate this week. Moreover, for all the partisan bluster we are likely to hear this week, it should be noted that statutory spending caps and PAYGO were part of earlier bipartisan budget agreements and that several members on both sides of the aisle have endorsed various task force or commission proposals.

These ideas should not be fodder for partisan bickering, which the public has clearly grown weary of. If differences on the details cannot be resolved before a vote is needed to increase the debt limit, negotiations should not be abandoned. Another short-term increase in the debt limit, while not optimal, would keep the pressure on to reach agreement. Moreover, the upcoming Fiscal Year 2011 budget process offers an opportunity to fine tune whatever flaws might be perceived in the amendments currently before the Senate.

What is most important at this point is having the political will to act. Budget process reforms can encourage, but not guarantee, positive results. Our fiscal problems do not have a partisan origin and they will not have a partisan solution. Compromise will be needed. This is particularly true for a deficit reduction task force. Already, some have suggested that limitations be placed on what the task force may recommend, such as

prohibiting tax increases or changes in Social Security. These or similar preconditions would simply enshrine partisan gridlock and undermine the very purpose of the task force.

For our part, we are willing to accept something less than perfect if it will help to move fiscal policy in a more responsible direction. As the debate continues over amendments to the debt limit, we urge others to demonstrate similar flexibility. No one is going to get everything they want. If perfection is the goal, failure will be the result. We literally cannot afford it.