

Global Spending Caps—Not the Solution for Our Deficit

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In the debate over the nation's fiscal future, one idea is to place caps on all federal spending (Global Spending Caps).

This memo provides our assessment of—and serious concerns about—this proposal, as well as possible alternatives that could find common ground.

The Global Caps measure would limit federal spending to 20.6% of GDP indefinitely, after a series of incremental reductions over 10 years. The Congressional Budget Office projects that federal spending will be 26.3% of GDP in 2021, so this would mean a reduction in federal spending by more than one-fifth of projected levels.¹ If Congress fails to bring spending under the cap in any given year, the Administration would be required to withhold spending by the amount of the projected excess. All areas of the government would be subject to cuts, but faster growing areas of the budget, like health care, would be subject to bigger reductions. Congress could break the cap with a two-thirds majority vote.²

There is no question that the public and many in Congress are demanding a focus on the spending side of the debate. The truth is, spending has been virtually unrestrained for a decade. During President George W. Bush's tenure in office, most of it with Republicans controlling both houses of Congress, federal spending grew faster (32.4%) than during the 8-year reigns of Presidents Clinton (9.8%), Reagan (21.2%), and the combined administrations of Presidents Nixon and Ford (18.2%).³ The severe recession necessitated even more emergency spending over the past two years. But the trend line is unsustainable, and highlighting this problem is warranted.

But the Global Caps legislation is fatally unbalanced. First, it places far too much burden on too few elements of the federal budget. Using this mechanism to control the debt is like

trying to drive a car with two wheels. The debt must be attacked by addressing all four of its drivers: entitlements and discretionary spending, as well as defense spending and tax revenue. If any one tire on the car is missing, it just won't drive. In this case, discretionary and entitlement cuts will be too deep and our economy will be put in grave peril, as we describe more fully below.

Second, the politics of federal deficits require that both sides make compromise. We will never arrive at an urgently needed final deal if instead of compromise—a spirit of “we give, you give”—the partisan formulation is “you give and you give again.” Conservatives simply cannot expect that a deal will get done without their compromising on their own sacred cows, including taxes and Pentagon spending.

Five Concerns Over Global Spending Caps

1. Global Spending Caps violate the basic framework of any possible deficit reduction agreement.

There is only one true path to a major deficit reduction agreement and that is with each side giving up something they want. This *We give/You give* approach is evident in the Bowles–Simpson, Administration, and likely the Gang of Six plans. In each, Democrats give on discretionary spending and entitlements, Republicans give on Pentagon spending and revenue. It is why we have been consistently supportive of each of these proposals, as well as the Bennet–Johanns letter and the legislation creating the President's Bipartisan Fiscal Commission. Likewise, we have been consistently critical of plans that violate this *We give/You give* spirit—such as the House Republican budget and that of the House Progressive Caucus.⁴ Global Spending Caps is another *You give/You give again* approach, ignoring anything on the revenue side. It brings us farther from a major budget agreement; it is, in fact, a poison pill.

2. Global Spending Caps ignores spending in the tax code.

Over the past 10 years, the federal government has essentially spent at modern historic highs and taxed at modern historic lows.⁵ Each side of the equation has contributed to our deficit crisis. Yet this plan ignores the revenue side. Why should Mexican border guards be cut but a mortgage deduction for a second home be left untouched? Tax breaks can be a far more unnecessary source of extensive government spending and deficit creation than programmatic spending. There are enough tax shelters and special interest loopholes to fill a bookshelf, and they should be part of any enforcement measure—as should all revenue measures. But a spending cap treats the tax code like the Shroud of Turin.

3. Global Spending Caps ignores the aging of America.

Many in Washington say that the biggest driver of higher government spending is health care costs. In fact, it is age. Over the next several decades the elderly population in America will double while those of working age will increase by less than one-third. This is important because working age people are responsible for nearly all economic growth in America; elderly people make up the bulk of domestic government spending. A plan that caps spending at “historic” levels calculated during a time when the nation’s population was far younger is akin to a plan to grow enough food today for a population that will be larger by 50 million in the future. Third Way supports cutting entitlement spending—we have our own plan to trim Social Security benefits, reduce Medicare and Medicaid spending, and reform federal pensions. But even with these changes, capping spending at 20.6% of GDP is a pipedream. Because of the retirement of the baby boom generation, there are simply too many people getting on the wagon and far *too few* horses hitching up to pull the load.

4. Global Spending Caps are certain to choke off long-term investments that grow the economy.

With intense pressure to keep up spending for an ever-growing number of retirees, it is inevitable that other key spending such as investments in future growth will suffer. When pitted against people's immediate needs, long-term investments in roads, bridges, rail, ports, energy innovation, health research, space, science, and technology will lose every time. We will be left with a budget that is nothing more than consumption and defense—a budget of a nation that is unable to invest in its own growth.

5. Global Spending Caps could turn the next recession into a depression.

It isn't popular to say out loud, but the massive and expensive bank bailouts and stimulus likely saved the United States from a depression. Counter-cyclical, anti-recessionary government spending is necessary to keep the economy going when private sector investments, capital liquidity, and consumer spending dries up. Government spending levels are certain to be maxed out during good times and would have to be cut dramatically when the economy shrinks. Thus, just at the time when government needs to spend it would be forced to contract. Escape from the caps requires a two-thirds majority—an impossibility for Congress under almost any conceivable circumstance. Global Spending Caps could one day become the next Smoot-Hawley.

Alternate Ways to Control Spending

Over the last year, three high-profile bipartisan groups plus President Obama have proposed ways to put the U.S. on course to a sustainable fiscal future. Not one of them includes a Global Spending Cap as proposed in the House and Senate. Instead, they follow the principle of *We give/You give*, establishing targets for deficit reduction with triggers for automatic spending cuts and revenue increases should

Congress or the President fail to follow through. Here is how each of the key proposals work:

1. President Obama's debt failsafe.

The President's proposal in April, 2011 for shared prosperity and shared fiscal responsibility proposes specific amounts of deficit reduction and sets targets for reducing the deficit and debt as percentage of GDP. ⁶ Congress missing those targets would trigger automatic reductions to tax deductions and spending cuts in everything except Social Security, Medicare benefits and low-income programs.

2. President's Fiscal Commission.

The Moment of Truth report, which won the bipartisan support from 11 of 18 members of the commission, proposes deficit reduction in all areas of the federal budget with discreet enforcement tools for each area. ⁷ For discretionary spending, a failure by Congress to keep within spending limits (calculated separately for security and non-security spending) would trigger offsetting, across-the-board reductions in spending. For federal health care spending, failure of reforms to achieve spending targets would trigger additional Congressional action on cost control. Revenues from tax reform would also be triggered if Congress failed to meet revenue targets. The report also calls for an overall failsafe mechanism to guarantee action that would stabilize the debt and ultimately reduce it.

3. Domenici-Rivlin.

Like the President's Fiscal Commission, the Save-as-you-go proposal, crafted by former Republican Senator Pete Domenici and Democratic budget expert Alice Rivlin for the Bipartisan Policy Center, would enforce deficit reduction agreements in discreet areas of the budget. ⁸ It is designed to allow Congress to break down big reforms into bite-size pieces, but still have enforceable targets to deficit and debt reduction. The targets would be based only on specific dollar amounts instead of factors like GDP that Congress cannot

control directly. That way Congress could be held accountable for achieving needed savings.

4. Pew-Peterson Commission.

In its “Getting Back in the Black” report, the Pew-Peterson Commission, led by former Republican Rep. Bill Frenzel and Democratic Representatives, Tim Penny and Charlie Stenholm, would rewrite the annual Congressional budget process in order set medium and long-term enforceable targets for deficit and debt reduction.⁹ The failure to meet the targets would trigger additional Congressional action to meet the medium-term goals and for long-term goals, it would trigger enforcement of the targets for through automatic spending cuts and revenue increase.

Conclusion

There is a simple principle with which to say “yes or no” to any deficit reduction idea: does it ask each side to give? This does not. With so many good ideas to enforce deficit reduction, a federal spending cap is not just unnecessary but a step backwards. With its one-sided focus on spending and short-sighted approach to federal investments that expand the economy, it has the potential to tie the economy in knots. And just as importantly, it has the potential to scuttle a major deal on the deficit.

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END NOTES

1. This amount is based on the CBO’s alternative fiscal scenario, which assumes that Congress will continue to enact the so-called doc fix, which prevents a 20 percent cut in Medicare payments to doctors.

- 2.** “Corker, McCaskill Introduce Bill to Dramatically Cut Spending Over 10 Years,” Press Release, Office of Sen. Bob Corker, February 1, 2011, Accessed April 29, 2011. Available at: http://corker.senate.gov/public/index.cfm?p=News&ContentRecord_id=e2186a40-440d-4152-9c0f-60d97b30abb8.
- 3.** United States, Executive Office of the President, “Table 1.3 – Summary of Receipts, Outlays, and Surpluses or Deficits in Current Dollars, and as Percentages of GDP: 1940–2016,” Office of Budget and Management, Accessed on April 29, 2011. Available at: <http://www.whitehouse.gov/omb/budget/Historicals/>.
- 4.** For example, see David Kendall and Ryan McConaghy, “Medicare in the Ryan Budget: What it Would Mean for You,” Third Way, April 14, 2011. Available at: <http://www.thirdway.org/subjects/131/publications/383>.
- 5.** From 2001–2010, federal receipts have averaged 17.1% of GDP compared to 18.8% from 1991–2000, 18.2% from 1981–1990, and 17.8% from 1971–1980. From 2001–2010, federal expenditures have averaged 20.4% of GDP compared to 20.0% from 1991–2000, 21.8% from 1981–1990, and 19.5% from 1971–1980. See Christopher Chantrell, “Time Series Chart of US Government Spending,” USgovernmentspending.com, Accessed April 29, 2011. Available at: http://www.usgovernmentspending.com/downchart_gs.php?year=1970_2010&view=1&expand=&units=p&fy=fy12&chart=Fo-fed&bar=0&stack=1&size=m&title=&state=US&color=c&local=s#usgs101.
- 6.** United States, Executive Office of the President, Office of Press Secretary, “Fact Sheet: The President's Framework for Shared Prosperity and Shared Fiscal Responsibility,” April 13, 2011, Accessed April 29, 2011. Available at: <http://www.whitehouse.gov/the-press-office/2011/04/13/fact-sheet-presidents-framework-shared-prosperity-and-shared-fiscal-resp>.

- 7.** United States, Executive Office of the President, National Commission on Fiscal Responsibility and Reform, “The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform,” December 1, 2010, Accessed April, 29, 2011. Available at: <http://www.fiscalcommission.gov/news/moment-truth-report-national-commission-fiscal-responsibility-and-reform>.
- 8.** Pete Domenici *et al*, “Save-as-you-Go,” Bipartisan Policy Center, April 20, 2011, Accessed April 29, 2011. Available at: <http://www.bipartisanpolicy.org/projects/economic-policy-project/savego>.
- 9.** Bill Frenzel *et al*, “Getting Back in the Black,” Pew-Peterson Budget Commission on Budget Reform, November 201, Accessed April 29, 2011. Available at: <http://budgetreform.org/document/getting-back-black>.