



Written by [Veronique de Rugy](#) on January 20, 2023

Republicans Must Avoid Repeating History With the Budget

The long and tedious battle for House speaker ended with the GOP arguably more focused on fiscal responsibility and cutting spending. To accomplish this, Republicans are demanding spending cuts in exchange for raising the debt ceiling. Asking for some future fiscal discipline before allowing Uncle Sam to borrow yet more money is well worth it, but carelessly chosen goals could derail the whole enterprise.

Congress will eventually have to pass legislation to authorize the Department of Treasury to borrow money above and beyond the current debt-ceiling level to avoid a default. Besides, when previous Congresses — both Republican- and Democratic-controlled — passed spending bills paid for with money they didn't have, legislators implicitly agreed to raise the debt ceiling as needed. But that doesn't mean that today's legislators can't demand some spending restraint going forward.

Treasury Secretary Janet Yellen has already announced that the Treasury will begin “extraordinary measures” to ensure the federal government is able to meet its payment obligations even if the ceiling isn't immediately raised. That should allow payment obligations to be met without default until early June, giving legislators time to negotiate an agreement to raise the debt ceiling. That has been done before and can be done again.

And this is the path Republicans now intend to follow, which is, in theory, great. But from the look of it, they're going about it the wrong way. According to the Manhattan Institute's Brian Riedl, the GOP plan so far is to cut \$130 billion from discretionary appropriations. Unfortunately, the defense budget and veteran's health funds are excluded from cuts, despite making up \$993 billion out of \$1,602 billion discretionary budget. As Riedl notes, their plan will require “freezing those two items and cutting everything else by 21% immediately.”

This maneuver guarantees political failure for the Republican's plan. Don't get me wrong, there's easily 21% worth of spending cuts to be made in programs like the National Institutes of Health, the Centers for Disease Control and Prevention, the Food and Drug Administration and the Departments of Transportation, Education and Energy. In fact, some of these discretionary programs should be eliminated altogether. However, imposing cuts on only a small share of the discretionary budget excludes trillions of dollars from scrutiny and is a political non-starter.



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This mistake was made decades ago with the Balanced Budget and Emergency Deficit Control Act of 1985, known as the Gramm-Rudman-Hollings Act. The legislation set a maximum amount for the deficit, which would be lowered over time until the deficit disappeared. If these limits were breached, the president was required to cut nonexempt spending, a process called budget sequestration, by a uniform percentage to bring the budget back into balance. But the Act's framework proved unsuccessful at constraining spending, in part because Congress exempted too many programs — the two biggest ones being defense and entitlement spending — from sequestration, allowing the overall budget to continue ballooning. In 1990, the deficit limit was breached by nearly \$100 billion, which would have required the nonexempt programs to be cut by about a third.

Just like those cuts, unfortunately, Republicans' fiscal goals will likely be politically impossible. Instead, legislators could freeze most discretionary appropriations this year and then impose an annual 2% growth cap. As Riedl correctly notes, "Each 1% we trim the annual growth rate of discretionary spending (such as from 3% to 2% per year) saves \$1 trillion over the decade. Over the long-term, savings get big." Better yet, while these caps seem reasonable, especially after inflation gets under control, they will require that some programs, including defense spending, undergo meaningful reforms or get cut.

All that said, while limiting discretionary spending is a good start, fiscal sustainability requires that Congress also cut the mandatory side of the budget. Indeed, Social Security, Medicare and Medicaid — not defense or education — are still the chief drivers of our future debt, just as they have been in the past. Along with the interest the Treasury must pay on the debt, these three programs will be responsible for 86% of federal spending between 2008 and 2032, says Riedl. In other words, no level of discretionary spending cuts will ever be enough to control the upcoming debt explosion.

I applaud Republicans' commitment to fiscal restraint. But they need to go at it the right way or they will fail like others have before them.

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