HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/HM 1249 Federal Spending Cap
SPONSOR(S): Oliva
TIED BILLS: **IDEN./SIM. BILLS:** SM 1742

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Federal Affairs Subcommittee	10 Y, 4 N, As CS	Bennett	Camechis
2) State Affairs Committee			

SUMMARY ANALYSIS

From 1946 to 2008, federal spending averaged 19.6% of the GDP. By 2011, federal spending had increased to 24.7% of GDP -- the highest level since 1946. This memorial urges Congress to propose an amendment to the U.S. Constitution to cap federal spending at 20% of the United States Gross Domestic Product (GDP).

The memorial does not have a fiscal impact.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Effect of Proposed Changes

This memorial urges Congress to propose an amendment to the U.S. Constitution to cap federal spending at 20% of the United States Gross Domestic Product (GDP).

Current Situation

Background[1]

Federal spending can be divided generally into two broad categories, discretionary and mandatory spending. Discretionary spending is controlled by annual congressional appropriations acts. Mandatory spending encompasses spending on entitlement programs and spending controlled bylaws other than annual appropriation acts. Entitlement programs such as Social Security, Medicare, and Medicaid make up most of mandatory spending. There are no fixed limits attached to the amount of spending on these entitlement programs; rather, if federal statutory eligibility requirements are met for a specific mandatory program, outlays are automatic.

From 1946 to 2008, federal spending averaged 19.6% of the GDP.[2] In FY2000, revenues equaled 20.6% of GDP but, by FY2010, federal revenue collection totaled 14.9% of GDP -- its lowest level since FY1950. In contrast, federal spending in the last decade relative to the economy as a whole (as measured by GDP) has increased. For example, in FY2000, federal spending equaled 18.2% of GDP but, by FY2010, federal spending had reached 23.8% of GDP.[3] The pattern of increased spending continued in 2011, when spending increased to 24.7% of GDP -- the highest level since 1946.[4]

Spending Caps as a Measure of Budget Control[5]

This memorial does not specify whether the spending cap should be imposed through adoption of a federal constitutional amendment, federal statute, or Congressional Rule. Generally speaking, however, a federal spending limitation is imposed by Congress adopting a statute that defines a specific spending limit for each year. During each year, Congress would be informed of a projected overall spending total and the amount by which the statutory spending limit is projected to be breached. After a period of time, during which Congress would presumably attempt to achieve compliance with the spending limits through legislative action, a final determination would be made as to whether the spending limit had been exceeded. If spending exceeds the limit, an enforcement mechanism would impose spending reductions. Most spending cap legislation includes exemptions for specific programs and provides for suspension of enforcement under specific circumstances, such as war or natural disaster.

Enforcement of Federal Spending Caps

In the past, nearly all spending limit enforcement mechanisms used in the congressional budget process relied on Congressional Rules-based procedures, namely legislative points of order (as opposed to sequestration [automatic] reduction mechanisms). Rules-based enforcement mechanisms operate before enactment of spending legislation by relying on members of Congress to affirmatively raise points of order on the House or Senate floor against legislation that would violate the statutory spending limits. Points of

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[1] Information for this section generally obtained from: U.S. Congressional Research Service, *Statutory Limits on Total Spending as a Method of Budget Control*, (R41938; Oct 13, 2011) by Megan Suzanne Lynch. (CRS Report)
[2] *Id.* at 8.
[3] U.S. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, available at http://www.cbo.gov/doc.cfm?index=12039.
[4] CRS Report, *supra* note 1, at 8.
[5] Information for this section generally obtained from CRS Report, *supra* note 1, at 1.

order can be waived by a simple majority or super-majority of each chamber. This method only applies to new spending legislation and cannot limit spending resulting from previously enacted legislation, which accounts for most spending.[6]

The Balanced Budget and Emergency Deficit Control Act of 1985, referred to as the Gramm-Rudman-Hollings Act, is an example of legislation that primarily utilized the point of order enforcement mechanism. According to a report by the Congressional Research Service (CRS), "many question the act's success and some attribute a lack of success to the fact that no spending reductions or revenue increases were included because agreement on such changes could not be reached."[7] Although the act included an automatic enforcement mechanism, one of its authors has stated that, "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."[8]

Conversely, the Budget Enforcement Act of 1990 created caps on discretionary spending and created "pay-as-you-go" rules for taxes and certain entitlement programs. The ''pay-as-you-go'' procedures required increases in direct spending, or decreases in revenues due to legislative action, to be offset so that there would be no net increase in the deficit. Violations of the discretionary limits or the "pay-as-you-go" requirement would be enforced through sequestration[9]. According to the CRS Report cited above, the act is considered by many to have been successful, in part because of these enforcement mechanisms.[10] As a former Director of the Congressional Budget Office concluded, budget process mechanisms are better at enforcing agreements than forcing agreements.[11] The act expired in 2002.[12]

Recent Federal Legislation

The recent growth in spending, both in dollar terms and relative to the economy, has generated support for spending caps, resulting in a variety of budget and spending reform proposals being introduced in Congress. On July 19, 2011, the House passed H.R. 2560, the Cut, Cap and Balance Act of 2011, which includes total spending limits for FY2013 through FY2021. The Senate voted to table the motion to proceed by a vote of 51 - 46. In addition, the House-passed budget resolution for FY2012, H.Con.Res. 34, includes a policy statement calling for Congress to enact total spending limits, but the Senate rejected a motion to proceed on the measure by a vote of 40-57.

President Obama signed the Budget Control Act of 2011[13] (BCA) on August 2, 2011. The BCA provided that an automatic spending reduction process will take place if a joint committee proposal cutting the deficit by at least $1.2 trillion is not enacted by January 15, 2012. The BCA places non-specific adjustable spending caps on discretionary spending. For the first two fiscal years, the caps are on two categories of spending: security and nonsecurity. After the first two years, one limit on all discretionary spending is created. Decisions about how these caps will affect specific agencies or programs will be made by Congress and the President through the regular appropriations process.[14]

During the current 112th Congress, numerous and varied proposals have been introduced seeking to impose federal spending limits.[15]

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[6] CRS Report, *supra* note 1, at 10.
[7] *Id.* at 7
[8] *Id.* at 15.
[9] If appropriation bills passed separately by Congress provide for total government spending in excess of the limits Congress earlier laid down for itself in the annual Budget Resolution, and if Congress cannot agree on ways to cut back the total (or does not pass a new, higher Budget Resolution), then an "automatic" form of spending cutback takes place. This automatic spending cut is what is called "sequestration." Under sequestration, an amount of money equal to the difference between the cap set in the Budget Resolution and the amount actually appropriated is "sequestered" by the Treasury and not handed over to the agencies to which it was originally appropriated by Congress.
[10] *Id*. at 7.
[11] Robert D. Reischauer, Director, Congressional Budget Office, Statement Before the Subcommittee on Legislation and National Security, Committee on Government Operations, U.S. House of Representatives, May 13, 1993.
[12] Similar ''pay-as-you-go'' legislation was signed into law by President Obama on February, 2, 2010. (P.L. 111-139).
[13] P.L. 112-25.
[14] U.S. Congressional Research Service, *The Budget Control Act of 2011*, (R41965; Aug. 19, 2011) by Bill Heniff, Jr.
[15] H. Res. 223: passed in the House by a vote of 243-181; H. Res. 355: Motion to table the motion to proceed to the bill agreed to in Senate by a vote of 51 – 46; H. Res. 1605: Referred to House Rules; H. Res. 1848: Referred to the Committee on the Budget, and in addition to the Committee on Rules; H. Res. 2041: Referred to House Rules; H. Con. Res 37: Referred to the House Committee on the Budget; S. 245: Read twice and referred to the Committee on the Budget; S. Con. Res 18: Motion to proceed to consideration of measure rejected in Senate by a vote of 0 – 97; S. Con. Res 19: Placed on Senate Legislative Calendar under General Orders; S.

B. SECTION DIRECTORY: Not applicable.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues: None.

2. Expenditures: None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues: None.

2. Expenditures: None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR: None.

D. FISCAL COMMENTS: None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision: Not applicable.

2. Other: None.

B. RULE-MAKING AUTHORITY: None.

C. DRAFTING ISSUES OR OTHER COMMENTS: None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On January 24, 2012, the Federal Affairs Subcommittee adopted one amendment without objection. The amendment petitions Congress to propose an amendment to the U.S. Constitution that requires federal spending to be capped at 20% of GDP.

Con. Res 20: Motion to proceed to consideration of measure rejected in Senate by a vote of 7 – 90; S. Con. Res 21: Motion to proceed to consideration of measure rejected in Senate by a vote of 42 – 55.