

FACT SHEET: THE GRAMM-RUDMAN-HOLLINGS BALANCED BUDGET LAW

WHAT IT DOES

The Gramm-Rudman-Hollings Balanced Budget Law, enacted in December 1985, specifies maximum levels for the federal deficit for every fiscal year from 1987 through 1991:

| Year | Maximum Deficit |
|---------|-----------------|
| FY 1987 | \$144 billion |
| FY 1988 | \$108 billion |
| FY 1989 | \$72 billion |
| FY 1990 | \$44 billion |
| FY 1991 | \$0 |

Gramm-Rudman is designed to eliminate the federal deficit in five years. This is an ambitious undertaking; the FY 1985 deficit was \$212 billion, and the FY 1986 deficit will probably exceed \$200 billion.

HOW IT WORKS

Under Gramm-Rudman, the President is required to propose a budget which meets deficit reduction targets, and the Senate and House of Representatives are required to adopt a budget resolution which is within these levels -- unless this provision is waived by a 60% vote, which appears to be a political impossibility at present. In addition, legislation which would call for spending that would be above the year's target can be barred from consideration on the House or Senate floor.

If budget legislation which would meet required targets cannot be agreed on by the Congress and President, then the original Gramm-Rudman legislation called for automatic spending cuts to be made across the board. This is known as the "sequestration" process. About half of such automatic cuts are in defense programs, and half in nondefense programs. A sequestration occurred in March 1986, because although the full Gramm-Rudman process did not begin until the FY 1987 budget process, the FY 1986 budget exceeded Gramm-Rudman levels; it made cuts of 4.3% in non-exempt domestic programs.

MYTHS ABOUT GRAMM-RUDMAN

MYTH #1: LOW-INCOME PROGRAMS ARE PROTECTED AGAINST CUTS.

One common belief is that most low-income programs are exempted from the automatic spending reductions. This is not true. The exempted programs include only the following: Social Security, veterans' pensions, veterans' disability compensation, Aid to Families with Dependent Children (AFDC), Supplemental Security Income, food stamps, school lunch and child nutrition programs, Medicaid, and nutrition programs for pregnant women, infants, and small children. In addition, several health programs, including Medicare, community and migrant health centers, Indian and veterans' health programs may not be cut more than 2% through sequestration.

Most programs benefiting low-income and working-class people -- including employment and training, education, and housing programs -- receive no protection from the automatic cuts. And the "exempted programs" receive NO automatic protection of any kind from budget cuts which are adopted by Congress in the appropriations process. It is widely agreed that Congress and the President are unlikely to allow automatic cuts to be triggered in the future, both because of their impact on programs which are not exempted and because automatic cuts are seen as an irresponsible alternative to cuts made deliberately by the Congress. Large-scale budget cuts -- including major cuts in programs which benefit low-income people -- are likely to be made not through sequestration but through the normal legislative process.

MYTH #2: THE RECENT SUPREME COURT DECISION KILLS GRAMM-RUDMAN.

The only part of Gramm-Rudman struck down by the Supreme Court was the automatic spending reduction provisions, declared unconstitutional because the cuts were to be ordered by the Comptroller General, an employee of the Congress, and the Court declared such action to be an Executive Branch function. However, the Act includes a back-up process requiring Congress to ratify the cuts if the automatic triggering were declared unconstitutional. And sequestration is unlikely to occur in future years, with or without Congressional ratification. The Supreme Court decision may actually increase pressure on the Congress to reduce the deficit through its own action, since few Congressmembers want to be put in the position of ratifying across-the-board cuts.

Moreover, the automatic cuts were not necessarily the worst possible alternative for low-income programs, since they assured that nearly all programs would share in the budget cuts, and did not permit any program to be eliminated. In addition, they assured that defense programs would share in the cuts. The normal budget process offers hope for rational decisions, but provides no assurance that equitable cuts will be made in the defense budget or that programs for low-income people will be maintained.

THE "ZERO SUM" GAME

One of the most important consequences of Gramm-Rudman is that deficit reduction has now become a "zero sum" game. That is, if funding is increased for one program, it must be cut elsewhere -- or tax revenues must be increased -- in order that deficit targets be met; the budget cannot simply be increased to cover new program costs or even maintained at its current level. The deficit targets, together with revenue projections, indicate the level of cuts which must be made each year. If the Congress were to decide to maintain or increase funding for human service and human investment programs, it would have to obtain these funds through a combination of cuts in other nondefense programs, cuts in defense programs, and/or increases in taxes.

PROTECTING HUMAN SERVICE AND HUMAN INVESTMENT PROGRAMS

Groups concerned about maintaining human service and human investment programs note that while defense spending has increased rapidly since the late 1970s, major reductions in nondefense spending for programs benefiting low- and moderate-income people have occurred since 1981. As a result,

they are already at levels many believe to be inadequate to meet current and future needs of the country; special concern has been raised about a lack of investment in human capital, which may mean lower productivity and tax revenues in future decades.

If funding for human resource programs is to be maintained -- and in many cases restored to pre-1981 levels or increased to meet national needs -- then this can occur ONLY through cuts in military spending, nondefense spending of less benefit to low- and moderate-income people, and/or increases in tax revenues. Tax reform is seen as a way to establish a fair base for future revenue increases, and to reduce "tax expenditures" -- tax breaks and loopholes, thus equalizing the tax burden and providing relief to low- and moderate-income people.

Unless changes are made in current spending priorities, Gramm-Rudman is likely to lead to extensive additional cuts in many human resource programs, and the elimination of many efforts which in the past have offered opportunities to low-income people and minorities.

[This Fact Sheet was prepared by the National Council of La Raza. For a more extensive description of Gramm-Rudman and its implications, see "Hard Choices: Federal Budget Priorities in the Gramm-Rudman-Hollings Era," written by Robert Greenstein of the Center on Budget and Policy Priorities, and published in June 1986 by Interfaith Action for Economic Justice, 110 Maryland Avenue, N.E., Washington, D.C. 20002. The cost is \$3.]