

Top 10 Reasons to Support ‘Cut Cap Balance’ Over Boehner’s Plan

By: Dean Clancy

The House is slated to vote on the Boehner debt-ceiling plan today, July 28, 2011. FreedomWorks and a broad coalition of fiscal conservatives strongly oppose the plan and need your help to stop it.

Why would fiscally conservative citizens oppose a plan that claims to reduce spending? Wouldn't defeat of the Boehner plan just help President Obama and the Democrats, who want to raise taxes? Why should Americans take action to support the “Cut Cap Balance” (CCB) Act and oppose the Boehner plan? For at least 10 reasons:

- 1. The Boehner “debt and tax hike” plan is a typical Washington establishment cop-out.** The Boehner plan, alas, is just another Washington establishment deal that simply kicks the can down the road and continues to pile a mountain of debt on our children. Our national debt currently stands at \$14.3 trillion. Even if all the Boehner plan's promised spending trims occur, which is doubtful, in 10 years' time the national debt will be \$23 trillion instead of \$24 trillion.
- 2. The Boehner plan raises taxes.** The Boehner plan creates a “Super Committee” of 12 members of Congress, who will be empowered to come up with a plan next year to reduce the deficit by \$1.8 trillion over 10 years. Four leaders will get to appoint 3 members, each, to the Super Committee: Harry Reid, Nancy Pelosi, John Boehner, and Mitch McConnell. The Super Committee's bill will get an up-or-down vote in both Houses of Congress, with no amendments. If the Super Committee's bill is rejected, the debt limit cannot be raised, triggering another “crisis” like the current one; but if the Super Committee's bill passes, the debt will automatically go up by a whopping \$1.6 trillion. We are absolutely confident that the Super Committee will have at least 7 members – a majority – who will agree to include tax hikes. Therefore, the Super Committee will raise our taxes, end of discussion. Some Republicans are hoping the Super Committee will lower tax rates as well, but this is a slender reed to cling to. It's no accident that congressional Democrats are strongly supporting the Super Committee. They are confident it will raise our net tax burden. In addition to representing a threat to taxpayers, the Super Committee is also a terrible way to legislate. It's a bad idea in principle and should be stopped, regardless of whether it would raise taxes.
- 3. The Boehner plan empowers the President to raise the debt ceiling automatically.** Under the Boehner plan, the President would be allowed to raise the debt limit by \$400 billion, as soon as the plan becomes law. This is a bad idea, and would set a troubling precedent. The idea, known as the McConnell-Reid automatic debt hike, is a politically motivated scheme to cede to the President the power to raise the debt ceiling automatically, if he sends the Congress a letter saying he needs the money. The goal is to fool the voters into thinking the President, not Congress, is responsible for future increases in the debt. Besides being too transparent to succeed as a political ploy, it's also constitutionally problematic. The Constitution gives Congress, and only Congress, the power to



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authorize borrowing on the credit of the United States. Congress cannot constitutionally delegate that power to the President. Before World War I, every new debt issue was authorized by a separate act of Congress. Since World War I, as a convenience, Congress has given the President a limited ability to borrow on his own initiative, up to a statutory level set in statute (the current limit is \$14.3 trillion).

Under the McConnell-Reid automatic debt hike proposal, the President could actually raise that limit on his own initiative, by sending a letter to Congress saying he needs the money. To be sure, Congress would still set a limit on how much he could borrow, but the scheme would make it possible for Congress to avoid having to vote on it, and in principle, Congress could set the limit so high that it would be tantamount to delegating its borrowing power to the Executive. We should not start down this path.

4. The CCB Act is the only plan that will avert a debt downgrade. Of all the plans being discussed – Boehner, Reid, Gang of Six, and CCB – only CCB would preserve our government triple-A credit rating. Of all the plans, only CCB actually deals with the national debt in a real way. Only CCB = AAA.

5. CCB is the only plan that stops the growth of our national debt. Unlike other plans, CCB meets the criteria set forth by Standard & Poor's, which is that the debt must be stabilized as a share of our economy. Right now, U.S. government publicly held debt equals about 69 percent of GDP. It is on a trajectory to hit 100 percent of GDP by the end of this decade – which would likely cause higher interest rates and produce a measurable drag on economic growth. (For reference, troubled Greece's debt-to-GDP ratio is 150%.) The way to stabilize debt accumulation is to keep your annual deficits lower than your annual GDP growth rate. GDP is currently growing at between 2 and 3 percent a year. Our deficit currently stands at a staggering 10 percent of GDP. CCB is the only plan that would reduce spending significantly, reducing outlays by \$111 billion in 2012 and about \$7.5 trillion over the decade. We will need at least that much in savings, to have any hope of balancing the budget within 10 years. If we only reduce spending by \$4 trillion, as President Obama and the Gang of Six have suggested, the debt-to-GDP ratio would slow down, halt, and begin to decline within the decade; but we would not balance the budget. Boehner's plan tries to save a mere \$2.8 trillion. And no plan can guarantee all its promised savings will actually materialize, unless we bind future Congresses with a constitutional amendment.

6. CCB is the only plan that actually tries to change the way Washington spends. CCB has three components: 1) Substantial first-year savings; 2) binding caps to move us toward balance; and 3) a strong Balanced Budget Amendment (BBA). The genius of CCB is that it links the debt ceiling hike to congressional approval of a strong BBA. No BBA, no debt hike. The lack of such linkage is a fatal flaw in all other plans, including the Boehner plan. Without a strong BBA to Bind future Congresses, there's no guarantee savings promised today will materialize tomorrow. By a strong BBA, we mean one that makes it much harder for Congress to borrow or to raise taxes or the national debt.

7. CCB is the only plan that has actually passed a House of Congress. H.R.2560 passed the House last week a comfortable, bipartisan majority of 234 to 190. Senator Harry Reid immediately moved to table it in the Senate, and succeeded, 51 to 46. Adding 234 to 46 gives you a "Gang of 280" legislators who have put a real plan before the American People. CCB is still "alive" from a parliamentary standpoint. But the Washington establishment is determined to dismiss and ignore CCB, calling it "dead." If CCB is "dead," so is the Boehner plan, since 53 Senate Democrats have sent Speaker Boehner a letter saying they will vote against it.



8. CCB is supported by 66% of voters. A recent poll showed Americans support the CCB concept by an overwhelming margin of 2 to 1. A similar margin opposes the McConnell-Reid automatic debt hike scheme, which is a part of the Boehner plan.

9. We have time to get this right. August 2nd isn't a real deadline. It's an artificial deadline created by the Obama Administration, in hopes of scaring Congress into giving him a big debt limit increase before the next round of the yearly budget fight begins. The U.S. Treasury has enough reserves that it should be able to go past August 2nd easily. A number of fiscal experts believe we can get to August 15th and possibly even into September without a debt limit increase, thanks to higher than expected revenues, plus certain reserves, including \$5 billion in cash at the Federal Reserve and about \$100 billion in mortgage-backed securities that the Treasury Secretary can sell. But even if Treasury does run out of cash by August 2, the U.S. will still be able to pay its creditors on time. The U.S. will not default under any circumstances. We will also be able to send checks to seniors, doctors, hospitals, veterans, and active-duty military. The math is simple. There will still be about \$170 billion to \$200 billion coming in each month. Paying creditors costs \$30 billion a month. Social Security checks total about \$50 billion. Doctors and hospitals, \$50 billion. Veterans, \$3 billion. Soldiers, \$3 billion. Those commitments add up to about \$136 billion a month. Because we currently spend about \$300 billion a month, when the cash runs out, we will have to pause some government functions as we negotiate a new fiscal arrangement – but the world will not end. Again, The US will not default in any scenario. Since we currently borrow about 43 cents of every dollar we spend, at the federal level, Uncle Sam will need to prioritize. The President will be the one to make the decisions. He can choose whether to send out Social Security checks, whether to pay our soldiers, whether to pay our creditors. He has pretty much complete discretion.

A downgrade of US treasuries from AAA to AA – which would be almost inevitable if the Boehner plan passes – would in theory cause the interest rates charged by creditors for buying them to go up. But experts on Wall Street aren't sure by how much rates would go up. Some think any rise in interest rates has already occurred, in anticipation of a failure to turn the government's fiscal ship around. Others think that the rise will be small, because AA is still a good crediting rating, all things considered. And some think the rise in interest rates will be significant – perhaps as much as 300 basis points, or 3%. That would put a real pinch on U.S. government finances, and would also eventually ripple out through the entire economy, causing everybody's borrowing costs to rise, not just the government's.

10. The CCB Act is the only plan that makes any political or policy sense at this point. Only CCB actually addresses the problem. Only CCB actually averts a downgrade. Only CCB has the support of two-thirds of the public. Only CCB has passed the House. CCB only needs 2 more votes in the Senate to have a majority there as well. The Democrats have essentially presented no plans. Republicans have already passed two (the Ryan Budget and CCB). Why are Republicans taking "No" for an answer from Harry Reid and President Obama?

This is no time to kick the can down the road. The big picture is this. This fight is not about raising the debt ceiling. It's about getting the debt under control. Which means getting Washington spending under control. The real threat our economy, our nation's credit rating, and the health of our financial markets is not a political failure to raise the debt ceiling – it's our massive national debt. Our federal government currently borrows 43 cents of every dollar it spends. We have doubled the size of our national debt in the past five years, and are on track to double it again in the next ten years. This has got to stop. Many



economists say we are within just a few years of a major debt crisis, akin to what's happening in Greece and elsewhere in Europe. But while Greece has Germany and France (and the U.S. taxpayer-funded IMF) to bail them out, who will bail out Uncle Sam?

We don't think Americans agree with the Washington establishment that "now is not a good time to get the spending under control – let's do it tomorrow." Folks, tomorrow is here!

Voters didn't sent 69 new members to Congress, committed to the fiscally conservative "Contract from America," just to keep kicking the can down the road. America cannot afford to put off addressing our financial mess any longer. Therefore, fiscal conservatives are right to hold their ground and demand real budget reforms.

Think of what's at stake. We must remain firm in our demands.

Will you stand with us?

