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The Stop Over-Spending Act: A Real Opportunity to Limit Spending

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The Stop Over-Spending (S.O.S.) Act, authored by Senate Budget Committee Chairman Judd Gregg (R-NH) and cosponsored by over a dozen senators, provides a strong blueprint for building a budget process that reflects America's budget priorities. The S.O.S. Act would create discretionary caps and temper exploding entitlement costs. It would create commissions to wrestle with unsustainable entitlement growth and government waste. The S.O.S. Act includes President Bush's line-item veto proposal, a switch to biennial budgeting, and several enforcement and rules improvements that would help Congress get a better handle on federal spending. This package of budget process reforms would help lawmakers pare back spending trends that would otherwise, within a decade, require tax increases of nearly $7,000 per household just to balance the budget.

Serious budget process reform is necessary. Federal spending has leaped 45 percent since 2001 to a peacetime record of $23,760 per household.[1] Even worse, the impending retirement of 77 million baby boomers threatens to push Social Security, Medicare, and Medicaid spending to levels that would require European-size tax increases or the elimination of all other government programs.[2] Yet it is nearly impossible for well-intentioned lawmakers to rein in runaway spending while still clinging to an outdated budget process that was created in 1974 to maximize spending and then subjected to more than 30 years of loopholes and abuse.

Key provisions of the Stop Over-Spending Act include:

- **Discretionary spending caps:** Spending caps successfully restrained discretionary spending from 1990 through 2002. Since these caps expired, discretionary spending has grown by nearly 9 percent annually (7 percent annually excluding defense). The S.O.S. Act would statutorily cap discretionary spending at $873 billion in fiscal year 2007 and then at levels providing 2.6 percent annual growth in 2008 and 2009. It would target emergency spending to drop from $90 billion in 2007 to $30 billion by 2009. Breaching these statutory caps would bring about an automatic, across-the-board sequestration of discretionary spending. Enforceable caps would help lawmakers set priorities and make trade-offs.
- **Automatic entitlement reconciliation:** The S.O.S. Act would set a budget deficit target of 2.75 percent of GDP in 2007, which would decline to 0.5 percent of GDP by 2012 and beyond. If the budget deficit appears headed to higher levels, that would trigger an "automatic spending reconciliation" process and the budget

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committees would assign reconciliation instructions to the authorizing committees to reduce entitlement spending to meet the target. If the necessary reconciliation reforms are not enacted, the Office of Management and Budget (OMB) would implement an across-the-board sequestration (excluding Social Security, net interest, and contractually-obligated payments) until the deficit target is reached.

One potential difficulty is that accurately estimating the budget deficit as a proportion of GDP (which requires estimating the GDP, tax levels, and spending levels) a year in advance may prove difficult. In addition, an economic downturn would raise the budget deficit as a percentage of GDP and thus require deeper reforms exactly when recession-weary lawmakers are most averse to them. One way to improve the bill would be to link entitlement reforms to a specific entitlement spending level or growth rate instead of to projected deficit ratios. Either way, forcing lawmakers to reform entitlement spending is vital to any credible spending reform plan.

- **A commission on entitlement solvency:** This legislation would create a commission empowered to present recommendations to bring Social Security and Medicare into long-term solvency. These recommendations would be introduced in Congress as legislation and receive expedited consideration to ensure a vote. It is important that such a commission be credibly bipartisan.
- **A Commission on the Accountability and Review of Federal Agencies (CARFA):** President Ronald Reagan once said that a government program is the closest thing to eternal life we will ever see. Outdated programs created decades ago to address problems that no longer exist still receive annual appropriations. Washington currently funds 342 economic development programs, 130 programs for the disabled, and 130 programs for at-risk youth, and yet Congress continues to layer new programs on top of existing ones. The S.O.S. Act includes Senator Sam Brownback's (R-KS) CARFA proposal to create an independent commission that presents Congress with a list of all duplicative, wasteful, outdated, and failed programs that should be eliminated. Like the commission formed to close military bases a decade ago, this proposal would require lawmakers to vote up or down on an entire package of program terminations, thus preventing Members from trying to preserve their own special-interest programs.
- **The line-item veto:** The S.O.S. Act includes President George W. Bush's line-item veto proposal that would require Congress to vote up or down on presidential rescission requests. This version answers many criticisms of the President's plan by limiting the President to four rescission packages per year, restricting any single line item to appearing in no more than two of those packages, and limiting to 45 days the length of time the President may delay a policy included in his rescission request. The line-item veto would provide another tool to rein in spending.
- **Biennial budgeting:** Lawmakers rarely finish all the budget bills by October 1, when the federal fiscal year begins. Biennial budgeting would free lawmakers to spend more time overseeing federal programs and reforming failed or unnecessary programs.
- **A Medicare trigger:** If, within the next seven years, 45 percent or more of Medicare spending is drawn from general revenues for two consecutive years, that would automatically trigger a new point of order against any entitlement expansions until the figure drops back below 45 percent. This provision would protect taxpayers from having to subsidize an increasing share of Medicare expenses beyond what payroll taxes and fees cover.

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1. Brian M. Riedl "Federal Spending: By the Numbers" Heritage Foundation *WebMemo* No. 989, February 6, 2006, at *www.heritage.org/Research/Budget/wm989.cfm.*
2. Brian Riedl, "Entitlement-Driven Long-Term Budget Substantially Worse Than Previously Projected," Heritage Foundation *Backgrounder* No. 1897, November 30, 2005, located at *www.heritage.org/Research/Budget/bg1897.cfm.*

Other budget reforms: One provision would limit the spending increases that could be inserted into reconciliation bills intended to reduce net spending. Another provision would divide budget resolution spending allocations by committee, rather than by function, because committees are where the initial spending reforms take place. And another provision requires that authorizing committees submit savings recommendations for the programs they oversee.

Conclusion. The easiest course for lawmakers would be to ignore current trends in federal spending, duck budget process reform, and continue with business as usual. This is exactly the shortsighted, irresponsible approach that created today's federal spending problem, and continuing it would guarantee a future of European-level government spending, crippling tax rates, and deteriorating economic performance. To avoid this, lawmakers must take responsibility for federal spending and make difficult but necessary decisions. The Stop Over-Spending Act is a strong blueprint for lawmakers ready to confront the greatest economic challenge of our era.

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