

# WebMemo



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## The Spending, Deficit, and Debt Control Act Would Help Congress Rein in Spending and Deficits

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As federal spending and budget deficits soar to percentages of the economy unseen since World War II, lawmakers must make spending restraint a top priority. This requires the political will to make difficult choices, as well as a budget framework that promotes responsible budgeting. Representatives Paul Ryan (R-WI) and Jeb Hensarling (R-TX) have authored the Spending, Deficit, and Debt Control Act to provide such a framework. This bill would:

- Create a process for bringing long-term sustainability to Social Security, Medicare, and Medicaid;
- Cap federal spending and require that Congress reduce the budget deficit;
- Give the budget resolution the force of law;
- Create commissions to reduce wasteful spending; and
- End government shutdowns.

**Failure of the Current Budget Process.** In using the current federal budget process, Congress is failing to meet its most basic obligations. While the responsibility rests with Congress, the process stifles debate and prevents cooperation instead of providing an orderly roadmap for Congress to determine responsible levels of annual spending and revenue. Created back in 1974, the current process has been subject to 35 years of abuse and loopholes from lawmakers hoping to exploit its structural flaws.<sup>1</sup>

The Pay-As-You-Go (PAYGO) rules currently serving as Congress's favored mechanism for fiscal

responsibility has failed. Although it is supposed to require that all spending increases and tax cuts be offset, it exempts all discretionary spending programs, as well as the automatic annual growth of current entitlement programs. For the limited portion of the federal budget constrained by PAYGO, Congress has voted to waive the law repeatedly, pushing up entitlement spending and budget deficits to historic levels.<sup>2</sup>

**A Budget Process to Match America's Budget Priorities.** A new, more disciplined budget process approach is needed. The Spending, Deficit, and Debt Control Act would provide annual caps on spending, help lawmakers control entitlement spending, and enforce budget restraint. Its five most important components include the following:<sup>3</sup>

1. *Addressing Long-Term Obligations.* Social Security and Medicare face a combined unfunded obligation of \$43 trillion over the next 75 years.<sup>4</sup> In the absence of reform, these costs would require more than doubling income tax rates.<sup>5</sup> Yet these programs are on autopilot, giving Congress and the President no obligation to confront these costs. When lawmakers do address entitlements, only the 10-year budget impact is calculated, even though

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reforms can have significant effects on spending outside the 10-year window.

The Spending, Deficit, and Debt Control Act would require an annual reporting of these long-term unfunded obligations and a new point of order against expanding those obligations. It would mandate 75-year budget projections and require that Congress put Social Security, Medicare, and Medicaid on a sustainable path. If these programs fall off the path, a fast-track legislative procedure is provided to bring them back onto that path. This would force Congress to confront the long-term unsustainability of these entitlements and prevent trillion-dollar debt from being dumped into the laps of future generations.

**2. Spending Caps.** Budgets are about setting priorities and making trade-offs. Yet political incentives favor funding more and more spending to win tough votes.

The Spending, Deficit, and Debt Control Act would bring back the discretionary spending caps that successfully restrained discretionary spending while in effect from 1990 through 2002. This spending could only grow with the inflation rate for the next decade—which is nearly identical to the 2011–2019 discretionary spending growth rates in President Obama’s budget. The bill’s use of supermajority enforcement and discouragement of the “emergency” loophole improve on previous spending caps.

It would also require that new entitlement spending expansions be offset with entitlement reductions elsewhere—a much-needed tool given the large recent entitlement expansions for farm subsidies, veterans’ health care, the State Children’s Health Insurance Program, and the stimulus. Spending limits would enable lawmakers to finally say no to special interests pressing them for more spending.

Finally, the act would cap federal spending at 20 percent of gross domestic product (GDP) and provide annual benchmarks to reduce the budget deficit. Since World War II, federal spending has averaged 20 percent of GDP, with budget deficits around 2 percent of GDP. But President Obama’s budget agenda threatens to push federal spending above 28 percent of GDP by 2019.<sup>6</sup> With deficits already nearly 10 percent of GDP, it is vital to provide a path to fiscal responsibility.

**3. Giving the Budget Resolution the Force of Law.** Because concurrent budget resolutions do not carry the force of law, appropriators can easily bypass them. Concurrent budget resolutions also do not involve the President, which means Congress and the White House are not required to begin any broad budget negotiations until the end of the year, when the appropriations bills reach the President’s desk.

The Spending, Deficit, and Debt Control Act would move from a concurrent budget resolution (that does not involve the President) to a joint budget resolution (which would be signed into

1. Brian Riedl, “What’s Wrong with the Federal Budget Process,” Heritage Foundation *Backgrounder* No. 1816, January 25, 2005, at <http://www.heritage.org/Research/Budget/bg1816.cfm>.
2. Brian Riedl, “Obama’s PAYGO Law Would Not Slow Spending or Budget Deficits,” Heritage Foundation *WebMemo* No. 2312, February 26, 2009, at <http://www.heritage.org/Research/Budget/wm2312.cfm>.
3. Based on a summary of the legislation. Statutory language not yet available.
4. Over an infinite time horizon, the net present of the unfunded obligation is \$104 trillion. See Social Security Administration, “The 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance,” May 12, 2009, p. 13, at <http://www.ssa.gov/OACT/TR/2009/tr09.pdf> (October 29, 2009); U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, “2009 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds,” May 12, 2009, at <http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2009.pdf> (October 29, 2009).
5. Congressional Budget Office, “The Long-Term Economic Effects of Some Alternative Budget Policies,” May 19, 2008, at [http://www.cbo.gov/ftpdocs/92xx/doc9216/05-19-LongtermBudget\\_Letter-to-Ryan.pdf](http://www.cbo.gov/ftpdocs/92xx/doc9216/05-19-LongtermBudget_Letter-to-Ryan.pdf) (October 29, 2009).
6. Brian Riedl, “President Obama’s Agenda Would Bring \$13 Trillion in Budget Deficits, Not \$9 Trillion,” Heritage Foundation *Backgrounder* No. 2319, September 22, 2009, at <http://www.heritage.org/Research/Budget/bg2319.cfm>.

law by the President). By working out the differences early in the process and enacting a binding law, the President and Congress would be forced to resolve the broad issues regarding the appropriate level of total spending and revenue. This, in turn, would limit the appropriations debate to the composition of federal spending, and any disagreements in this area would be far easier to work out with the spending totals already in place. It would also make it more difficult for lawmakers to spend above the levels in the budget resolution.

Some critics contend that giving the President a role in the budget resolution unfairly transfers power from Congress to the President. However, Congress's budget cannot be enacted until the President approves it. This reform would simply move up the inevitable negotiations and provide an opportunity to settle contentious issues earlier rather than later.

**4. Removing Wasteful Spending.** The act would create a commission to eliminate waste, fraud, and abuse and a commission to recommend sunsetting outdated and unnecessary federal programs. These commissions could address wasteful spending such as:

- \$92 billion annually on corporate welfare (not even counting TARP) versus \$71 billion on homeland security;
- \$72 billion in improper payments in 2008;
- \$25 billion annually maintaining unused or vacant federal properties;
- \$123 billion annually on the 22 percent of all federal programs from which government auditors cannot identify any positive impact;
- \$100 billion in potential spending cuts identified by the Congressional Budget Office's "Budget Options" series; and
- Duplication such as 342 economic development programs, 130 programs serving the disabled, 130 programs serving at-risk youth, and 90 early childhood development programs.<sup>7</sup>

For these commissions to be effective, their recommendations must be automatically converted into legislation that would be guaranteed an up-or-down congressional vote without a chance for lawmakers to amend out the savings. Otherwise, the commissions would risk producing just another government waste report that goes ignored by Congress.

**5. Government Shutdown Prevention.** Members of Congress have proven increasingly incapable of finishing appropriations bills by the start of the new fiscal year (October 1). Not since FY 1997 have the bills been enacted on time, and this year only one of the 12 spending bills was completed by October 1. The Spending, Deficit, and Debt Control Act would create an automatic continuing resolution that funds federal programs at the previous year's level until appropriations are enacted. This would reduce uncertainty and the risk of a government shutdown when lawmakers fall behind on spending bills.

The bill also includes:

- An earmark moratorium;
- Legislative line-item veto;
- Repeal of the "Gephardt Rule"; and
- Limits on reconciliation bills creating new entitlement programs.

**Improving the Act.** The act has some minor weaknesses. Enforcing spending caps by requiring automatic spending cuts ("sequestrations") from overspending is sound, although capping sequestrations at 1 percent of spending effectively protects larger spending overages from this important enforcement mechanism. Baseline reforms should focus on fixing the inequity between the tax baseline (current policy) and entitlement spending baseline (current law), which unfairly assumes that expiring tax cuts will expire but expiring entitlement program authorizations will be renewed. These weaknesses should be relatively easy to address.

**A Broken System.** The current budget process was created in 1974 and has been subject to 35 years of abuse and loopholes. It has proven wholly

7. Brian Riedl, "50 Examples of Government Waste," Heritage Foundation *WebMemo* No. 2642, October 6, 2009, at <http://www.heritage.org/Research/Budget/wm2642.cfm>.

unsuited to help lawmakers address the surging spending and budget deficits that place the entire United States economy at risk. The principles contained in the Spending, Deficit, and Debt Control Act would modernize the federal budget process and help lawmakers make the difficult but neces-

sary choices to reverse the unsustainable budget trends.

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