Backgrounder

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Don't Raise the Debt Limit Without Getting Spending Under Control

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Abstract: *Federal spending and federal borrowing have been out of control for decades as America has amassed a giant, unaffordable debt and a giant, intrusive government. This did not happen by accident. Congress passed all the laws that made it happen. Fortunately, Congress has under the Constitution all the power it needs to solve the problem it created. As federal borrowing approaches the current debt limit of $14.294 trillion, Congress must accomplish three things to put the United States on a path to financial responsibility: (1) cut current spending, (2) restrict future spending, and (3) fix the budget process.*

Debt financed our country's freedom; debt now shackles us. Regrettably, Congress has exercised its control of borrowing to mire the American people in trillions of dollars of debt. The U.S. Secretary of the Treasury has reported to Congress that the government soon will reach the current statutory debt limit of $14.294 trillion and has asked Congress to raise the debt limit so the government can borrow more money.

Congress should not authorize the government to borrow any more money to pay the government's bills coming due without first setting the government firmly on the path to financial responsibility. When Congress considers legislation on the debt limit in the coming months, it should cut current spending, restrict future spending, and put a more effective federal budgeting process in place.

Talking Points

- As federal borrowing approaches the current debt limit of $14.294 trillion, the House and Senate must accomplish three things to put the country on a path to financial responsibility: cut current spending, restrict future spending, and fix the budget process.
- Congress should measure ideas for budget process reform against a key standard: whether they achieve substantial and enduring cuts in federal spending. If the process does not drive down federal spending and borrowing, it is not a success.
- The least acceptable outcome is for Congress to continue to raise the debt ceiling over and over, doing nothing to drive down federal spending and borrowing, and to pile trillions of dollars in debt upon the shoulders of America's children and future generations.

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Responsibility for the Debt Lies with Congress

The national debt is as old as America. When the Revolution ended, America had its independence and a national debt. Congress bore a debt of $54 million, and the states had debts of $25 million.[1] The country's civilian and military leadership during the Revolutionary War understood well that the ability of the government to borrow, from domestic lenders and from foreign governments and financiers with interests contrary to the British, was crucial to the survival and eventual victory of the revolutionary army.[2]

The Continental Congress, and later the Congress under the Articles of Confederation adopted in 1781, lacked the power to enforce requisitions upon the states for funds, and America therefore lacked sufficient funds with which to run a government and pay its debts. In his final communication to the governors of the states as commander in chief of the army of the United States, George Washington emphasized the importance of honoring the national debt.[3] The national government failed a number of times in the 1780s to make payments on the principal and interest it owed to lenders,[4] as did the states.[5]

The Framers fixed responsibility for the national debt squarely on a single institution: the Congress of the United States.

When the Constitutional Convention met in Philadelphia in May 1787, the delegates who attended were well aware of the problems of the national debt, the state debts, and the poor financial reputation of the government.[6] The Framers of the Constitution sought to reassure lenders that, even though it might change its form of government, the United States would honor its debt. Article VI of the Constitution states that "[a]ll Debts contracted and Engagements entered into, before the Adoption of this Constitution, shall be valid against the United States under this Constitution, as under the Confederation…."

1. Ron Chernow, *Washington: A Life* (New York: The Penguin Press, 2010), p. 620.
2. For example, the fledgling American Congress created in 1776 a Continental Loan Office to offer for public sale $5 million in loan certificates at 4 percent interest, raised that interest rate to 6 percent in 1777, and obtained a loan from France in 1777, when the revolutionary army was in dire straits. Charles Rappleye, *Robert Morris: Financier of the Revolution* (New York: Simon and Schuster, 2010), pp. 109–110.
3. Circular Letter from George Washington to the State Governors (Headquarters, Newburgh, New York, June 18, 1783) ("The ability of the country to discharge the debts, which have been incurred in its defence, is not to be doubted: An inclination, I flatter myself, will not be wanting; the path of our duty is plain before us: Honesty will be found, on every experiment, to be the best and only true policy. Let us then, as a nation, be just; let us fulfil the public contracts which Congress had undoubtedly a right to make for the purpose of carrying on the war, with the same good faith we suppose ourselves bound to perform our private engagements.").
4. Robert Middlekauff, *The Glorious Cause: The American Revolution, 1763–1789* (New York: Oxford University Press, 1982), pp. 595–596.
5. Catherine Drinker Bowen, *Miracle at Philadelphia* (Boston: Little, Brown and Company, 1966), p. 134.
6. James Madison, *Notes of Debates in the Federal Convention of 1787* (New York: W. W. Norton and Co., 1987). The Constitutional Convention of 1787 discussed the national debt on June 20 (remarks of Mr. Sherman of Connecticut), p. 160; July 14 (remarks of Mr. King of Massachusetts), p. 292; August 18 (remarks of Mr. Rutledge of South Carolina, Col. Mason of Virginia, Mr. Sherman of Connecticut, Mr. Ellsworth of Connecticut, Mr. C. C. Pinckney of South Carolina, and Mr. King of Massachusetts), pp. 479–480; August 21 (remarks of Mr. Gerry of Massachusetts), p. 495; August 22 (remarks of Mr. Ellsworth of Connecticut, Mr. Randolph of Virginia, Mr. Madison of Virginia, Mr. Gerry of Massachusetts, and Mr. G. Morris of Pennsylvania), pp. 511–512; August 23 (adoption of a debt provision and remarks of Mr. Butler of South Carolina), p. 519; August 24 (remarks of Mr. Butler of South Carolina and Mr. Randolph of Virginia), p. 522; and August 25 (on reconsideration of the debt provision and adoption of a provision to reaffirm prior debt, remarks of Col. Mason of Virginia, Mr. Langdon of New Hampshire, Mr. Gerry of Massachusetts, Mr. Butler of South Carolina, Mr. Randolph of Virginia, Dr. Johnson of Connecticut, Mr. G. Morris of Pennsylvania, and Mr. Sherman of Connecticut), pp. 528–530.

The Framers included in the Constitution several other provisions that fixed responsibility for the national debt squarely on a single institution: the Congress of the United States. Article I of the Constitution provides that "[t]he Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts…of the United States" and "[t]o borrow Money on the credit of the United States." Further, Article I provides that "[n]o Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law…."

When Congress wants to know what institution of the federal government is responsible for the massive burden of debt imposed on the American people, it has only to look in the mirror.

These legislative powers fix upon Congress the responsibility for the national debt. Under our Constitution, Congress controls by law, directly or by delegation of authority that it can limit or withdraw, whether the United States will have a national debt, what amount it will be, the terms and conditions of the debt, and how and when it will be paid.

Shortly after the Constitution took effect, the First Congress dealt with the national debt. In the Act of August 4, 1790, Congress noted that "justice and the support of public credit require, that provision should be made for fulfilling the engagements of the United States, in respect to their foreign debt, and for funding their domestic debt upon equitable and satisfactory terms." The Act provided for the federal government, in addition to managing its own war debt, to assume the war debts of the states. To manage the debt, the First Congress started by adopting what appears to be a spending cap on government expenditures ($600,000 as a maximum to cover both military and civil expenditures), with the remainder of specified revenue dedicated to paying interest on and retiring debt.[7]

Congress Let Debt Get Out of Control

To spend more money than you have, you borrow, creating debt. Congress has grossly overspent beyond its means, creating a huge national debt. When Congress wants to know what institution of the federal government is responsible for the massive burden of debt imposed on the American people, it has only to look in the mirror.

From a debt of $79 million when the Revolutionary War ended, the United States has racked up a debt of nearly $14.294 trillion.[8] The value of the total output of goods and services produced by labor and property in the U.S. (gross domestic product, or GDP) in 2010 was $14.6 trillion.[9]

7. Act of August 4, 1790, sec. 1 ("…reserving out of the monies which have arisen since the last day of December last past, and which shall hereafter arise from the duties on goods, wares and merchandise imported into the United States, and on the tonnage of ships or vessels, the yearly sum of six hundred thousand dollars, or so much thereof as may be appropriated from time to time, towards the support of the government of the United States, and their common defence, the residue of the said monies, or so much thereof, as may be necessary, as the same shall be received in each year, next after the sum reserved as aforesaid, shall be, and is hereby appropriated to the payment of the interest which shall from time to time become due on the loans heretofore made by the United States in foreign countries; and also to the payment of interest on such further loans as may be obtained for discharging the arrears of interest thereupon, and the whole or any part of the principal thereof; to continue so appropriated until the said loans, as well as those already made as those which may be made in virtue of this act, shall be fully satisfied, pursuant to the contracts relating to the same, any law to the contrary notwithstanding….").
8. Section 3101 of title 31, United States Code (public debt limit is $14.294 trillion); Letter from Secretary of the Treasury Timothy F. Geithner to Senate Majority Leader Harry Reid (April 4, 2011)("The Treasury Department now projects that the debt limit will be reached no later than May 16, 2011…. If the debt limit is not increased by May 16, the Treasury Department has authority to take certain extraordinary measures…to temporarily postpone the date that the United States would otherwise default on its obligations…. [N]o headroom to borrow within the limit would be available after about July 8, 2011.").
9. U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product: Fourth Quarter and Annual 2010 (Third Estimate)," BEA News Release 11-13, March 25, 2011, Table 3.

- To illustrate on an aggregate basis, it would take essentially everything that Americans produced in all of last year to pay off the existing national debt of $14.294 trillion.
- To illustrate on an individual basis, the debt when the American Revolution ended was about $34 per American, which in today's, inflation-adjusted dollars would be about $653 per American.[10] Today's debt per American is nearly 68 times that size, or about $45,000 per American.

The United States has pledged the faith of its government to pay in legal tender its public debt.[11] No one wants the United States to default on its debt. Paying America's debt when due is a legal obligation, a moral obligation, and—if the government is to continue to be creditworthy—a practical necessity.

Congress should proceed with an orderly change of course in federal spending—taking action to cut current spending, restrict future spending, and improve federal budgeting—at the same time it addresses the debt limit.

But default on the debt does not occur when government borrowing reaches the debt limit. When the government reaches the debt limit and cannot borrow more money to pay its bills coming due, it must, as a practical matter in the absence of guidance set by law, establish priorities in paying the bills.[12] The government can assign high priority to using revenue to pay principal and interest on debt coming due, thus avoiding default on the public debt.[13] The Treasury would then set priorities among the government's non-debt obligations and stretch what remains, in the flow of revenues into the Treasury, to pay those obligations insofar as possible.

Plainly, the nation faces an ugly financial situation when the Treasury Department exhausts all of its financial tools for keeping the government under the statutory debt limit. While the Treasury Department can avoid any default on the public debt, its inability to borrow will force it to triage among the government's non-debt obligations, deciding what gets paid and what gets put off.

Congress could force a change of course in federal spending by simply refusing to raise the debt limit and putting the Treasury Department to the task of managing the subsequent funds shortage—at least unless and until public uproar forces Congress to reconsider. Instead, Congress should proceed with an orderly change of course in federal spending—taking action to cut current spending, restrict future spending, and improve federal budgeting—at the same time it addresses the debt limit.

Failing to Control the Spending that Causes Debt, Congress Has Raised the Debt Limit Regularly

Early in the past century, as the U.S. fought in World War I, Congress enacted the first aggregate public debt limit, on federal bonds. Throughout the 20th century and into the present century, Congress has from time to time raised the debt limit and also has authorized the government temporarily to exceed the debt limit. A review of the changes in the debt limit in the past century shows the extraordinary growth of U.S. government debt.[14]

In section 1 of the Act of September 24, 1917, commonly called the Second Liberty Bond Act to

10. Robert C. Sahr, "Consumer Price Index Conversion Factors 1774 to Estimated 2020 to Convert to Dollars of 2009" (Oregon State University, rev. 9/30/2010)(for conversion of 1781 dollar to 2009 dollar); Infobase Publishing, *The World Almanac* (2010), p. 614 (citing U.S. Census Bureau population estimate for United States in 1780 of 2,280,400).
11. Section 3123(a) of title 31, United States Code.
12. See D. Andrew Austin and Mindy R. Levit, "The Debt Limit: History and Recent Increases," Congressional Research Service *Report for Congress* RL 31967, January 6, 2011, p. 2.
13. See J. D. Foster, Ph.D., "Congress Has Time and Options on Debt Limit," Heritage Foundation *Backgrounder* No. 2511, January 27, 2011, pp. 4–6. Senator Pat Toomey (R–PA) has introduced legislation (S. 163, 112th Congress) to emphasize that the government will give top priority to paying the principal and interest on debt coming due so that no default on debt occurs.

help fund U.S. participation in World War I, Congress provided that:

> [T]he Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, not exceeding in the aggregate $7,538,945,460, and to issue therefor bonds of the United States….

In that Act and acts in succeeding years, through the Great Depression and the New Deal, Congress established limits on other instruments of indebtedness, such as Treasury certificates of indebtedness and Treasury bills, and Congress thereafter periodically raised the limits.[15] In the last debt limit hike before U.S. entry into the Second World War, by Act of February 19, 1941, known as the Public Debt Act of 1941, Congress repealed the various separate debt limits on different types of Treasury debt instruments and enacted a single limit on all types of debt obligations, setting the aggregate debt limit at $65 billion.

Fifteen weeks after the Japanese attacks on the U.S. territories of Hawaii, Guam, Wake Island, and the Philippines, Congress doubled the debt limit, raising it to $125 billion by Act of March 28, 1942. The following year, by Act of April 11, 1943, Congress nearly doubled the limit again, to $210 billion.[16] Three days after the Allied Expeditionary Force crossed the beaches of Normandy to begin the liberation of Europe from Nazi occupation, Congress raised the debt limit to $260 billion by the Act of June 9, 1944, known as the Public Debt Act of 1944. Just five days before the final surrender of German forces, Congress raised the public debt limit to $300 billion by Act of April 3, 1945.

The modern era of the debt limit began when the Act of June 30, 1967, raised the debt limit to $358 billion and provided for an automatic annual increase in the debt limit of $7 billion.

Following the Japanese surrender on September 2, 1945, and as demobilization of U.S. forces proceeded apace, Congress took up the debt limit again—to cut it to $275 billion by Act of June 26, 1946, known as the Public Debt Act of 1946. From 1954 to 1958, Congress left the debt limit of $275 billion in place but several times enacted legislation that temporarily authorized the government to borrow money in excess of the debt limit. Finally, by Act of September 2, 1958, Congress raised the debt limit to $283 billion.

Less than a year later, Congress increased the debt limit to $285 billion by the Act of June 30, 1959, known as the Public Debt Act of 1959. Congress continued regularly to enact legislation to authorize the government temporarily to exceed the debt limit by increasing amounts.

The modern era of the debt limit began when the Act of June 30, 1967, raised the debt limit to

14. For a complete list of every statutory adjustment, both permanent and temporary, to the federal debt limit since 1940, see Table 7.3 of the *Historical Tables* volume of the President's Budget Submission for Fiscal Year 2012, available at *http://www.whitehouse.gov/omb/budget/Historicals/*. For a summary of congressional actions on the public debt from 1789 through 2005, see Anita S. Krishnakumar, "In Defense of the Debt Limit Statute," *Harvard Journal on Legislation*, Vol. 42 (Winter 2005), p. 140.

15. See Act of February 4, 1935 (setting limit on Treasury certificates of indebtedness and Treasury bills); Act of May 26, 1938 (setting limit of $45 billion in aggregate public debt, of which not to exceed $30 billion may be bonds); Act of July 20, 1939 (repealing limit of $30 billion on bonds but leaving in place $45 billion limit on public debt); and Act of June 25, 1940 (Revenue Act of 1940)(keeping the debt limit at $45 billion but authorizing a special national defense series of obligations with a separate debt limit of not to exceed $4 billion).

16. The Act of April 11, 1943, was one of those relatively rare Acts that became law without the signature of a President. The legislation was presented to the President on March 30, 1943, but he neither signed it nor returned it with objections to the sitting House of Congress that originated it, so it became law without his signature under section 7 of Article I of the Constitution.

$358 billion and provided for an automatic annual increase in the debt limit of $7 billion. Two years later, by Act of April 7, 1969, Congress raised the debt limit from $358 billion to $365 billion, authorized exceeding that debt limit by $12 billion for 15 months, and repealed the automatic annual escalation in the size of the debt limit.

By Act of June 30, 1970, Congress raised the debt limit to $380 billion, with authority to exceed that limit for one year by the amount of $15 billion. By Act of March 17, 1971, Congress raised the debt limit to $400 billion, with authority to exceed the limit by $30 billion for one year. Mid-decade, Congress passed the Act of July 12, 1974, known as the Congressional Budget and Impoundment Control Act of 1974, to establish a congressional budget process. Throughout the decade, Congress continued to regularly enact legislation to provide temporary authority to exceed the debt limit by increasing amounts.

By Act of April 2, 1979, Congress left the debt limit at $400 billion but authorized exceeding the limit for six months by $430 billion. Presumably in an effort to portray itself as serious about controlling spending in the future, Congress gave itself a command in section 5 of the Act: "Congress shall balance the Federal budget." Congress also included in the Act the small steps of directing the congressional budget committees to report balanced budgets for the next fiscal year and purporting to require the President, if he submitted a budget for the next fiscal year with a deficit, to submit also alternative budget proposals that have no deficit. Congress continued to regularly enact legislation to provide temporary authority to exceed the debt limit by increasing amounts.

With the Act of September 29, 1979, Congress added a novelty to debt limit history: the self-passing resolution to raise the debt limit. The first title of the Act left the debt limit at $400 billion but authorized temporarily exceeding that amount for eight months by $479 billion. Title II of the Act (also called the Gephardt Rule) provided that, if both houses of Congress passed a concurrent resolution on the budget setting forth a level for the public debt that differed from the statutory debt limit, the Enrolling Clerk of the House of Representatives shall automatically engross a joint resolution increasing the statutory debt limit to accommodate the concurrent resolution debt amount for the period covered by the concurrent resolution, and the Clerk of the House shall transmit the joint resolution to the Senate as an act passed by the House of Representatives.

By that procedure, the House of Representatives in the future would be deemed to have passed a joint resolution increasing the statutory debt limit, by whatever amount a concurrent resolution on the budget (in years when Congress passed one) required, without House members actually having to cast a vote to increase the debt limit. The House repealed the rule in January 2011.[17]

Federal spending has been out of control for decades, and federal borrowing has therefore also been out of control for decades.

The Act of September 13, 1982, codified as section 3101 of title 31, United States Code, the then-existing statutory debt limit of $400 billion (subject, of course, to the ever-growing temporary authorizations to exceed the limit), which previously had been part of the Second Liberty Bond Act. By Act of May 26, 1983, Congress dispensed with the "temporary" authorizations to exceed the debt limit and raised the statutory debt limit to $1.389 trillion. Later that same year, by Act of November 21, 1983, Congress raised the debt limit again, retroactive to October 1, 1983, to $1.490 trillion.

The increases in the statutory debt limit became a steady drumbeat, beginning with three hikes in

17. The House abolished the rule providing for automatic engrossment of a debt limit joint resolution when it adopted the Rules of the House of Representatives for the 112th Congress. See section 2(d)(2) of H. Res. 5 (112th Congress). Because the provision in the Act of September 29, 1979, concerning automatic engrossment and transmittal of a joint resolution raising the debt limit affected only procedure in the House, the House could supersede the provision by exercising through H. Res. 5 its power under section 5 of article I of the Constitution, which states that "[e]ach House may determine the Rules of its Proceedings."

1984 alone. By Act of May 25, 1984, Congress raised the debt limit to $1.520 trillion. Just six weeks later, by Act of July 6, 1984, Congress raised the debt limit to $1.573 trillion. Just a few months later, by Act of October 13, 1984, Congress raised the debt limit, retroactive to October 1, 1984, to $1.823 trillion. In 1985, Congress reverted to the practice of passing laws that authorized temporarily exceeding the debt ceiling.

By Act of December 12, 1985, Title II of which was known as the Balanced Budget and Emergency Deficit Control Act of 1985 (also called the Gramm–Rudman–Hollings Act), Congress increased the debt limit to $2.078 trillion. The Act included provisions that required automatic across-the-board reductions (called "sequestration") in federal appropriations accounts if the federal deficit reached a certain amount.

By Act of August 21, 1986, Congress raised the debt limit to $2.111 trillion. Congress passed several statutes authorizing the government temporarily to exceed the debt limit during 1987. Then, by Act of September 29, 1987, Congress raised the debt limit to $2.8 trillion. The Act also required the Directors of the Office of Management and Budget and the Congressional Budget Office to estimate revenue and outlay levels annually, required the appropriate congressional committees to develop a plan to experiment with two-year rather than single-year appropriations for selected agencies and accounts, and expressed the sense of Congress that Congress should identify problems and develop recommendations to improve government financial management systems. The mechanism of temporary authority to exceed the debt limit returned with the Act of August 7, 1989, which authorized for three months exceeding the statutory debt limit by $70 billion.

By Act of November 8, 1989, Congress raised the debt limit to $3.122 trillion. Congress passed six Acts during 1990 to authorize the government to exceed the debt limit temporarily. By section 11901 of the Act of November 5, 1990, a 630-page law known as the Omnibus Budget Reconciliation Act of 1990, Congress increased the debt limit to $4.145 trillion. The Act also contained the Budget Enforcement Act of 1990. The House–Senate conference statement of managers on the legislation explained the budget enforcement provisions as follows:

Relief from the debt limit makes sense only if that relief is an integral part of a plan to drive down spending and borrowing so that the country lives within its means.

> The conference agreement adds new enforcement mechanisms for discretionary spending entitlements, and receipts to preserve the deficit reduction achieved by this Act over the next five years. The conference agreement adds a pay-as-you-go mechanism to ensure that any new entitlement or receipt legislation will not increase the deficit. The conference agreement also sets forth limits (caps) on discretionary spending provided in the annual appropriations process for each of fiscal years 1991 through 1995, and enforces these through a mechanism to require across-the-board cuts within any category to make up for any overages. To enforce deficit targets in fiscal years 1994 and 1995, the conference agreement extends the existing Gramm–Rudman–Hollings mechanism through fiscal year 1995, but with new procedures to allow adjustment for revised economic and technical estimates, in 1994 and 1995 at the President's option.[18]

In 1993, Congress authorized temporarily exceeding the debt limit and then raised the limit. By section 13411 of the Act of August 10, 1993, a 373-page law known as the Omnibus Budget Reconciliation Act of 1993, Congress raised the debt limit to $4.9 trillion. The Act also contained minor budget process provisions.

By Act of March 29, 1996, known as the Contract with America Advancement Act, Congress raised the debt limit to $5.5 trillion. The Act also included provisions for expedited congressional consideration of resolutions to disapprove agency regulations, greater consideration of small-business

18. *Report of the Committee of Conference to Accompany H.R. 5835*, H. Rept. 101-964, Statement of Managers, Title XIII, *Congressional Record*, October 26, 1990, p. H12743.

concerns in the agency rulemaking process, and an increase in the Social Security earnings limit for the benefit of senior Americans.

By section 5701 of the Act of August 5, 1997, a 536-page law known as the Balanced Budget Act of 1997, Congress raised the public debt limit to $5.95 trillion. The Act also included budget enforcement and process provisions.

The upward march of the debt limit continued.

- By Act of June 28, 2002, Congress raised the debt limit to $6.4 trillion.
- By Act of May 27, 2003, Congress raised the debt limit to $7.384 trillion.
- By Act of November 19, 2004, Congress raised the debt limit to $8.184 trillion.
- By Act of March 20, 2006, Congress raised the debt limit to $8.965 trillion.
- By Act of September 29, 2007, Congress raised the debt limit to $9.815 trillion.
- By section 3083 of the Act of July 30, 2008, a 259-page law known as the Housing and Economic Recovery Act of 2008, Congress raised the debt limit to $10.615 trillion.
- By section 122 of the Act of October 3, 2008, a 168-page law known as the Emergency Economic Stabilization Act of 2008, Congress raised the debt limit to $11.315 trillion.
- By section 1604 of the Act of February 17, 2009, a 406-page law known as the American Recovery and Reinvestment Act of 2009, Congress raised the debt limit to $12.104 trillion.
- By Act of December 28, 2009, Congress raised the debt limit to $12.394 trillion.
- Finally, by Act of February 12, 2010, Congress raised the debt limit to its current amount of $14.294 trillion. The Act included some budget process reforms.

Federal spending has been out of control for decades, and federal borrowing has therefore also been out of control for decades. America has amassed a giant, unaffordable debt and a giant, intrusive government. This did not happen by accident. Congress passed all the laws that made it happen. Fortunately, Congress has under the Constitution all the power it needs to solve the problem it created. It needs only the will to do so and the support of the American people.

Cut Current Spending, Restrict Future Spending, and Fix the Budget Process

As federal borrowing approaches the current debt limit of $14.294 trillion, the Speaker and the Minority Leader of the House of Representatives and the Majority and Minority Leaders of the Senate, supported by strong majorities in the House and Senate, must reach agreement to accomplish three things to put the country on a path to financial responsibility: (1) cut current spending, (2) restrict future spending, and (3) fix the budget process.

Relief from the debt limit makes sense only if that relief is an integral part of a plan to drive down spending and borrowing so that the country lives within its means. Although Congress must make substantial cuts in current and future spending, the cuts should come in non-security spending, as the United States needs to fully fund defense of America and its interests around the globe.[19]

Cutting Current Spending

To cut current spending, Congress has a wide array of choices. In October 2010, The Heritage Foundation set forth $343 billion of potential spending cuts, most of which Congress has not yet made.[20] Also, the House of Representatives passed H.R. 1 on February 19, 2011, containing many cuts in spending that have not yet been enacted. Other potential cuts in current spending include the appropriations contained in the Patient Protec-

19. James Jay Carafano, Ph.D., Mackenzie Eaglen, and Baker Spring, "How to Field the Right Military Force to Protect America," Heritage Foundation *WebMemo* No. 3196, March 17, 2011 ("To provide for the requirements of a fully funded force structure grounded in strategic requirements, the core defense budget [separate from overseas contingency operations funding] would need to average about $720 billion from fiscal years (FY) 2012 through 2016.").

20. Brian M. Riedl, "How to Cut $343 Billion from the Federal Budget," Heritage Foundation *Backgrounder* No. 2483, October 28, 2010.

tion and Affordable Care Act (Public Law 111-148, as amended), which the House of Representatives voted to repeal on January 19, 2011.

In making cuts in current spending, Congress should emphasize cuts in continuing programs because, given the budget practices of government that look to existing budgets as baselines for setting future budgets, the current cuts likely will result in related reductions in future spending.

Restricting Future Spending

Congress has many options available to restrict future spending. Congress can impose enforceable caps[21] on the amount of federal spending in various categories, especially including the out-of-control entitlement programs, and pass and send to the states for ratification a carefully crafted amendment to the Constitution that requires the government to balance the budget.[22] The Balanced Budget Amendment, when ratified by three-fourths of the States, will restrain federal spending, but that ratification will take time, and deep spending cuts must begin now and continue each year while the nation awaits ratification.

In designing effective statutory restrictions on future spending, Congress should seek to reduce spending, with a reasonable transition period, to not more than the modern historical level of federal revenues—in short, drive spending down to no more than the historical level of incoming revenue so as to cut deficits over time and stop increasing the debt. [23]

Congress already has a number of useful budget proposals available to serve as a foundation upon which to base further actions necessary to cut future spending. On April 15, 2011, the House of Representatives passed House Concurrent Resolution 34 of the 112th Congress to establish a federal budget for 2012 and budgetary levels through fiscal year 2021.[24] The House Republican Study Commit-

21. Enforceability of caps consists of internal procedures within the House and the Senate that require appropriations bills to remain with the caps and statutory procedures for automatically reducing spending if Congress enacts appropriations laws that exceed the caps. On February 1, 2011, Senator Bob Corker (R–TN) introduced, and Senator Claire McCaskill (D–MO) and others cosponsored, S. 245, the Commitment to American Prosperity Act of 2011 (also called the "CAP Act of 2011"). The bill would establish a cap on federal outlays as a percentage of gross domestic product, enforced internally by prohibiting either house of Congress from considering legislation that would cause outlays to exceed that cap unless two-thirds of the Members present vote to consider it, and enforced externally by automatic spending cuts ("sequestration") to address any overspending. The approach to caps in S. 245 is a useful contribution to the discussion on restricting future spending, although the bill does not ensure full funding for defense to protect America and its interests around the globe and careful review is necessary to determine whether the bill's GDP percentage target and methods for its calculation lead eventually to a balanced budget at no more than the modern historical average revenue level.

22. David S. Addington and J. D. Foster, Ph.D., "Balanced Budget Amendment: Cut Spending Later, Cut Spending Now," Heritage Foundation *WebMemo* No. 3208, March 31, 2011.

23. The modern historical average (1946–2010) level of federal revenues is approximately 18 percent of U.S. gross domestic product, calculated from data in Table 1.3 of the *Historical Tables* volume of the President's Budget Submission for Fiscal Year 2012, available at *http://www.whitehouse.gov/omb/budget/Historicals/*. Within a plan for restraining future spending, Congress may also wish to follow the precedent of the First Congress and dedicate a specific source of existing revenues to begin reducing the public debt.

24. See Alison Acosta Fraser, "Morning Bell: Chairman Ryan's Budget Resolution Changes America's Course," The Heritage Foundation, April 5, 2011 ("Chairman Ryan's path toward solving the twin crises of spending and debt is achieved through real spending reductions and reforms—not new taxes or higher rates. The proposal includes welcome changes to the budget process, which, after all, is partially responsible for allowing spending to explode. This budget pares back non-security discretionary spending—the small part of the budget that Congress actually writes a budget for—and tackles other parts of the budget such as farm subsidies and the federal bureaucracy. The budget also repeals Obamacare. Most crucially, Ryan's budget tackles entitlement programs with transformative changes in Medicare and a solid approach to controlling Medicaid's spiraling costs. These changes will result in a stronger and bigger economy with more job creation, more savings and investment, and higher household incomes…. Like any budget plan, which is the result of give and take, there are also elements in this plan that are missing and places where it is deficient. America's prosperity depends on the security we provide. This budget proposal rightly does not recommend pulling back on America's military commitments. This creates a challenge; the defense funding in this budget is inadequate.").

tee also proposed a budget, Amendment No. 4 in House Report 112-62, designed to reach a balanced federal budget within 10 years.[25]

While the ideas discussed above would not accomplish all that needs to be done to put America firmly on the path to financial responsibility, they reflect substantial progress toward that objective. Achieving that objective will require substantial reductions across a broad range of federal spending programs, including Social Security, Medicare, and Medicaid.[26]

Fixing the Congressional Budget Process

When Congress established its budget process in 1974, the United States was in debt by about a half-trillion dollars; it is now in debt over $14 trillion. Clearly, then, process is no substitute for action when it comes to congressional self-control on spending. But a good process can help.

- Congress should amend existing federal laws that provide permanent or indefinite appropriations for federal agencies or programs (including entitlement programs), or that allow agencies or programs to spend funds they receive from fees or otherwise rather than depositing them in the U.S. Treasury, so as to retrieve congressional control of spending for those agencies and programs.
- To make the budget process more visible, understandable, and accountable to the American people, Congress should estimate and publish the projected cost over 75 years of any proposed policy or funding level for each significant federal program.

In designing effective statutory restrictions on future spending, Congress should seek to drive spending down to no more than the historical level of incoming revenue so as to cut deficits over time and stop increasing the debt.

- Congress should require, in addition to the calculation of the costs of proposed congressional actions without regard to the response of the economy to the actions (known as "static" scoring), a parallel calculation that takes account of that response (known as "dynamic" scoring) so as to make more practical and useful cost information available to Congress when it decides whether to pursue the actions.

There are many other ideas for useful changes in the congressional budget process.[27] Congress should measure the value of ideas for budget process reform against a key standard: whether they achieve substantial and enduring cuts in federal spending. If the process does not drive down federal spending and borrowing, the process is not a success.

Conclusion

If, as described above, Congress puts into legislation a comprehensive plan to cut current spending, restrict future spending, and put a more effective federal budgeting process in place, there may reasonably be a place in the plan for a modest increase in the debt limit to the extent that such an increase is necessary to accomplish a prompt, orderly tran-

25. Amendment No. 4 printed in House Report 62, *Providing for Consideration of the Concurrent Resolution (H. Con. Res. 34) Establishing the Budget for the United States Government for Fiscal Year 2012 and Setting Forth Appropriate Budgetary Levels for Fiscal Years 2013 through 2021*, Committee on Rules, House of Representatives (112th Congress). See Brian M. Riedl, "The Foundry: RSC Budget Balances the Budget Through Spending Restraint," The Heritage Foundation, April 8, 2011 ("The RSC plan goes beyond the Ryan plan in a few areas. The RSC plan implements Medicare premium support reforms sooner by providing an opt-in in 2017. It provides a smaller Medicaid block grant than the Ryan proposal, cuts more deeply into other mandatory spending like farm subsidies, and cuts domestic discretionary spending more sharply. The RSC would also gradually increase the Social Security eligibility age. Overall, the RSC would spend $9 trillion less than is indicated by the Congressional Budget Office's 10-year baseline.").

26. For details on the actions necessary, see Alison Acosta Fraser, "How to Fix the Federal Budget," Heritage Foundation *WebMemo* No. 3174, March 1, 2011.

27. See, for example, Brian M. Riedl, "Ten Elements of Comprehensive Budget Process Reform," Heritage Foundation *Backgrounder* No. 1942, June 15, 2006.

sition to the new policy and funding regime that will drive down spending and borrowing. Such an orderly transition is preferable to a chaotic transition forced by the debt limit's rendering the government unable to pay some of its non-debt obligations.

But the least acceptable outcome is for Congress to continue to raise the debt ceiling over and over, doing nothing to drive down federal spending and borrowing, and to pile trillions of dollars in debt upon the shoulders of America's children and the generations to follow.

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