

# WebMemo



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## Chairman Ryan's Proposals for Fixing the Budget Process

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To say “the budget process is broken,” as many Members of Congress like to complain, is a little misleading. The regular order of the budget process has not been employed for the past several years<sup>1</sup>—and mostly because of Congress’s inability or unwillingness to use it. But if not broken, the process has indeed broken down, as demonstrated by the Senate’s failure to pass a budget in more than 900 days, the summer’s debt ceiling confrontation, and its unsatisfying conclusion. In addition to its dire fiscal consequences, the breakdown in budgeting—the most fundamental legislative responsibility—raises the disturbing prospect that Congress is losing its grip on governing itself.

All of this makes the reform proposals offered by House Budget Committee chairman Paul Ryan (R-WI) and colleagues especially timely.<sup>2</sup> More than any of its individual elements, the introduction of this package raises a crucial point: Congress must find a way to restore the regular practice of budgeting or risk an uncontrollable deluge of deficits and debt. The restoration of budgeting requires Congress, above all, to renew its commitment to its basic governing obligations; no process, however finely crafted, can be effective without the will of Congress to make it work.<sup>3</sup> But the budget process can provide better tools and practices to move Congress in the right direction.

**Improvements to the Process.** The congressional budget has three principal roles: (1) to control spending, (2) to limit the size and scope of govern-

ment, and (3) to compel choices among governing priorities. In short, budgeting truly is governing.

Many of Ryan’s reform proposals would enhance Congress’s ability to achieve these aims. The legislation attacks the most basic problem in federal budgeting—the lack of spending limits—in a simple way: by imposing a cap on total spending and separate ceilings on discretionary and entitlement spending. The caps on total and entitlement spending match those of the strong House-passed budget resolution (H. Con. Res. 34) as a percentage of gross domestic product. Unfortunately, the levels for discretionary spending are those of the flawed and loophole-ridden Budget Control Act (BCA), the spawn of the debt-ceiling agreement. If breached, the limits are backed by automatic spending cuts, known as “sequesters.” These provide the enforcement necessary to make the caps work.

As discussed further below, the cap regime does have some weaknesses. Nevertheless, placing firm and enforceable limits on spending moves the country in the right direction for getting spending under control.

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The reform proposals remove one of the greatest hidden enablers of higher spending: automatic inflation increases built into discretionary spending “baselines”—the benchmarks from which spending increases start—which create a huge bias in favor of higher spending. On the flip side, the legislation removes the automatic tax increases built into current projections due to the projected expiration of the 2001 and 2003 tax rates. Because the existing tax baseline assumes that these expirations will occur as scheduled—raising taxes by \$4 trillion over the next 10 years—merely maintaining current rates is considered a \$4 trillion tax “cut.”<sup>4</sup> The budget process baseline reform would remove this absurdity.

The proposals address part of the “automatic pilot” spending problem by imposing periodic sunsets of currently permanent programs. The proposals also commendably require long-term projections of spending proposals and would build in mechanisms to restrain the growth in longer-term costs.<sup>5</sup> This would help hold back spending proposals, such as Obamacare, that appear to have manageable costs in the first 10 years but explode later.

The package includes Ryan’s line-item veto proposal aimed at replacing the version struck down by the Supreme Court in 1998. Although Ryan does not overstate the proposal’s potential, if this version could pass constitutional muster, it could provide a legitimate additional tool to help restrain spending.

Finally, the package requires reports on the “dynamic scoring” effects of major legislation. These reports would assess the changes in economic output likely to result from spending or tax bills, thereby providing a clearer sense of their fiscal effects.

**Proposals Needing Re-Evaluation.** A main flaw in the spending caps is that they fail to eliminate or shrink the huge “emergency” loophole, which allows breaching the discretionary cap with any spending designated an “emergency.” This gimmick, too easy to exploit, needs to be closed. In addition, although the legislation narrows the outrageous range of entitlement programs currently exempt from sequestration, it does not go far enough. Under the BCA, 70 percent of entitlement spending—including Medicaid, Social Security, and 98 percent of Medicare—is protected from the automatic cuts. Ryan’s reform proposals reduce the exemptions to seven (including reasonable ones such as net interest and obligated balances) but still protect Social Security benefits from automatic cuts. This seems unreasonable: If a sequester is to serve as a true deterrent to breaching spending caps, it should affect as many constituencies as possible.

Two longstanding popular stand-bys in the legislation are the “joint budget resolution,” which would require the President’s signature on the budget (not needed now), and biennial budgeting. Both warrant further reflection.

1. Jim Nussle, “Perspectives on Budget Process Reform,” testimony before the Committee on the Budget, U.S. House of Representatives, September 22, 2011, at [http://budget.house.gov/UploadedFiles/Nussle\\_Testimony\\_9222011.pdf](http://budget.house.gov/UploadedFiles/Nussle_Testimony_9222011.pdf) (December 7, 2011).
2. Although for convenience the proposals are referred to here as Chairman Ryan’s package, they are actually 10 separate bills with different lead sponsors presented together.
3. Alice M. Rivlin, “Rescuing the Budget Process,” testimony before the Committee on the Budget, U.S. House of Representatives, September 21, 2011, at [http://budget.house.gov/UploadedFiles/Rivlin\\_Testimony9212011.pdf](http://budget.house.gov/UploadedFiles/Rivlin_Testimony9212011.pdf) (December 7, 2011).
4. See J. D. Foster, “Obama Gets a Tax Issue Right—Is Congress Next?,” Heritage Foundation *WebMemo* No. 2491, June 18, 2009, at <http://www.heritage.org/research/reports/2009/06/obama-gets-a-tax-issue-right-is-congress-next>.
5. See Alison Acosta Fraser, “The SAFE Commission Act (H.R. 3654) and the Long-Term Fiscal Challenge,” testimony before the Committee on the Budget, U.S. House of Representatives, June 25, 2008, at <http://www.heritage.org/research/testimony/the-safe-commission-act-hr-3654-and-the-long-term-fiscal-challenge>.

Although the joint resolution has the appeal of giving budget levels the force of law, it is not clear that the President and Congress would actually agree to those levels in the springtime as expected.<sup>6</sup> Often the House and Senate themselves cannot agree on a budget, and this year's debt ceiling debate suggests that confrontation is at least as likely as concurrence. Besides, if the President and Congress want to agree, they can. The Balanced Budget Act of 1997 was achieved that way, totally voluntarily and under the regular, existing budget process—because both sides wanted to.

The rationale for a biennial budget approach is that it allows Congress more time for oversight in the second year of the budget. But this would work only if Congress could complete two-year appropriations bills by the start of the first fiscal year (October 1) when they cannot accomplish that now with one-year appropriations. Further, Congress cannot now accurately budget a year in advance—hence the repeated reliance on supplemental spending bills. This condition would likely only worsen in a two-year process, leading to even more supplementals and, ultimately, higher and less well-controlled spending.<sup>7</sup>

More important, however, is that even if biennial budgeting seemed reasonable in the past, it is not now. Congress should be spending more time at budgeting, not less, at least until the fiscal crisis is corrected.

The reforms also call for automatic continuing resolutions to prevent government shutdowns when Congress fails to get its work done. But this would be an invitation to even longer appropriations cycles. It would also effectively turn discretionary programs into entitlements. The potential for shutdowns (which are minor anyway) is a good incentive for Congress to do its work on time.

**Budgeting and Governing.** Congressional budgeting has faltered in the past, leading to demands to reform the “broken” process. But the collapse of the past several years is among the worst, and the practice of congressional budgeting is dangerously close to irretrievable. This would surely worsen the crisis of runaway spending and debt and would suggest the continuing collapse of Congress's ability to govern at all.

Restructuring the congressional budget process will not cure the fiscal problems the government faces. Only congressional will can do that. But if the discussion of process reform returns Congress to its principal budgeting and governing responsibilities, it is a debate worth having.

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6. Paul L. Posner, “Strengthening the Congressional Budget Process: The Role of Process Reforms,” testimony before the Committee on the Budget, U.S. Senate, October 12, 2011, at [http://budget.senate.gov/democratic/index.cfm/files/serve?File\\_id=cdde09ec-6dfa-48e7-9949-3071d08154c4](http://budget.senate.gov/democratic/index.cfm/files/serve?File_id=cdde09ec-6dfa-48e7-9949-3071d08154c4) (December 7, 2011).
  7. Rudolph G. Penner, “The Budget Process,” testimony before the Committee on the Budget, U.S. House of Representatives, September 21, 2011, at <http://budget.house.gov/UploadedFiles/Pennertestimony9212011.pdf> (December 7, 2011).