

ISSUE BRIEF

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Federal Budget: What Congress Must Do To Control Spending and Create Jobs

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As the national debt races toward \$17 trillion and nearly 13 million Americans search fruitlessly for work, America needs bold changes from its leaders. Congress must get federal spending and borrowing under control and get out of the way of job creation in the private sector.

The goals of conservatives are clear:

- Congress should drive down federal spending, including by fixing entitlement programs, toward a balanced budget; maintain our ability to protect America; and do so without raising taxes.
- Congress should revise the tax code so that it encourages saving and investment, allowing the private sector to create the jobs that millions of Americans seek.

The Heritage Foundation showed how best to achieve these goals with *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*.¹ The Heritage plan achieves a balanced federal budget within ten years and keeps it balanced thereafter, without raising taxes. The plan moves Social Security, Medicare, and Medicaid toward the principle of insurance against the risk of poverty and away from the principle of open-ended entitlement to government-guaranteed income and benefits. The plan abolishes the individual income tax, capital gains tax, and many other taxes and instead imposes a simplified, single-rate tax on expenditures by individuals—with no taxes on amounts saved—and a single tax on the domestic net cash flow of businesses. The plan also ensures that America has the capabilities it needs to defend our country and its interests around the globe. With these policies, the Heritage plan achieves a permanently balanced budget and spurs economic growth, investment, and creation of jobs. The Heritage Foundation measures congressional progress toward conservative goals against the standard of *Saving the American Dream*.

The duty to set America firmly and quickly on the path toward conservative goals currently rests with Paul Ryan (R-WI), Chairman of the Budget Committee of the U.S. House of Representatives. Chairman Ryan has the responsibility to lead the U.S. House of Representatives in the coming weeks toward adoption of a concurrent resolution on the federal budget for fiscal year 2013. His counterpart in the Senate, Budget Committee Chairman Kent Conrad (D-ND), also should lead the Senate toward such a resolution, but the last time the Senate adopted an annual budget resolution was nearly a year before Apple, Inc. sold the first iPad, so there is little hope for leadership from the Senate.² The House of Representatives must take the lead.

THE DUTY TO SET AMERICA FIRMLY AND QUICKLY ON THE PATH TOWARD CONSERVATIVE GOALS CURRENTLY RESTS WITH PAUL RYAN (R-WI), CHAIRMAN OF THE BUDGET COMMITTEE OF THE U.S. HOUSE OF REPRESENTATIVES.

Concurrent resolutions on the budget cannot change the law, but

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they can have substantial influence over subsequent efforts in Congress to change the law and to appropriate funds to carry out the law. Conservatives expect Chairman Ryan to propose a budget that gets federal spending and borrowing under control and changes the tax code so that the economy can create jobs. The job will not get done with a little budget-trimming here, a few tax changes there, and the annual, never-realized promise that Congress will do better next time, as our national debt of more than \$16 trillion continues to mount.

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With his proposed budget for fiscal year 2013, Chairman Ryan needs to make substantial progress toward six conservative goals that are fully addressed in the Heritage plan. The Chairman should make at least the

following progress with his budget proposal:

- **Tighter Budget.** Congress should spend less next year than it spends this year, and preferably much less. Congress should accomplish necessary reductions through sound budgeting—and not through mindless automatic cuts to programs, such as sequestrations under the Budget Control Act of 2011 that would gut the nation’s defenses. Congress cannot get federal spending and borrowing under control unless it restructures and reduces the costs of entitlement programs.
- **Balanced Budget.** The federal budget should balance in ten years, at a level well below one-fifth of the nation’s economy, and at all events much sooner than the budget would have balanced in the weaker budget formulas proposed in previous years.
- **Fixes to Entitlements.** A cost-saving program of Medicare premium support would improve the Medicare program and, through market competition, help get its costs under control.³ The budget should adopt the principles of the conservative welfare reform legislation (H.R. 1167 of the 112th Congress), introduced by Representative Jim Jordan (R-OH), to establish an aggregate cap on welfare spending.⁴ The budget also should convert Medicaid funding to block grants that allow the states greater flexibility in deciding how best to provide medical care for the poor.⁵ The budget should also assume repeal of the Patient Protection and Affordable Care Act, better known as “Obamacare.”⁶ Such actions are merely first steps, but useful steps, toward getting the cost of entitlement programs under control, converting from entitlement-based to insurance-based programs, and focusing health care on private, market-based health insurance.
- **No Tax Hikes.** Americans neither need to, nor wish to, send more of their hard-earned money to Washington so the government can continue to grow and spend. Avoiding tax hikes is crucial if Americans are ever to get the size, scope, and cost of the federal government under control again.

1. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, available at <http://www.savingthedream.org/about-the-plan/plan-details/SavAmerDream.pdf>.

2. Senate Concurrent Resolution 13, 111th Congress, 1st sess. (adopted April 29, 2009). Apple, Inc. delivered the first iPads in the U.S. on April 3, 2010. Apple, Inc., “iPad Available in U.S. on April 3,” Press Release, March 5, 2010, available at <http://www.apple.com/pr/library/2010/03/05iPad-Available-in-US-on-April-3.html>.

3. See J. D. Foster “Premium Support is Incremental, Not Radical Medicare Reform,” Heritage Foundation *Background* No. 2649, February 7, 2012, available at <http://www.heritage.org/research/reports/2012/02/premium-support-is-incremental-not-radical-medicare-reform>.

4. See Katherine Bradley and Robert Rector, “Confronting the Unsustainable Growth of Welfare Entitlements: Principles of Reform and the Next Steps,” Heritage Foundation *Background* No. 2427, June 24, 2012, pp. 10-11, available at <http://www.heritage.org/research/reports/2010/06/confronting-the-unsustainable-growth-of-welfare-entitlements-principles-of-reform-and-the-next-steps>. See also “Welfare Reform: The Next Steps,” Heritage Foundation *Factsheet* No. 82, March 17, 2011.

5. See Nina Owcharenko, “Saving Medicaid: A Path to Comprehensive Medicaid Reform,” Statement Before the Committee on Finance, United States Senate, July 7, 2011, available at http://www.heritage.org/research/testimony/2011/07/saving-medicaid-a-path-to-comprehensive-medicaid-reform#_ftn15.

6. See Nina Owcharenko, “Repealing Obamacare and Getting Health Care Right,” Heritage Foundation *WebMemo* No. 3053, November 9, 2010, available at http://thf_media.s3.amazonaws.com/2010/pdf/wm3053.pdf.

Moreover, tax hikes slow economic growth and destroy jobs.

- **Job-Creating Pro-Growth Tax Reform.** Congress should revise the tax code to establish strong economic incentives for job-creating saving and investment by abolishing a wide range of taxes and reducing the income tax structure to a single rate, or at most two.⁷ Similarly, Congress should reduce the extraordinarily high corporate income tax rate and move to the territorial principle of corporate taxation, to improve the international competitiveness of American businesses. These steps would represent good progress on the path to enactment of the new flat tax Heritage proposes.⁸

- **Strong National Defense.** Cutting defense spending to make more funds available for other parts of the federal budget,

through sequestration under the Budget Control Act or otherwise, is not a responsible solution to federal overspending and over-borrowing.⁹ Weakening America's defenses in a dangerous world increases the likelihood of conflict, and, as Americans know all too well, winning conflicts costs the lives of Americans and lots of money.

**THE HERITAGE FOUNDATION
ADVOCATES ENACTMENT OF *SAVING
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If legislators persuade the House of Representatives to adopt a concurrent budget resolution that reflects conservative principles, they should redouble their efforts thereafter

to ensure that the House follows through on those principles where it ultimately counts—when it enacts laws, including appropriations for federal programs.

The Heritage Foundation advocates enactment of *Saving the American Dream*, for that Heritage plan provides the soundest path for America's future. We seek prompt progress down that path—progress that comes as close as possible to the Heritage plan and as quickly as possible. The House concurrent resolution on the budget provides an opportunity for such progress. As Congress considers legislation on federal spending, taxing, and borrowing, conservatives will remain hopeful, principled, and insistent.

—**David S. Addington** is Vice President for Domestic and Economic Policy at *The Heritage Foundation*.

7. J. D. Foster, "The New Flat Tax: Easy as One, Two, Three," Heritage Foundation *Backgrounder* No. 2631, December 12, 2011, available at https://thf_media.s3.amazonaws.com/2011/pdf/bg2631.pdf.

8. Curtis S. Dubay, "Corporate Tax Reform Should Focus on Rate Reduction," Heritage Foundation *WebMemo* No. 3146, February 11, 2011, available at http://thf_media.s3.amazonaws.com/2011/pdf/wm3146.pdf. See also The Heritage Foundation, *Solutions for America*, "Tax Reform," 2010, p. 9, available at http://thf_media.s3.amazonaws.com/2010/pdf/Solutions_5.pdf.

9. See James Jay Carafano, "Defense Budget: When National Security Becomes Last Priority," Statement Before the Committee on the Budget, United States Senate, March 6, 2012, available at <http://www.heritage.org/research/testimony/2012/03/defense-budget-when-national-security-becomes-last-priority>. See also Budget Control Act of 2011 (Public Law 112-25, August 2, 2011).