

# ISSUE BRIEF

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## The Broken Budget Process: Two House Legislative Proposals

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Congressional and executive oversight of the federal budget is in turmoil. The political aversion to tackling federal overspending is enhanced and enabled by the inadequate processes that govern the budget. Two things are needed to prevent a European-style fiscal and debt crisis: (1) process changes that require—some would say force—solutions and ensure that fiscal results are achieved, and (2) the robust policy solutions themselves.

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This paper, in its entirety, can be found at <http://report.heritage.org/ib3620>

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The Spending Control Act (H.R. 3576) and the Balancing Our Obligations for the Long Term (BOLT) Act (H.R. 3580) provide more transparency, impose strong spending controls across the entire federal budget over the short term and the long term, and require steps for reining in spending to meet spending limits.

**Need for Action.** The sad fact is that U.S. federal debt soon will reach economically damaging levels, and spending will be the driver of that explosion. The three major entitlements—Social Security, Medicare, and Medicaid—will accelerate spending growth in the future due to demographic changes and rising health care costs. In 2012, they comprise approximately 45 percent of total federal spending, or 10 percent of GDP. By 2035, they will reach approximately 16.5 percent of GDP. Left alone, they will devour all tax revenues by 2045, assuming the historical level of taxation.

A variety of projections show that it is highly possible—even likely—that the U.S. could experience a European-style spending and debt crisis in the near future. U.S. publicly held debt is set to surpass the troubling debt levels of countries in crisis. But changing course seems illusive.

The process that governs the budget has significant weaknesses that should be addressed. Such reforms could be both an impetus and a tool to drive the necessary changes to the budget.

**Fixing the Process.** One major problem in the budget process today is that mandatory spending is not budgeted. Thus, the big three entitlement programs—which enjoy essentially open-ended appropriations—are allowed to grow on autopilot. Put another way, the biggest drivers of the federal budget are able to enjoy an automatic “first call” on tax revenues, squeezing out other priorities, such as strong defense and education.

Another major problem is the seemingly arbitrary time line of the budget window. One-year estimates are of course necessary, but from a budget perspective, there is nothing especially significant about five- or 10-year projections. Neither adequately measures whether policies are affordable or sustainable over a longer time horizon. These fixed shorter-term time frames even incentivize gaming the timing of new policies to stick within budgetary targets.

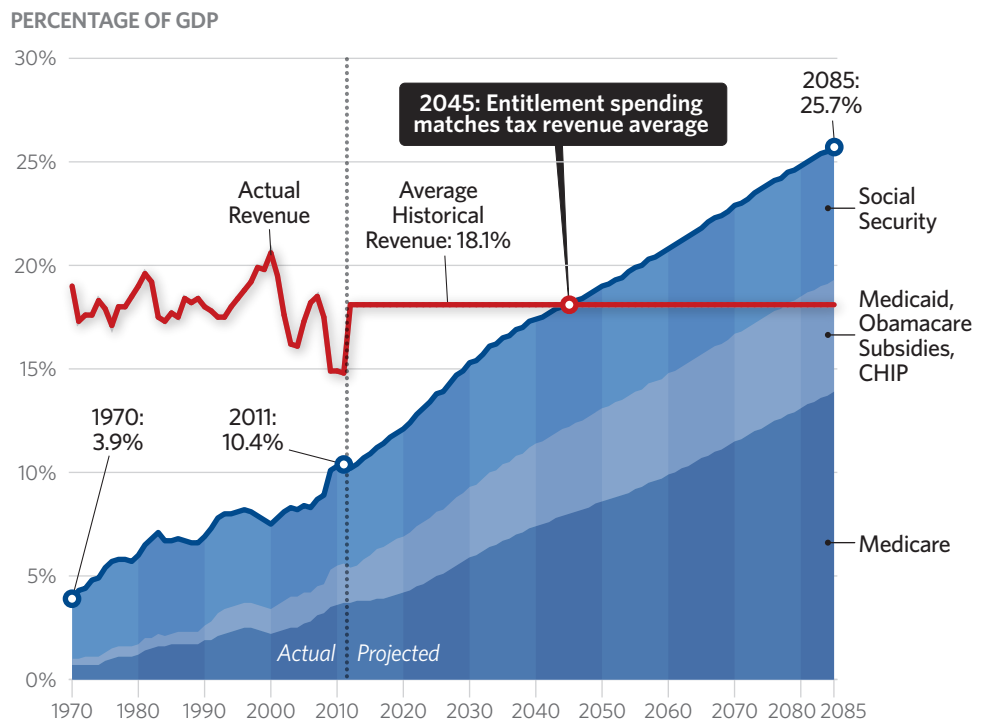
**Making Long-Term Budget Projections.** Bringing entitlements on budget is an important change in

CHART 1

## Tax Revenues Devoured by Medicare, Medicaid, and Social Security in 2045

*Spending on Social Security, Medicare, Medicaid, and the Obamacare subsidies is the main driver of federal spending and future debt. It will grow from 10 percent of GDP today to devouring all tax revenues by 2045, assuming historical average tax revenues of 18.1 percent.*

**Source:** Congressional Budget Office, 2011 *Long-Term Budget Outlook*, Alternative Fiscal Scenario, June 2011, [http://cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12212/06-21-long-term\\_budget\\_outlook.pdf](http://cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12212/06-21-long-term_budget_outlook.pdf) (accessed February 9, 2012).



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both the Spending Control Act and the BOLT Act. Aligning the spending caps with the House-passed budget resolution is also vital, because the policies necessary to achieve the caps are spelled out in the resolution.<sup>1</sup> Reviewing the budget over the longer term, as in the BOLT Act, is equally significant.

To be sure, making long-term budget projections involves tremendous challenges. They require a variety of assumptions that, together or alone, will likely prove wrong. But it is vital to know whether, based on today's knowledge, policies are both sustainable and affordable in the long term. Projections of this nature have been made regularly over the years by a

number of agencies, including the Congressional Budget Office.

**Transparency.** The transparency sections of the BOLT Act, which feature reports and regular review of long-term spending, are particularly important, as is the long-term reconciliation. But enforcing spending caps through sequestration against long-term projections could be problematic. Possible solutions include a margin of error and/or a slower phase-in to bring spending in line with the long-term caps.

As for the enforcement itself, there are understandable reasons for excluding Social Security from spending caps, but the program is already running permanent deficits.

The only way for Congress to set true national priorities is to put all federal programs on budget, even those most sacrosanct.

**Acting with Purpose and Intent.** The nature of the political process today has tremendous incentives to ignore the nation's severe spending and debt problems until forced to by outside events. But this approach to governing is the worst way to set policy, as crisis-driven decisions are often desperate choices that inevitably fail. The failure of the super committee and the equally flawed Budget Control Act sequestration are good examples.

Moreover, crisis-driven decisions rarely allow for public discourse

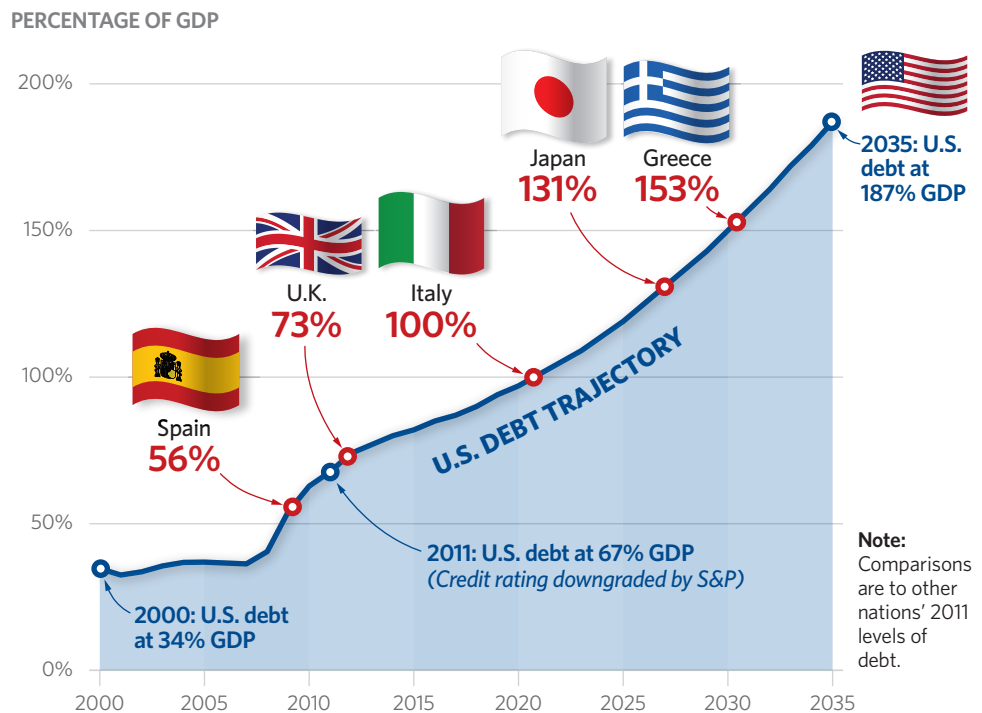
1. Alison Acosta Fraser and Patrick Louis Knudsen, "The Ryan Budget: Confronting the Nation's Spending Crisis," Heritage Foundation *Issue Brief* No. 3546, March 21, 2012, <http://www.heritage.org/research/reports/2012/03/ryans-budget-confronting-the-nations-government-spending-crisis>.

CHART 2

## U.S. Debt on Track to Fuel Economic Crisis

Many European countries like Greece, Italy, and Spain are suffering financial or budget crises as a result of mounting debt. Unless the U.S. controls spending, America's debt will surpass those of troubled nations, leading to similar economic woes.

Source: Congressional Budget Office, 2011 *Long-Term Budget Outlook, Alternative Fiscal Scenario*, June 2011, [http://cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12212/06-21-long-term-budget\\_outlook.pdf](http://cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12212/06-21-long-term-budget_outlook.pdf) (accessed February 9, 2012); and International Monetary Fund, *World Economic Outlook Database*, September 2011, <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx> (accessed February 9, 2012).



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to weigh the pros and cons of such changes. The Grecian formula is indeed a recipe for disaster.

In the end, Congress itself will decide if it will act. It would be better if it does so in an intentional, prudent

way, as these bills would provide, rather than in a crisis.

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