

# WebMemo



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## Spending Goals for Congress and the President

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After a year of unproductive brinksmanship, Congress and the President enter 2012 facing the same intractable budget problems as before: a fourth consecutive deficit expected to be \$1 trillion or higher, spending that consumes nearly one-fourth of the economy's total output, and an entitlement-driven fiscal disaster that has drawn one year of inaction closer.

In addition, Congress still has lingering issues from actions late last year—items that it must address quickly as the new year begins, such as fixing the ill-conceived spending sequestration and the “doc fix.” These will then be followed by another round of equally difficult decisions, including the annual appropriations for the coming year.

Congress and the President still have a responsibility to produce a budget, perhaps the most basic job in any government. The President's State of the Union Address unofficially starts that process. (Regrettably, the official start—the President's budget submission—will be delayed a week, a troubling sign after last year's unorthodox procedures.) The House and Senate should then produce their own budget resolutions and resolve their differences in the regular order, establishing priorities and setting guidance for the spending and tax deliberations to follow. Last year, the House passed a budget, but the Senate never even tried.

**Promptly and Correctly Address the Urgent.** Congress and the President should start the new

year with a fresh determination to rein in federal spending in the near term and reform the nation's entitlement programs in the long term. The forthcoming election makes progress more difficult, but it does nothing to alleviate the need or the responsibility to act. First, policymakers must clean up the messes left over from 2011.

- **Fix the “sequestration.”** Congress must immediately reverse the automatic spending cuts—known as sequestration—forced by the Budget Control Act (BCA).<sup>1</sup> The sequestration, which would impose dangerous and irresponsible cuts in defense spending and mindless reductions elsewhere, was intended to pressure the now-defunct “super committee” into action. The committee failed, and so will the sequestration. Cutting spending is exactly the right solution, but emasculating national security is not. Congress should repeal the sequestration and cut spending the old-fashioned way: by setting priorities and making trade-offs through decisions in the national interest.

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- **Fix the “doc fix.”** Fifteen years ago, Congress created a problem that only it can solve. That problem comes from the automatic and growing cuts in Medicare payment rates to doctors through a formula called the sustainable growth rate (SGR). Medicare spending needs to be restrained, but all agree that these cuts would devastate seniors’ access to health care, as doctors would abandon Medicare in droves. So the cuts have been held at bay, year after year, with a patch known as the “doc fix.”

Congress should pursue a long-term resolution by repealing the SGR (itself a testament to the fundamentally flawed nature of Medicare) and enacting reforms within the program to offset the cost. Congress and the President should then begin to transition Medicare to a premium-support program as described in The Heritage Foundation’s budget plan, *Saving the American Dream*. Moving to a rational, market-based system would ameliorate the need for the onerous price controls—and their annual fixes—that plague today’s Medicare program.<sup>2</sup>

- **Fix unemployment.** Congress attached an extension of unemployment insurance to the two-month payroll tax holiday extension enacted at the end of 2011. Congress and the President should now begin to reduce the current 99-week maximum eligibility, which is more than twice the average duration of unemployment. While unemployment benefits obviously help families in need, the fact remains that economic recovery and employment gains are harder to achieve as long as workers are being paid by the government not to work.<sup>3</sup>

**Then Tackle the Real Work.** Even as Congress is completing work on these “leftovers,” many tough budgetary tasks remain, starting with passing a budget resolution—the broad blueprint that guides spending and tax legislation. The President, as required by statute, will soon offer his budget for fiscal year 2013 and beyond.

The House passed a budget last year and intends to do so again this year. Senate Majority Leader Harry M. Reid (D–NV) made it clear in 2011 that the Senate would not even bother. He has yet to declare the Senate’s intentions for 2012, but the correct response is obvious: The Senate should do its job and pass a budget resolution.

The subsequent spending bills that Congress passes and the President signs should build on the limited progress made in 2011 on reducing spending. This means not only making further cuts well below the levels provided in the BCA, but also ensuring that defense is fully funded. This must be done without deploying the usual array of budgetary gimmicks to drive up spending that past Congresses have employed, such as disaster spending.<sup>4</sup> Appropriations should be written and passed through the normal process, which is more transparent for taxpayers and a better and more disciplined way to govern than the chaos of the past few years.

Then Congress and the President must do what they can to address the nation’s most important fiscal challenge: entitlement reform. Along with Medicare, restructuring other entitlements—especially Medicaid and Social Security—is indispensable for long-term spending control. The right kinds of reforms can make the entitlements both more effective and

1. Under the statute, the failure of the BCA-created “super committee” to offer deficit-reduction proposals triggered a \$1.2 trillion sequestration for 2013 through 2021. Half of the sequestration applies solely to national defense.
2. Robert E. Moffit, “The First Stage of Medicare Reform: Fixing the Current Program,” Heritage Foundation *Backgrounder* No. 2611, October 17, 2011, at <http://www.heritage.org/research/reports/2011/10/the-first-stage-of-medicare-reform-fixing-the-current-program>.
3. James Sherk, “Extended Unemployment Insurance Benefits,” Heritage Foundation *WebMemo* No. 3452, January 12, 2012, at <http://www.heritage.org/research/reports/2012/01/extended-unemployment-insurance-benefits>.
4. Patrick Louis Knudsen, “Courting Disaster: Two Gaping Loopholes in the Debt Deal That Will Drive Up Spending,” Heritage Foundation *Foundry*, November 7, 2011, at <http://blog.heritage.org/2011/11/07/courting-disaster-two-gaping-loopholes-in-the-debt-deal-that-will-drive-up-spending>.

more sustainable while easing the debt burden on the nation's economy. A sound set of proposals can be found in *Saving the American Dream*.<sup>5</sup>

**Commit to Fiscal Responsibility.** The current state of divided government—with the Republican House, a Democratic Senate, and a Democrat in the White House—must not become an excuse for doing nothing. It is the hand lawmakers have been dealt, and they need to play it. No doubt, seri-

ous efforts at entitlement reform will be uphill in an election year, but delay only worsens the fiscal problems the nation and future Congresses and Presidents will face.

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5. 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, at <http://savingthedream.org/about-the-plan/plan-details/>.