

Backgrounder

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A Budget Agenda for the 109th Congress

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Serious budgetary challenges await the 109th Congress. Federal spending has leaped 23 percent in just three years, the budget process is in tatters, and voters are frustrated with the prospect of large long-term structural budget deficits. Most important, the first baby boomers will collect their first Social Security checks on January 1, 2008—just three years away. Unless spending is brought under control, Americans will face substantial tax increases and a slowing economy that provides fewer jobs and lower incomes. To avoid that fate, this paper charts a responsible, pro-growth spending agenda for the 109th Congress.

Guiding Principles

Principle #1: Spending—Not the Budget Deficit—Is the Problem

The current budget deficit is not harming the economy. According to some, government borrowing sharply drives up interest rates and reduces investment, thus slowing the economy. However, a closer examination reveals little correlation between government debt and interest rates. The debt-to-GDP (gross domestic product) ratio (which is a better way to assess the economic impact of borrowing) currently stands at 40 percent. This is below the post-World War II average of 44 percent (See Chart 2).¹ Government borrowing remains modest by historical standards.

However, while the current budget deficit by itself is not alarming, it is a symptom of a much larger problem: runaway spending. All federal spending must be financed by taking resources from the productive sec-

Talking Points

- The budget deficit is not yet harming the economy. The 40 percent debt-to-GDP ratio is below the post-World War II average. Runaway spending is a larger concern because all spending must eventually be paid for in taxes, and tax increases would damage the economy.
- Reining in federal spending is nearly impossible with an outdated federal budget process, which was created 30 years ago to maximize spending. Lawmakers should enact a Taxpayers' Bill of Rights to limit spending and reform House rules to enforce spending restraints more effectively.
- Unless Social Security and Medicare are reformed, taxpayers face future tax increases exceeding \$10,000 per household in today's dollars and incomes. The longer lawmakers wait, the more painful the reforms will be.
- Budgets are about priorities, and financing top priorities such as defense and homeland security require eliminating spending on outdated and wasteful programs.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/bg1812.cfm

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tor of the economy, either by collecting more taxes or by borrowing more (which merely postpones the tax increases). Because they damage economies, averting these tax increases should be the main economic focus of lawmakers. The *only* way to provide long-term tax relief is by reducing long-term spending.

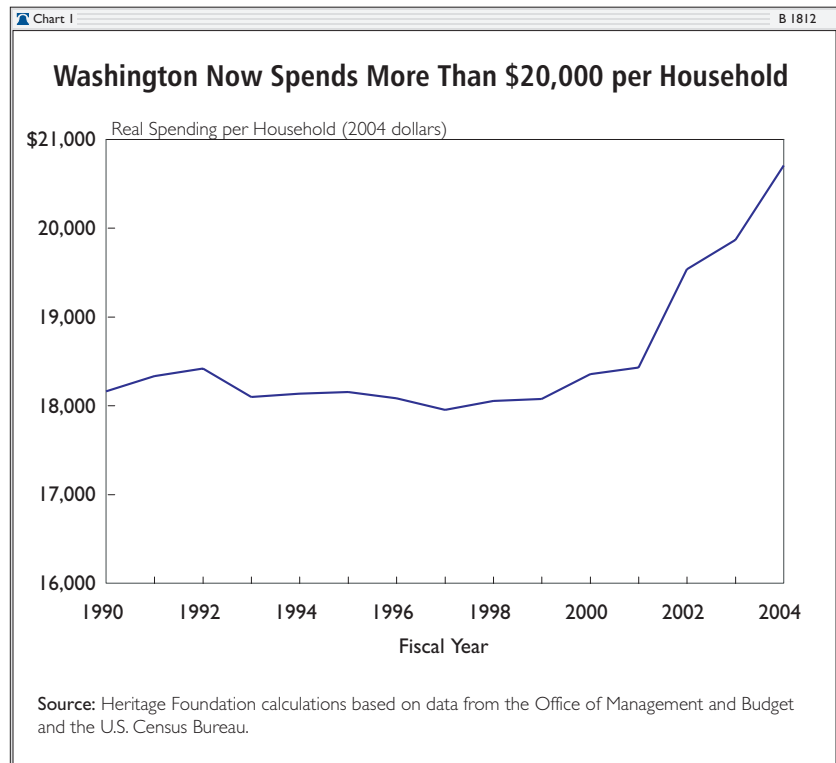
Principle #2: The Budget Process Impedes Responsible Budgeting

Congress remains saddled with an outdated budget process that was created in 1974 to maximize federal spending. Meaningful spending caps are absent, budget resolutions are rarely enforced, and lawmakers can create major new entitlements without proposing any plan to pay for them. The complexity of the budget process guarantees that important decisions are often determined by those who know how to bend the budget rules in their favor.

A rational budget process should help lawmakers to set priorities by capping overall spending and to make trade-offs within that framework. It should help lawmakers balance short-term priorities with long-term budget realities. Finally, the budget process should be simple, understandable, and protected from abuses and loopholes. In short, the budget process should reflect America's budget priorities, rather than undermine them.

Principle #3: Entitlement Reform Is Urgent

As currently projected, Social Security and Medicare will eventually bankrupt the federal budget. Within a few decades, these programs alone will require either tax increases totaling more than the current equivalent of \$10,000 per household or the elimination of every other federal program.



Lawmakers must move quickly on reform. Social Security outlays are already growing 5 percent annually, and Medicare is expanding 9 percent annually. The first baby boomers will retire in 2008, after which costs will accelerate.

By 2018, Social Security will begin to run deficits. The Social Security trust fund, which was supposed to keep the system solvent, was never funded with any real assets. There is no pile of money to tap into in 2018. Beginning that year, the system will require ever-larger amounts of general revenue to pay the promised benefits.²

The longer lawmakers wait to fix these entitlement programs, the more difficult and expensive the solutions will be, for two reasons. First, projected steep increases in federal Social Security spending will leave less payroll tax revenue available for personal retirement accounts. Second, the

1. Heritage Foundation calculations based on Council of Economic Advisers, *Economic Report of the President*, February 2004, p. 378, Table B-79, at www.gpoaccess.gov/usbudget/fy05/pdf/2004_erp.pdf (December 2, 2004). Debt is defined as publicly held federal debt.
2. See David C. John, "Misleading the Public: How the Social Security Trust Fund Really Works," Heritage Foundation *Executive Memorandum* No. 940, September 2, 2004, at www.heritage.org/Research/SocialSecurity/em940.cfm.

sooner workers can establish personal retirement accounts, the longer their investments will grow, which in a world of compound interest means much larger personal retirement accounts.

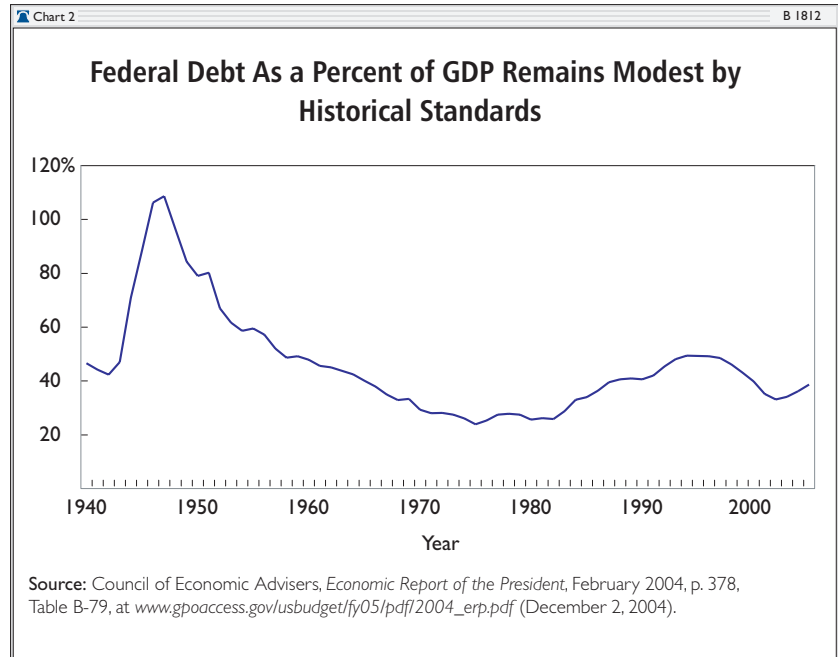
Nor can lawmakers continue to ignore skyrocketing Medicare costs. Medicare's unfunded liability is substantially higher than Social Security's unfunded liability, and the new Medicare drug benefit has added an estimated \$8 trillion in unfunded costs over the next 75 years.³ Like Social Security, delaying Medicare reform will only make it more expensive.

What Congress Should Do

To rein in spending, Congress should implement five recommendations.

Recommendation #1: Reform the Budget Process

Congress Should Enact a Federal Taxpayers' Bill of Rights. Federal spending should be capped by a Taxpayers' Bill of Rights (TABOR) law that restricts spending increases to the inflation rate plus the population growth rate. Such a limit is not too much to ask within a federal budget that—after a 23 percent expansion in three years—is overflowing with wasteful, outdated, duplicative, and unjustified programs. A TABOR would save taxpayers \$4 trillion during the next decade and could be enforced by requiring a two-thirds supermajority to pass the budget resolution or any spending bill that pushes federal spending above the TABOR allowance. Such a bar is low enough to clear during a national emergency or war, but high enough to prevent abuse. Budget surpluses could be automatically split between tax rebates and debt reduction.⁴



Colorado enacted the first TABOR law in 1992. Since then, the state government's growth rate has been reduced to 3 percent, and taxpayers have received \$3.3 billion in tax rebates. By 2002, the average Colorado household was paying \$3,729 less in state taxes than if spending had continued growing at its pre-TABOR rate. Since TABOR, Colorado's economic growth rate has nearly doubled, job growth has nearly doubled, and per capita incomes have grown 85 percent faster than before the amendment. It is no wonder that after 12 years of experience Colorado residents support TABOR by an overwhelming 3 to 1 margin.

A federal TABOR would require lawmakers to set priorities, reduce wasteful spending, and reform entitlement programs. It would also protect the family budget from the federal budget.

The House of Representatives Should Reform Its Rules. The rules package enacted by Members of the House of Representatives should be designed

3. Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Insurance Trust Funds*, March 23, 2004, at www.cms.hhs.gov/publications/trusteesreport (December 2, 2004).

4. For more on TABOR, see Brian M. Riedl, "Restrain Runaway Spending with a Federal Taxpayers' Bill of Rights," Heritage Foundation *Backgrounder* No. 1793, August 27, 2004, at www.heritage.org/Research/Budget/bg1793.cfm.

to enforce budget restraint. Unfortunately, most rules are so easily waived that they have become irrelevant. For example, points of order against House rules violations can be overridden by a simple majority vote, which creates no additional hurdle above the simple majority needed to pass regular legislation. (The Senate often requires a three-fifths vote.) Worse, the Rules Committee often waives these points of order before they even come to the floor. Rules that can be so easily overridden cease to be rules. Positive reforms in the House would:

- Require a stand-alone vote to waive each point of order;
- Raise the bar from a simple majority to a three-fifths supermajority to waive points of order; and
- Encourage political parties to require a majority vote within their own party caucuses before proposing to waive a point of order on the House floor.

Once points of order become enforceable enough to be relevant, lawmakers should update the list of violations to include:

- Riders on appropriations bills;
- Funding unauthorized programs;
- Conference reports containing new spending or earmarks that were not in the original House or Senate bill;
- Emergency spending that is not offset by cuts in other spending;
- “Emergency” spending that does not fit a more narrow definition, as determined by the Congressional Budget Office or Government

- Accountability Office; and
- Individual gimmicks such as advanced appropriations and shifting pay dates.

Other rules reforms could include:

- Expanding the current three-fifths supermajority requirement on tax increases to cover entitlement increases and emergency spending that is not offset by spending cuts;
- Requiring roll call votes for bills that will cost more than \$50 million per year within five years;
- Imposing six-year term limits on appropriators, similar to the current House Budget Committee term limits;
- Having the majority party elect the appropriations committee and subcommittee chairmen during a private party caucus; and
- Providing the Budget Committee chairmen with the authority to stop budget-busting bills (similar to the cross-jurisdictional responsibilities that are already in place for other bills).

Spending Category	Total Outlays		2001-2004 Increase		
	2001	2004	Amount	Percentage	Avg. Annual
National Defense	\$305,500	\$455,548	\$150,048	49%	14.2%
Social Security	432,958	495,564	62,606	14%	4.6%
Medicare	217,384	269,360	51,976	24%	7.4%
Medicaid	129,374	176,231	46,857	36%	10.8%
Income Security Programs	152,640	192,137	39,497	26%	8.0%
Education	35,203	62,814	27,611	78%	21.3%
Health Research and Regulation	42,896	63,611	20,715	48%	14.0%
Unemployment Benefits	30,242	46,323	16,081	53%	15.3%
Veterans Benefits	45,039	59,773	14,734	33%	9.9%
Justice Administration	30,205	44,862	14,657	49%	14.1%
International Affairs	16,493	26,423	9,930	60%	17.0%
General Government	14,259	22,720	8,461	59%	16.8%
Federal Retirement and Disability	80,972	89,295	8,323	10%	3.3%
Highways and Mass Transit	35,804	40,722	4,918	14%	4.4%
Science, Space, and Technology	19,784	23,652	3,868	20%	6.1%
Other Programs	115,860	121,378	5,518	5%	1.6%
Undistributed Offsetting Receipts	-47,011	-58,536	-11,525	-25%	-7.6%
Net Interest	206,168	160,475	-45,693	-22%	-8.0%
Total Spending	1,863,770	2,292,352	428,582	23%	7.1%

Note: All amounts are in millions of dollars.
Source: Heritage Foundation calculations based on data from the U.S. Treasury. Some 2004 amounts represent current estimates based on available data.

Recommendation #2: Reform Social Security and Medicare

Social Security reform cannot wait. (See Chart 3.) Costs are increasing and the first baby boomers are three years from retirement. Additionally, promptly reforming Social Security will be less expensive and lead to personal retirement accounts that are larger because they will have had more time to accumulate. Social Security reform should follow three steps:

First, the federal budget should be prepared for reform by Congress requiring that the President's budget submission and the congressional budget resolution include data on the long-term unfunded obligations of federal entitlements. This would help clear confusion among lawmakers, reporters, and voters regarding Social Security's obligations. When reform legislation is introduced, people could see that seemingly "expensive" reforms will actually save money in the long run. Congress could then work to prevent any future legislation increasing the government's long-term unfunded obligations.

Second, lawmakers should enact legislation classifying any payroll tax dollars that are placed into personal retirement accounts as budget neutral rather than as outlays. Directing money to personal accounts is a transfer of an asset from the Social Security trust fund to a personal account and should not be treated as an expenditure or outlay. Personal accounts will reduce long-term obligations and long-term spending, and the government's accounting should reflect that.

Finally, Congress should pass legislation creating Social Security personal accounts.⁵

While Social Security is expected to play a central role in the 109th Congress, lawmakers should also repeal the Medicare drug benefit, which was enacted without any plan to pay for its huge liabil-

ities. Lawmakers should reform the whole program to curb costs and to increase choice and competition.⁶

Recommendation #3: Stem Appropriations Growth

Discretionary spending has leaped 37 percent in the past three years. Even after excluding all security-related spending (e.g., defense, homeland security, and international aid), discretionary spending has surged 24 percent.⁷ This guns-and-butter budget is not sustainable. Discretionary appropriations, like mandatory spending, must be pared back to control spending.

This is not as difficult as it may appear. Programs that have received such large increases can afford to be modestly pared back. Even a 10 percent cut would still leave discretionary budgets 23 percent above 2001 levels. The lack of spending restraint in recent years has also allowed a substantial amount of waste to build up in these programs. Lawmakers can bring discretionary spending under control by:

- **Freezing total discretionary appropriations.** Congress has done this before. Discretionary spending was essentially frozen from 1994 through 1997, and it could be frozen again (excluding Iraq supplemental bills). Large recent increases create a cushion for many agencies to handle a freeze.
- **Budgeting for Iraq and Afghanistan.** Lawmakers must fund all necessary costs to keep American troops safe and able to fulfill their missions. However, excluding these costs from budget resolutions merely denies that inevitable trade-offs must be made between programs. Although the exact costs cannot be predicted, lawmakers should include estimates of these costs within the budget resolution.

5. See David C. John, "How to Fix Social Security," Heritage Foundation *Background* No. 1811, November 17, 2004, at www.heritage.org/Research/SocialSecurity/bg1811.cfm.

6. For specific reform proposals, see The Heritage Foundation, Center for Health Policy Studies, health care research Web site, at www.heritage.org/research/healthcare/index.cfm.

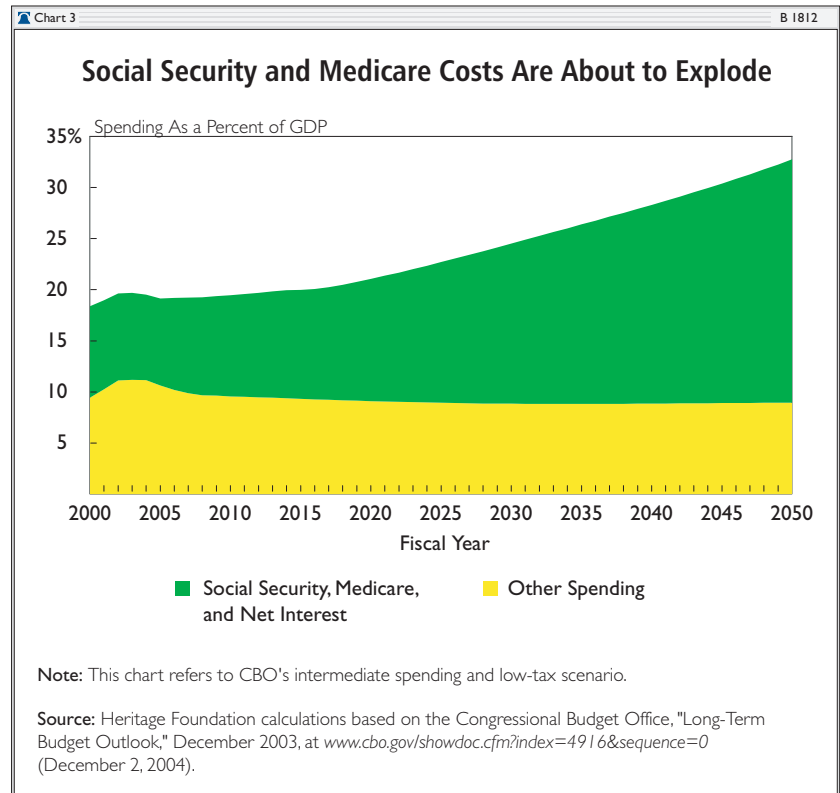
7. Heritage Foundation calculations based on data from the Office of Management and Budget and the Congressional Budget Office.

- **Offsetting all emergency spending not related to Iraq and Afghanistan.** Emergency spending has become a backdoor way to increase the size of government. Although real emergencies do occur, lawmakers are elected to set priorities and make trade-offs. If emergencies move some spending categories up the priority list, then other spending categories should drop down that list.
- **Strengthening budget enforcement.** As stated earlier in this paper, the current budget process undermines lawmakers seeking to restrain spending. There are no enforceable spending caps, and House rules that limit spending can be waived too easily. Strengthening enforcement will keep lawmakers disciplined and able to make difficult and responsible spending decisions.

Recommendation #4: Rein in Authorizations

Several programs, including some covered by bills held over from the 108th Congress, are scheduled for reauthorization in 2005—including highways and mass transit, higher education, Temporary Assistance for Needy Families, child care, Head Start, job training, energy, the Coast Guard, and the Millennium Challenge Account. Lawmakers reauthorizing these bills should:

1. **Tightly cap authorizations.** Discretionary programs often receive loose spending caps in their reauthorization bills, leaving actual spending levels to the appropriators. Yet tighter caps on discretionary authorizations would likely have prevented much of the discretionary spending spree of the past few years. Furthermore, the No Child Left Behind Act displayed how the “high-authorization, low-appropriation” strategy can create a misperception that programs receiving large spending increases are still “underfunded.” Placing a tight cap on all programs is a better strategy. This would include ending the practice
2. **Re-examine the justification for each program.** President Ronald Reagan once pointed out that “a government bureau is the closest thing to eternal life we’ll ever see on this earth.” A large portion of the current federal bureaucracy was created during the 1900s, 1930s, and 1960s in attempts to solve the unique problems of those eras. However, instead of replacing the outdated programs of the past, each period of government activism has added a layer of new programs on top of the old programs. Instead of just assuming that the old programs still fill some important need, lawmakers should ask themselves: If this program did not exist, would I vote to create it? They should also use the checklist in the box on the next page.
3. **Scrutinize committee bills.** Lawmakers should also keep in mind that authorizing committees are often populated by members with disproportionate interests in expanding that committee’s programs. Consequently, the full House



of authorizing “such sums as necessary”—which basically means no cap at all.

Six Questions to Answer Before Creating or Reauthorizing a Program

1. Can the private sector fill this need?
2. Can state and local government fill this need?
3. Are there any other federal programs that can shift funds toward this need?
4. Would this program effectively solve the problem without creating any new problems?
5. Is the solution worth the cost in higher taxes and decreased economic efficiency?
6. Is it constitutional?

and Senate must scrutinize spending legislation emerging from authorizing committees and ensure that each bill's spending projections are in line with Congress's overall spending framework for the next several years.

4. **Require roll call votes.** Finally, lawmakers should require a full roll call vote on any legislation that would authorize \$50 million or more in any one of the next five years. Voice votes remove constituents' ability to hold their lawmakers accountable for their decisions.

Recommendation #5: Eliminate Wasteful Spending

There is no shortage of waste in the federal budget. It has been 20 years since the Grace Commission audited the federal government. In that time, wasteful spending has continued to grow without any serious oversight from lawmakers. Out of the thousands of federal programs, only one program of significance has been eliminated since President

George W. Bush took office.⁸ Wasteful and unnecessary programs generally fall into at least one of six categories:

1. Outdated, irrelevant, or failing to produce results;
2. Inefficiently implemented;
3. Best left to the private sector;
4. Best left to state and local governments;
5. Duplicates other federal programs; and
6. Targeted to those who do not need the assistance (e.g., corporate welfare).

A recent Heritage Foundation analysis identified nearly 500 programs meeting at least one of these criteria.⁹ Many programs meet several of them. Before moving onto the more difficult spending decisions, lawmakers should first reduce wasteful spending by:

1. **Establishing a "base closure commission" on wasteful programs.** To make it easier for Members of Congress to eliminate programs, Congress should appoint a commission, similar to the Pentagon's successful base closure commissions of the late 1980s. This commission would create a list of all wasteful, outdated, duplicative, and unnecessary programs that should be eliminated. Lawmakers would then be required to vote up or down (without amendment) on whether or not to eliminate all of the programs on the list. This would prevent lawmakers from protecting their pet special interests, and the large savings should justify each lawmaker's vote to give up one or two special-interest subsidies. Senator Sam Brownback (R-KS) and Representative Todd Tiahrt (R-KS) have already co-written such legislation, and Representative Kevin Brady (R-TX) has introduced a similar bill.¹⁰

8. In 2002, the Department of Housing and Urban Development's Drug Elimination Grants for Low-Income Housing program was terminated, saving approximately \$300 million annually.

9. See Brian M. Riedl, "How to Get Federal Spending Under Control," Heritage Foundation *Background* No. 1733, March 10, 2004, at www.heritage.org/Research/Budget/bg1733.cfm.

10. During the 108th Congress, Senator Brownback introduced S. 837, Representative Tiahrt introduced H.R. 3213, and Representative Brady introduced H.R. 1227 to establish such a commission.

2. **Requiring committees to eliminate entitlement waste.** The fiscal year 2004 budget resolution required each committee to identify wasteful spending totaling 1 percent of their entitlement program spending.¹¹ Lawmakers who allow these reports to collect dust are, in effect, condemning Americans to unnecessarily high taxes for inefficient services. The FY 2006 budget resolution should contain reconciliation instructions requiring each committee to reduce its 10-year mandatory budgets by 1 percent. If lawmakers lack the will to eliminate waste, fraud, and abuse—at a mere penny on the dollar—there is little hope that they will undertake the larger reforms necessary to get the budget under control.
3. **Freezing non-security programs that cannot pass an audit.** Programs that cannot pass a simple audit should not be rewarded with spending increases. Requiring a clean audit to receive a spending increase will motivate agen-

cies to get their finances in order. In addition, these audits may yield enough savings to more than offset whatever spending increase they were denied in the process. It is a win-win for taxpayers, federal agencies, and the recipients of federal services.

Conclusion

Economic growth rates, incomes, jobs, and low taxes are all jeopardized by runaway federal spending. Lawmakers must set priorities and begin making trade-offs in order to bring spending under control. Fixing the budget process, reforming Social Security, holding the line on spending, and reducing government waste should be high priorities for any lawmaker who wants to protect the family budget from the federal budget.

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11. The Heritage Foundation has also detailed waste in entitlement programs. See Brian M. Riedl, “How Congress Can Achieve Savings of 1 Percent by Targeting Waste, Fraud, and Abuse,” Heritage Foundation *Backgrounder* No. 1681, August 28, 2003, at www.heritage.org/Research/Budget/BG1681.cfm.