The Heritage Foundation

BACKGROUNDER

No. 3374 | DECEMBER 19, 2018

Needed: An Effective Fiscal Framework to Restrain Spending and Control Debt in the United States

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Abstract

The United States is on a fiscal collision course. Projected spending, deficit, and debt levels are highly unsustainable and are growing automatically due to statutory rules and structural demographic and programmatic factors. A properly functioning budget process should encourage debate over these and other fiscal issues, set in motion negotiations over the trade-offs and considerations involved, and lead to budgetary decisions that improve fiscal outcomes. Legislators have repeatedly neglected to follow the congressional budget process or used it primarily for pursuing narrow policy priorities. Moreover, existing fiscal rules such as the Budget Control Act, the Pay-As-You-Go budget rule, and the debt limit have proven inadequate for restraining auto-pilot spending as well as legislators' propensity to exploit budget loopholes. The United States can benefit from valuable insights from two countries that have adopted successful fiscal restraints: Switzerland and Sweden. These countries' experiences demonstrate that establishing a sustainable fiscal framework is possible and that such a framework should rest on popular support and reflect a bipartisan commitment to fiscal responsibility. This framework should be transparent, grounded in fiscal targets that adjust with the business cycle, and should allow a responsible emergency response.

Key Points

- The United States is on a fiscal collision course. A properly functioning budget process should encourage debate on fiscal issues, set in motion negotiations over necessary trade-offs, and lead to better fiscal outcomes.
- Legislators have repeatedly neglected to follow the congressional budget process or have used it primarily for pursuing narrow policy priorities.
- Existing fiscal rules, such as the Budget Control Act, the Pay-As-You-Go budget rule, and the debt limit are inadequate for restraining auto-pilot spending as well as legislators' propensity to exploit budget loopholes.
- The United States can learn valuable lessons from two countries that have adopted successful fiscal restraints: Switzerland and Sweden.
- A sustainable fiscal framework should rest on popular support and reflect a bipartisan commitment to fiscal responsibility and should be transparent, grounded in fiscal targets that adjust with the business cycle, and should allow a responsible emergency response.

The United States is on a fiscal collision course. Projected spending, deficit, and debt levels are highly unsustainable and are growing automatically due to statutory rules and structural demographic and programmatic factors. Absent presidential and congressional leadership through the regular budget process, fiscal restraints are necessary to invoke reforms to out-of-control federal spending and borrowing and to avert a severe fiscal crisis in the United States. Existing U.S.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3374**

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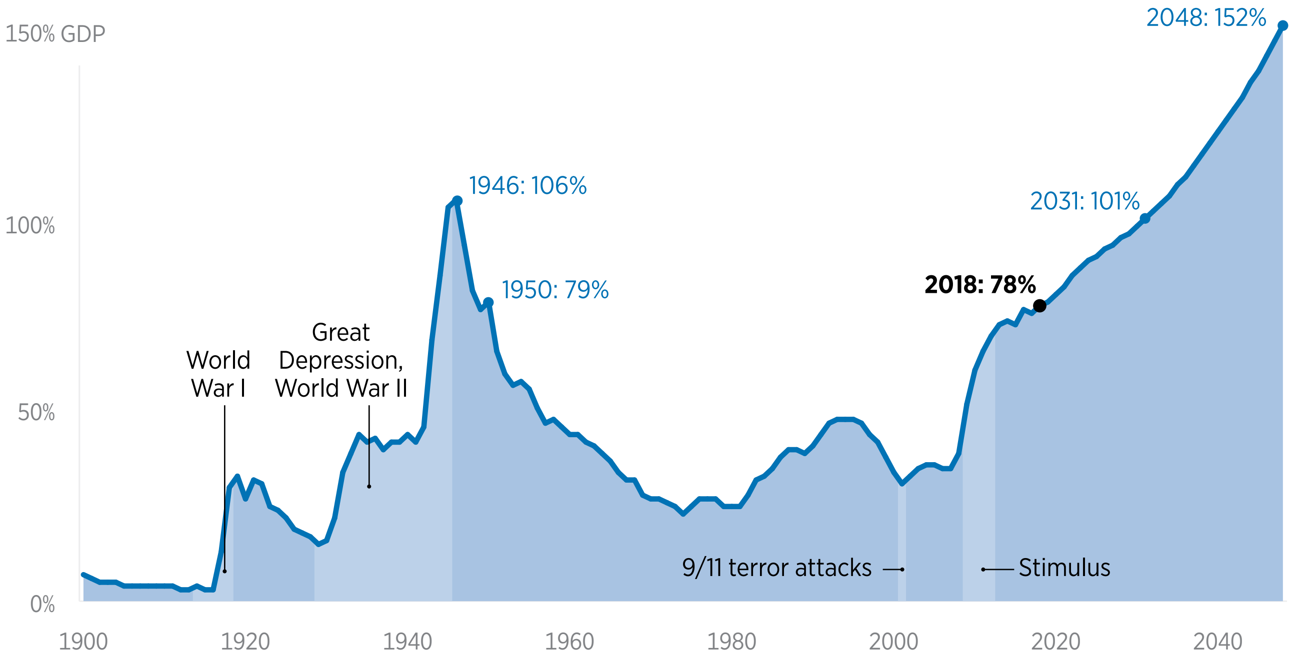
CHART 1

U.S. Debt Is Too High and Rising Rapidly



SOURCE: Congressional Budget Office, "The 2018 Long-Term Budget Outlook," June 26, 2018, https://www.cbo.gov/publication/53919 (accessed December 10, 2018).

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institutions and budget procedures are inadequate for addressing current and future fiscal pressures. Switzerland and Sweden offer the United States valuable insights into what makes for a successful fiscal framework and fosters a stable political commitment to fiscal sustainability.

The U.S. Fiscal Outlook

The latest fiscal and economic projections by the Congressional Budget Office (CBO), published in its 2018 *Budget and Economic Outlook*,[1] paint a clear picture. Spending and debt are growing at an unsustainable pace, greatly increasing the risks of a sudden fiscal crisis during which investors could demand much higher interest rates to continue lending to the U.S. government.

The CBO projects that outlays will grow from $4.1 trillion in 2018 to more than $7 trillion in 2028 in nominal dollar terms. Moreover, spending growth is projected to outpace economic growth, as outlays are expected to grow by 3 percentage points, from 20.6 percent of gross domestic product (GDP) in 2018 to 23.6 percent of GDP in 2028.

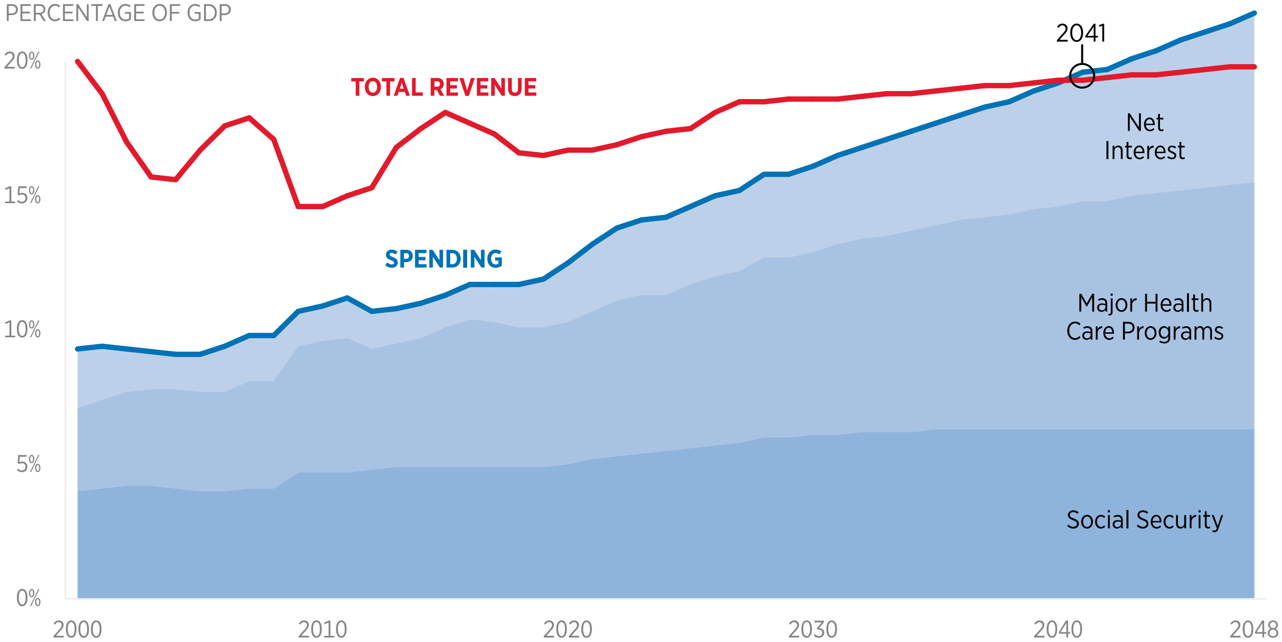
Meanwhile, tax revenues are projected to grow by approximately 2 percentage points, from 16.6 percent of GDP in 2018 to 18.5 percent of GDP in 2028. These projections assume that Congress will allow the 2018 tax cuts to expire on schedule. This is a highly unlikely proposition as doing so would mean the imposition of significantly higher taxes on the middle class—a politically unpopular move regardless of which party has control of the government.

The outlook beyond 10 years is even more dismal and demonstrates a highly unsustainable and worsening fiscal position for the United States over a 30-year horizon.[2] The CBO projects that federal spending during the decade from 2029 to 2038 will be about 25 percent of GDP, with federal revenues 6 percentage points below that level at about 19 percent.

1. Congressional Budget Office, *The Budget and Economic Outlook*: 2018 to 2028, April 9, 2018, www.cbo.gov/publication/53651 (accessed October 20, 2018).
2. Congressional Budget Office, *The 2018 Long-Term Budget Outlook*, June 26, 2018, https://www.cbo.gov/publication/53919 (accessed October 20, 2018).

CHART 2

Entitlements Plus Interest to Consume All Taxes by 2041



SOURCE: Congressional Budget Office, "The 2018 Long-Term Budget Outlook," June 26, 2018, https://www.cbo.gov/publication/53919 (accessed December 10, 2018).

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By that time, publicly held debt borrowed in credit markets would be 118 percent of GDP, more than triple the U.S. average level of debt over the past 50 years, and rising further from there.

The primary drivers of growing spending as a share of GDP are well known among those who study the U.S. federal budget. The aging of the U.S. population due to rising life expectancies and the retirement of the so-called baby-boom generation is putting a growing strain on old-age health care and retirement programs. Social Security and Medicare, as well as Medicaid spending on nursing care, are the key programmatic drivers of rising spending and debt.

In numbers, Medicare, Medicaid, health care subsidies, and Social Security make up more than half of the annual federal budget—and when combined with projected interest on the debt, are responsible for 85 percent of the projected growth in spending over the next 10 years.[3]

The other major budget category projected to grow sharply is interest on the national debt, due to rising interest rates and a larger overall debt accumulation.[4] Net interest is projected to more than double, growing by 2 percentage points of GDP, from 1.6 percent of GDP in 2018 to 3.6 percent in the decade from 2029 to 2038.[5]

Given current projections, major entitlement programs—Medicare, Medicaid, health care subsidies, and Social Security—and interest will consume all projected tax revenues by 2041.[6]

In recent years, legislators have also taken actions to further weaken the U.S fiscal position by circumventing budget limits to appropriate additional funds to federal government agencies, without making provisions for paying for the resulting increase in spending, and by reducing tax revenues without corresponding spending reductions.

3. Congressional Budget Office, *The Budget and Economic Outlook*: 2018 to 2028.
4. Ibid, p. 3.
5. Ibid. p. 2.
6. Congressional Budget Office, *The 2018 Long-Term Budget Outlook*.

Institutional Failure

The U.S. federal budget process is governed by the Congressional Budget and Impoundment Control Act of 1974, also referred to as the Budget Act.[7] The purpose of the budget process is to provide the framework for the regular and orderly debate of fiscal issues to guide legislative action. A properly functioning budget process should encourage debate on fiscal issues, set in motion negotiations over the trade-offs and considerations involved in congressional spending and taxing, and lead to budgetary decisions that improve fiscal outcomes.

The Budget Act lays out a clear timeline for this process: By the first Monday in February of each year, the President is to submit his budget to Congress. By February 15, the CBO issues its *Budget and Economic Outlook* report for the upcoming decade. Congressional budget committees use the CBO report as a starting point for crafting the House and Senate budget resolutions. These resolutions are debated in the House and Senate until mid-April when Congress is to complete consideration of the budget.

The resulting concurrent budget resolution must pass both chambers of Congress before congressional appropriations for federal agencies, programs, and grants are allowed to occur, by law. The budget is important to this process because it sets the topline spending figures for the upcoming fiscal year. Under regular order, the House is expected to have completed all floor action on appropriations bills by June 30. That leaves three months for the Senate to complete action and for the bills to be reconciled and then signed by the President before the beginning of the fiscal year.

The budget resolution also triggers another critical budget tool: reconciliation.[8] The purpose of reconciliation is to expedite consideration of budget legislation that changes revenues or direct (mandatory) spending, such that those changes bring government finances in line with the levels proscribed in the congressional budget resolution. While reconciliation is typically seen as a deficit-reduction tool, especially at times of high and rising deficits, the process itself establishes no such requirement. Reconciliation also facilitates increases in the debt limit.

In order to trigger reconciliation, Congress must include reconciliation instructions in the concurrent budget resolution and establish revenue and outlay baselines for a minimum of five years.

The reconciliation process enables Congress to fast-track mandatory spending and tax reform in the Senate, limiting debate and lowering the necessary vote threshold to a simple majority, instead of requiring 60 votes as is typical in the Senate to overcome a filibuster.[9]

Typically, the budget resolution covers a period of 10 years (11, including the current fiscal year). However, Congress is free to establish any budget window it chooses, as long as it covers at least five years.[10]

Legislators mostly followed the federal budget process for more than two decades, immediately following enactment of the Budget Act. For the most recent 21 fiscal years (FYs), from FY 1999 through FY 2019, however, the process has broken down as legislators have neglected to follow the process to avoid making decisions that reflect trade-offs necessary to improve the fiscal outlook. Congress completed a budget resolution in only 10 years and pursued reconciliation instructions in only eight years. Of these reconciliation bills, seven were enacted into law.[11]

While legislators are required to pass annual appropriations, the size and scope of the federal budget subject to such appropriations covers only about one-third of annual federal spending. Mandatory spending, or programs on "autopilot," make up more than two-thirds of annual federal spending, and they are the primary driver of growing deficits and debt. Budget reconciliation is one of the few, effective legislative tools that allow necessary spending adjustments in mandatory spending (though Social Security is exempt).

The reconciliation process requires active engagement by Congress. If Congress fails to make use of

7. Congressional Budget and Impoundment Control Act of 1974, Public Law 93–344, July 12, 1974, 88 Stat. 297.
8. Romina Boccia and Adam N. Michel, "Pathways for Pro-Growth, Fiscally Responsible Tax Reform," Heritage Foundation *Backgrounder* No. 3219, May 25, 2017, https://www.heritage.org/taxes/report/pathways-pro-growth-fiscally-responsible-tax-reform.
9. Debate in the Senate on any reconciliation measure is limited to 20 hours (10 hours on a conference report), and amendments must be germane.
10. Congressional Budget and Impoundment Control Act of 1974, Public Law 93–344, July 12, 1974, 88 Stat. 297.
11. Congressional Research Service, "Congressional Budget Resolutions: Historical Information," *CRS Report* No. RL30297, November 16, 2015, https://www.everycrsreport.com/files/20151116_RL30297_fdc638de54684334bc7f16b687b37d4ecfe7628a.pdf (accessed on October 20, 2018).

reconciliation, lawmakers face no immediate consequences as debt and spending continue spiraling out of control. The most recent instances of reconciliation used the process contrary to its intended goals of aligning current programs with the goals set out in the budget resolution. Instead, Democrats used the process in 2009 to pass the Affordable Care Act, adding a new entitlement to the already strained U.S. budget, and Republicans used it in 2017 to pass the Tax Cuts and Jobs Act, including a $1.5 trillion reduction in the revenue baseline.

At the same time that legislators have made less use of the congressional budget process, or used it primarily for pursuing narrow policy priorities, spending and debt have grown further out of control. This has warranted various attempts at imposing fiscal restraints, including deficit targets and stopgaps to new spending.

Inadequate Fiscal Rules

In 2018, the U.S. federal budget process is governed by three primary fiscal restraints that have largely proven to be inadequate. These are the Budget Control Act, Pay-As-You-Go rules, and the debt limit.

The Budget Control Act (BCA). The BCA passed Congress in August 2011, after nearly eight months of negotiations with the Obama Administration. In January 2011, then-Treasury Secretary Timothy Geithner warned Congress that sometime between late March and mid-May the federal government would exceed its legal borrowing limit of $14.3 trillion.[12] Several months after the debt limit came into effect, an agreement was forged and the BCA authorized a $2.1 trillion increase in the debt limit.

The BCA, in an effort to achieve enough savings to offset the $2.1 trillion increase in the debt limit, established discretionary spending limits for FY 2012 through FY 2021. The BCA further established defense and nondefense category caps within the overall funding levels. The BCA provided for the enforcement of these statutory caps by requiring that an automatic sequestration be triggered, with the sequestration of resources carried out by the Office of Management and Budget (OMB), if Congress appropriated funds in excess of the caps.

However, the BCA spared some of the largest programs within the federal government's mandatory budget. The BCA specifically excludes Social Security, Medicaid, the Children's Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP) from cuts. It also limits cuts to Medicare to 2 percent.[13]

While overall discretionary funding is limited by the caps, the BCA does allow certain upward adjustments to be made for purposes such as Overseas Contingency Operation (OCO) funding, as well as disaster- and emergency-designated funding and program-integrity initiatives.[14]

Congress has—several times—circumvented most of the components of fiscal restraint the BCA sought to impose. Congress was unable to adhere to the original discretionary-spending restrictions imposed by the BCA on defense spending without undermining U.S. military readiness. The resulting political dynamic gave big spenders leverage by holding adjustments to the defense caps hostage to funding increases for domestic spending. As a result, sequestration was delayed and partially cancelled in 2013, and the budget caps were revised each year afterwards.[15]

In addition to revising the spending caps themselves, Congress has also abused various emergency-spending provisions by treating them as loopholes for other spending. Since the beginning of the 115th Congress, domestic spending classified as an emergency has exploded from 5 percent of total domestic discretionary spending in 2016 to 22 percent in 2018.

Appropriations designated as an emergency by Congress are exempt from both the discretionary spending limits and from the pay-as-you-go law that requires all new mandatory spending to be offset by other mandatory spending cuts or revenue increases.

12. "Debt Ceiling: Timeline of Deal's Development," CNN, August 2, 2011, http://www.cnn.com/2011/POLITICS/07/25/debt.talks.timeline/index.html (accessed October 10, 2017).

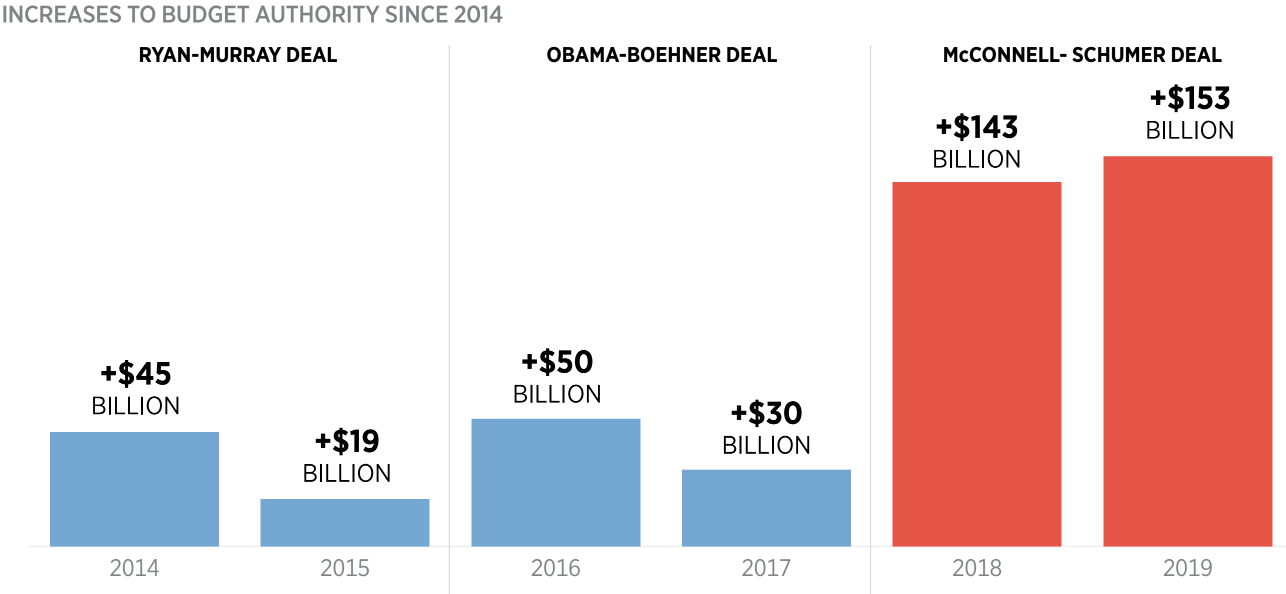
13. Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan, "The Budget Control Act of 2011," Congressional Research Service, August 29, 2018, https://fas.org/sgp/crs/misc/R41965.pdf (accessed December 12, 2018).

14. Grant A. Driessen and Megan S. Lynch, "The Budget Control Act: Frequently Asked Questions," Congressional Research Service, February 23, 2018, https://fas.org/sgp/crs/misc/R44874.pdf (accessed December 18, 2018).

15. Romina Boccia and Justin Bogie, "Reform the Budget Control Act Spending Caps," Heritage Foundation *Backgrounder* No. 3262, November 1, 2017, https://www.heritage.org/budget-and-spending/report/reform-the-budget-control-act-spending-caps.

CHART 3

Budget Control Act Spending Cap Increases



SOURCE: Congressional Budget Office, "CBO Estimate for Senate Amendment 1930, the Bipartisan Budget Act of 2018," February 8, 2018, https://www.cbo.gov/system/files?file=115th-congress-2017-2018/costestimate/bipartisanbudgetactof2018.pdf (accessed December 10, 2018).

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Emergency spending is supposed to be reserved for spending on wars, disasters, and other events that are sudden, unexpected, urgent, and temporary.

Since 2013, Congress has authorized $255 billion in emergency spending on domestic programs (including disaster relief, domestic spending for the global war on terrorism, and program-integrity measures) along with $481 billion in emergency funding above the spending limits for national defense.[16]

Spending limits are critical fiscal tools to encourage budgetary discipline. Spending limits can encourage Congress to prioritize among competing programs, facilitating greater transparency and more careful examination and debate of the trade-offs involved in federal spending decisions.

Yet statutory spending limits alone are not sufficient. Legislators must also have the will to abide by them and constituents must hold them to their commitments.

Pay As You Go (PAYGO). While discretionary spending is controlled by the Budget Control Act of 2011 and the 302(a) allocations provided in the congressional budget resolution, PAYGO controls changes in mandatory spending and revenues. Increases in discretionary spending are exempt from PAYGO.

The Statutory Pay-As-You-Go Act[17] requires that all legislation enacted during a session of Congress affecting mandatory spending or revenues must not increase the deficit over the five-year and 10-year budget windows, when considered cumulatively. There is also a Senate PAYGO[18] rule which prohibits the consideration of any direct (mandatory) spending and revenue legislation that would increase the deficit over a 10-year budget window. Legislation that would

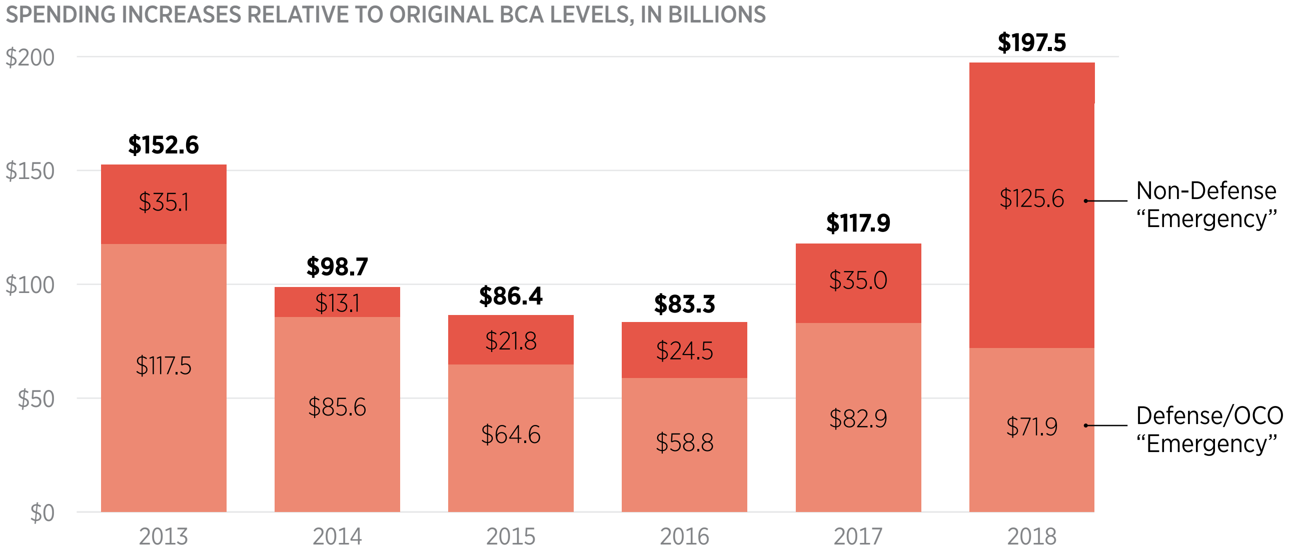
16. Romina Boccia, Justin Bogie, and Paul Winfree, "How Emergency Spending Has Exploded in Recent Years," The Daily Signal, September 19, 2019, https://www.dailysignal.com/2018/09/19/how-emergency-spending-has-exploded-in-recent-years/.

17. Robert Keith, "The Statutory Pay-As-You-Go Act of 2010: Summary and Legislative History," Congressional Research Service, April 2, 2010, https://democrats-budget.house.gov/sites/democrats.budget.house.gov/files/documents/CRS-stat-paygo.pdf (accessed April 21, 2017).

18. Bill Heniff, "Budget Enforcement Procedures: The Senate Pay-As-You-Go (PAYGO) Rule," Congressional Research Service, August 4, 2015, https://fas.org/sgp/crs/misc/RL31943.pdf (accessed April 21, 2017).

CHART 4

Congress Abuses Emergency Loophole to Spend More



SOURCE: Office of Management and Budget, "OMB Final Sequestration Report to the President and Congress for Fiscal Year 2018," April 6, 2018, https://www.whitehouse.gov/wp-content/uploads/2018/04/2018_final_sequestration_report_april_2018_potus.pdf (accessed December 10, 2018).

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increase direct spending or reduce revenues must also include equivalent amounts of direct spending cuts, revenue increases, or a combination of the two, in order to be considered deficit neutral.

The Senate PAYGO rule is enforced via a point of order. Any Senator may raise the point of order to prevent the consideration of legislation that would increase deficits via changes to mandatory spending or revenues.

The Statutory Pay-As-You-Go Act implements an automatic sequestration whenever Congress enacts legislation that increases the deficit via direct spending increases or revenue reductions, on net, during a session of Congress.

The OMB keeps two cumulative scorecards, counting the cumulative budgetary effects of all PAYGO legislation, averaged over rolling five-year and 10-year periods starting with the budget year. The OMB uses these scorecards to determine whether a sequestration is necessary. If Congress ends its session with a net PAYGO deficit on the five-year or 10-year scorecard for that year, the statutory PAYGO Act requires the President to issue a sequestration order, meaning the cancellation of budgetary resources for certain, non-exempt direct spending programs, as defined in law.

Similar to sequestration triggered by the BCA, a major shortcoming of the statutory PAYGO rule is that it applies sequestration to a very limited subset of mandatory spending programs. Many of the largest and fastest-growing programs are completely or partially exempt. Sections 255 and 256 of the Balanced Budget and Emergency Deficit Control Act exempt Social Security, Medicaid, and food stamps, among a host of other programs. Special rules apply to Medicare, limiting sequestration to no more than 4 percent of budgetary resources in any given year.[19]

As federal health care spending and Social Security are projected to drive more than half of the expected growth in spending over the next decade, current sequestration exemptions are woefully misguided. Although these programs require sensible, targeted reforms that secure benefits for vulnerable beneficiaries and reduce economic distortions driven

19. Balanced Budget and Emergency Deficit Control Act of 1985, Public Law 99–177.

by current program design, the threat of sequestration carries the promise of spurring debate over more deliberate reforms and cuts, in the face of looming indiscriminate reductions.

Another shortcoming is that the PAYGO principle does not apply to mandatory spending increases or tax reductions that occur under current law. Increases in mandatory spending due to existing statutes and tax changes codified in law do not trigger PAYGO provisions and do not require offsets.

Lastly, Congress also routinely evades the existing PAYGO requirements by including language in legislation excluding the costs from the PAYGO scorecard.[20] Statutory and rules-based fiscal restraints ultimately rely on political commitment to be effective.

The Debt Limit. The debt limit is a legislative fiscal restraint that imposes a limit on federal borrowing. It limits the amount of money or the dates during which the Treasury is authorized to borrow to finance federal deficit spending. At the debt limit, Treasury could find itself unable to meet all federal payment obligations on time. Absent specific guidance by Congress, Treasury and the President are confronted with a difficult decision: Prioritize spending in accordance with the national interest (making judgments that will be closely scrutinized in courts and by the public), or delay payments across the board, paying bills in the order in which they come due when sufficient revenues are available, regardless of the nature of those bills.

Several analysts and pundits argue that the debt limit is an archaic construct that serves no useful purpose.[21] They argue that because Congress authorizes all spending, it does not make sense to have a separate limit on borrowing that goes into effect after funds have already been committed.

Ideally, congressional decisions to spend and borrow would be aligned. However, there are at least three reasons why the debt limit serves a useful purpose: (1) the programs driving the majority of the growth in federal spending were authorized decades ago and are allowed to grow on autopilot with few congressional action-forcing deadlines to change those programs' trajectories; (2) the public does not understand that it is the most popular entitlement programs that are driving the growth in spending and the debt, and the debt-limit debate can help to elevate public understanding while at the same time providing political cover for lawmakers who seek to reduce spending on those programs; and (3) lawmakers only control some of the factors that drive the growth in the debt, and economic downturns or unanticipated increases in interest costs may mean that previously authorized spending should be reconsidered in light of factors outside Congress's control.

The debt limit provides an urgent and important deadline, enforced by possible painful fiscal measures, to motivate Congress to take action. At the same time, the debt limit provides the political cover necessary to make unpopular but necessary legislative decisions.

After all, it was a debt-limit negotiation that brought about the BCA. Leveraging the debt limit to impose fiscal restraint requires a willingness by Congress to use this powerful tool.

Since passage of the BCA, Congress has failed to put a current-dollar limit on the debt, opting instead to repeatedly suspend the debt limit. A debt-limit suspension technically renders the debt-limit statute inoperative. It allows unlimited borrowing by the Treasury through a certain date.

Debt-limit suspensions are a convenient way for Members of Congress to mask the consequences of their actions. Taxpayers will not know how much the debt increased as a result of Congress's earlier vote until after the debt-limit suspension ends and Treasury has exhausted its extraordinary measures.

When the debt-limit suspension ends, the debt limit is automatically increased to reflect the amount of borrowing that occurred since the last debt limit came into effect. In many ways, a debt-limit suspension is like giving the Treasury a credit card with no limit, or a blank check to be cashed against younger and future generations, valid until a certain date.[22]

20. Boccia and Michel, "Pathways for Pro-Growth, Fiscally Responsible Tax Reform."

21. Linda K. Kowalcky and Lance T. LeLoup, "Congress and the Politics of Statutory Debt Limitation," *Public Administration Review*, Vol. 53, No. 1 (January–February 1993), and Congressional Budget Office, "Federal Debt and Interest Costs," May 1993, https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/100xx/doc10024/1993_05_federaldebtandinterest.pdf (accessed on November 5, 2018).

22. Romina Boccia, "Blank Check: What It Means to Suspend the Debt Limit," Heritage Foundation *Issue Brief* No. 4149, February 14, 2014, http://www.heritage.org/research/reports/2014/02/blank-check-what-it-means-to-suspend-the-debt-limit.

Lawmakers often argue that suspensions allow them to schedule a more opportune legislative moment at which to enact spending control. Recent history, though, shows that Congress does not, in fact, enact spending control following suspensions of the debt limit. Instead suspensions are politically easier to pass than debt-limit increases and act similarly to a temporary debt-limit repeal, without incurring the corresponding political costs.

The debt limit itself is not sufficient to control the growth in the debt. Congress must act on its commitment to limit debt by controlling its key driver: out-of-control spending.

Effective Fiscal Restraints: An International Perspective

Other countries face demographic and political challenges similar to those faced by the United States, and yet, some countries have mustered a bipartisan political commitment to fiscal sustainability and adopted better processes of addressing fiscal pressures than others. The United States can learn valuable lessons from considering two countries that have adopted successful fiscal restraints: Switzerland and Sweden.

Switzerland. Following a large accumulation of deficits and debt in the 1990s, Switzerland adopted a constitutional balanced budget amendment based on a business cycle model in the early 2000s. This so-called Swiss debt brake was first applied to the Swiss budget in 2003.[23]

The Swiss debt brake enjoys overwhelming support among the Swiss population. The constitutional amendment was passed by popular referendum, with 85 percent support. The Swiss public is broadly aware of and supportive of fiscal rules, a feature that rests in large part on the simplicity and transparency of the Swiss debt brake.

Each year, the Swiss Federal Finance Administration calculates a spending ceiling based on projected revenue and a GDP adjustment factor. Taxation is limited by the Swiss constitution, and Swiss residents pay their taxes directly, rather than by automatic withholding, such that the Swiss are keenly aware of how much they are being taxed.

This GDP adjustment factor is based on the difference between "real" and "potential" GDP. The adjustment factor allows for spending to be higher than revenues during an economic downturn and reduces spending to below projected revenues during an economic boom. This allows the Swiss government flexibility to respond to macroeconomic shocks while building fiscal space during good times, and maintaining overall budget balance.

The system uses a notional "compensation account" to track deficits. Net deficits accumulated over the course of a business cycle would require a reduction in the spending cap during economic boom times to pay for previous borrowing.

If a surplus develops over a business cycle, this surplus will reduce the Swiss debt. As Switzerland has seen strong surpluses in recent years, the Swiss national debt has been reduced rapidly.

Swiss legislators also retain flexibility to allow for emergency spending above the spending ceiling, with an absolute majority in both chambers of the Swiss parliament. Emergency spending, too, is tracked in a notional amortization account. Similar to the compensation account, the Swiss debt brake imposes rules to ensure any emergency appropriations are paid back, rather than adding to the long-term debt.

Certain spending accounts with dedicated revenues, such as unemployment insurance and social security, are exempt from the Swiss debt brake as spending on these programs is already limited by other means. Government health care spending is primarily funded at the cantonal level with little expenditure by the Swiss central government.

Based on interviews conducted by the author with representatives of the Swiss Federal Finance Administration in March 2018,[24] the Swiss debt brake is enforced by political consensus. More than a rule on paper, the Swiss debt brake codifies a popular, bipartisan commitment to fiscal prudence. Swiss legislators abide by the fiscal rules in place, with broad support from the Swiss population.

Larger-than-projected revenues in recent years have rapidly reduced the Swiss national debt, leading

23. Jenny Gesley, "Switzerland: Implementation of Article 126 of the Swiss Constitution–The "Debt Brake," June 2016, The Law Library of Congress, https://www.loc.gov/law/help/debt-brake/switzerland.php (accessed October 20, 2018).

24. Adrian Martinez, Deputy Head, Budgetary Policy Unit, "The Swiss Debt Brake," Power Point Presentation, Federal Finance Administration, Bern, March 28, 2018, on file with Romina Boccia.

to the establishment of a review committee considering how to respond to the huge success in Swiss fiscal consolidation.[25] The group of experts recommended tax reductions, interpreting consistent budget surpluses as a sign that tax revenue is higher than necessary.

Sweden. Similar to Switzerland, Sweden imposed a new fiscal rules framework to address rising deficits and debt in central government finances in the 1990s. The Swedish fiscal framework consists of a surplus target, a spending limit, and a debt anchor.

The Swedish parliament establishes its own surplus target, to be reviewed in every second electoral term. The Swedish parliament also establishes a spending limit governing the following three years, with the intent to achieve the surplus target.

A debt anchor was introduced recently as a supplementary goal post, without being an operational target. If the Swedish debt differs from the debt anchor by more or less than 5 percent of GDP, it triggers a reporting requirement.

Sweden also established a special Fiscal Policy Council, an outside body tasked with reporting on how well the Swedish government is complying with its fiscal rules.

Based on interviews conducted by this author with representatives from the Swedish National Institute of Economic Research in April of 2018, the Swedish fiscal framework is aided by less-than-full indexation of social benefit programs and notional accounts for the Swedish pension system with built-in triggers, which reduce the generosity of pension indexation and rates of return for contributions to secure fiscal solvency. Sweden does not have open-ended entitlement programs that grow automatically, regardless of available revenues.

The Swedish welfare state is structured to target those who require assistance while keeping disincentives to work at a minimum. Sweden has maintained a relatively constant ratio of social spending to GDP of 27 percent[26] despite the country's more extensive commitment to governmental social welfare policy.[27]

Lastly, relatively high overall tax burdens have allowed Sweden to maintain fiscal balance despite large public spending commitments.

U.S. Lacks Comprehensive Fiscal Framework

The United States fiscal framework suffers from several shortcomings compared to its Swiss and Swedish partners.

The U.S. has no constitutional amendment to guide legislative fiscal decisions. The Constitution puts Congress firmly at the center of spending, taxing, and borrowing decisions but the founding document is silent concerning fiscal sustainability or budget balance.

There are no comprehensive fiscal targets to guide the U.S. budget process in statute. While the congressional budget process dictates that Congress set spending and revenue targets in the annual budget resolution, Congress rarely agrees on a budget resolution—yet federal spending continues. Legislators can appropriate monies and the Treasury will pay to cover entitlement program commitments even in the absence of a budget resolution.

The primary cause for the institutional and procedural failure of the U.S. budget process to secure fiscal sustainability is the lack of a shared fiscal goal and resulting absence of a corresponding political commitment.

Unlike in Switzerland and Sweden, following the emergence of a significant fiscal gap in central government finances, there has been no serious attempt in the United States to adopt a comprehensive fiscal framework on the basis of fiscal targets enforced by spending limits or to peg federal spending to a measure of GDP that corresponds with the economic cycle.

A few attempts have been made to implement a more comprehensive fiscal framework, though most of these were partisan plans with little support from legislators from either party and neither garnered sufficient support for passage:

25. Expertengruppe Schuldenbremse, "Gutachten zur Ergänzung der Schuldenbremse" (Assessment of the Supplementation to the Debt Brake) (in German), Federal Department of Finance, Switzerland, https://www.newsd.admin.ch/newsd/message/attachments/49483.pdf (accessed October 27, 2018).

26. Organization for Economic Cooperation and Development, "Social Expenditure–Aggregated Data," OECD.Stat, https://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG (accessed December 12, 2018).

27. Edward Palmer, "Financial Sustainability of Swedish Welfare Commitments," Policy Research Institute, Ministry of Finance, Japan, *Public Policy Review*, Vol. 10, No. 2 (July 2014), https://www.mof.go.jp/english/pri/publication/pp_review/ppr025/ppr025a.pdf (accessed October 27, 2018).

The Penny Plan. Representative Mark Sanford (R–SC) and Senator Mike Enzi (R–WY) introduced the "Penny Plan," which suggested implementing an aggregate spending cap and "cut[ting] a single penny from every dollar the federal government spends," in accordance with the plan's name.[28]

This plan would have imposed a spending cap or limit for total non-interest outlays minus 1 percent in year one. For each of the subsequent five years, outlays would be capped at the previous year's level (not including net interest payments) minus 1 percent. After five years and for all subsequent years, total spending would be capped at 18 percent of GDP, in line with the historical revenue average. Automatic spending cuts or sequestration would enforce the spending cap in the absence of more deliberate congressional reforms to achieve the spending target.

Unlike the current form of sequestration applied to the BCA spending caps, the Penny Plan would not exempt any of the programs listed under the Balanced Budget and Emergency Deficit Control Act of 1985, except payments for net interest. The Penny Plan was primarily successful as a political document with little legislative action toward its implementation.

The Maximizing America's Prosperity (MAP) Act. The MAP Act,[29] introduced by Representative Kevin Brady (R–TX) would cap federal non-interest spending at a percentage of full-employment GDP or potential GDP for cyclical adjustment. Lawmakers would be able to spend more during periods when the economy is weak, and deficits incurred to smooth out business cycles would be offset with surplus revenues when the economy is at full employment.

Sequestration would be limited in size and scope, affecting only those programs not exempt from sequestration under the Balanced Budget and Emergency Deficit Control Act of 1985. The idea is that, as discretionary programs that finance domestic and defense priorities get squeezed, this will bring about the political consensus to address the key drivers of spending growth: health care and Social Security. The MAP Act garnered little political support in Congress.

The Business Cycle Balanced Budget Amendment (BBA). This smart BBA, introduced by Representative Justin Amash (R–MI), would cap federal non-interest spending based on the average annual revenue collected over the three prior years, adjusted for inflation and population.[30] Congress would need to pass implementing legislation to carry out the necessary spending changes to achieve the savings determined by the outlay cap. Public humiliation for breaching the caps would have been expected to motivate spending reforms. This approach garnered little support in Congress.

Cut, Cap, and Balance. The Cut, Cap, and Balance Act[31] would have placed statutory caps on federal spending and required the passage of a BBA to the U.S. Constitution before increasing the nation's debt ceiling. The act would have imposed separate limits on discretionary spending and mandatory spending with exemptions for Social Security, Medicare, veterans programs, and interest spending. In each subsequent year for 10 years, the act would have placed a spending ceiling on all non-interest outlays at a declining percentage of GDP until spending as a percentage of GDP was no higher than 19.9 percent. Automatic spending cuts or sequestration would have secured compliance with this spending cap, exempting payments for military personnel and health care, Medicare, military retirement, Social Security, veterans, and net interest. Cut, Cap, and Balance was part of the discussions during the 2011 debt-limit impasse. President Barack Obama and then-Speaker of the House John Boehner (R–OH) ultimately settled on the 2011 BCA instead.

To the extent that the United States has an effective budget process on paper, this process has been rarely, if ever, followed as intended over at least the past two decades. U.S. spending and borrowing operates largely on an autopilot and ad hoc basis.

28. Romina Boccia and Justin Bogie, "How the Federal Government Can Get Its Spending Under Control," The Daily Signal, July 12, 2016, https://www.dailysignal.com/2016/07/12/how-the-federal-government-can-get-its-spending-under-control/; and Romina Boccia, "'Penny Plan' Puts the Spotlight on Out-of-Control Federal Spending," The Daily Signal, April 26, 2018, https://www.dailysignal.com/2018/04/26/penny-plan-puts-the-spotlight-on-out-of-control-federal-spending/.

29. H.R. 2471, Maximizing America's Prosperity Act of 2015, https://www.congress.gov/bill/114th-congress/house-bill/2471 (accessed October 27, 2018).

30. Justin Amash, "Business Cycle Balanced Budget Amendment," Power Point Presentation, May 2011, https://amash.house.gov/sites/amash.house.gov/files/BCBBA%20-%20Long%20Description%20with%20Graphics_1.pdf (accessed on October 27, 2018).

31. H.R. 2560, Cut, Cap, and Balance Act of 2011, https://www.congress.gov/bill/112th-congress/house-bill/2560/text (accessed October 27, 2018).

Spending on social welfare and other mandatory programs is driven by programmatic criteria, irrespective of tax revenues, with irregular review by legislators. More than two-thirds of federal spending in the U.S. effectively operates on autopilot.

Discretionary spending requiring annual appropriations, meanwhile, has failed to abide by statutory fiscal commitments, most recently the BCA. With previously established spending limits being revised by political deals and with the absence of adequate fiscal offsets, U.S. legislators have also resorted to abusing budgetary exemptions intended for emergency needs to finance ongoing operations in an attempt to further evade fiscal restraints.

Unlike in Switzerland, where emergency spending is tracked in a notional account and required to be offset in future years, emergency spending is exempt from fiscal rules in the United States with no provision to ensure future repayment.

The U.S. budget process is highly convoluted and complex, and federal legislative staff and even legislators who are not in key positions on budget committees, as well as the public, lack a solid understanding of how the process works. A lack of transparency and simplicity facilitate an irresponsible spending process since constituents have difficulty assigning blame for fiscal failures and holding legislators accountable.

Toward Effective Fiscal Restraints for the United States

The United States will soon reach a tipping point as fiscal projections concerning unsustainable deficits and debt could bring about a fiscal crisis. Now is the time for U.S. legislators to adopt a more sustainable fiscal framework to ensure a strong economy for the future. Such a framework, based on lessons from Switzerland and Sweden should:

- **Rest on a popular base of support.** Constituents are the ultimate arbiters of political success. In both Switzerland and Sweden, the population is highly aware and highly supportive of government policy to achieve overall budget balance. A lasting framework for fiscal sustainability must be based in popular awareness and support for restraining government budgets.

- **Reflect a bipartisan political commitment.** A lasting political commitment must reflect bipartisan recognition that fiscal sustainability is an important and timeless goal. Legislators of both parties must be committed to protecting younger and future generations from undue debt burdens.

- **Be transparent.** In order for legislators to follow the budget process and for constituents to be able to hold them accountable, a sustainable fiscal framework must be transparent. It should account for all spending and taxes, and the public should be able to access regular reports on the fiscal state of the nation. Moreover, a non-partisan fiscal entity, such as the CBO, should provide regular, public updates on how well legislators are abiding by the fiscal framework.

- **Establish and maintain fiscal targets.** A sustainable fiscal framework should establish and maintain short-term, medium-term, and long-term fiscal targets. Targets for spending and revenues should drive a gradual decline from today's historically high levels of public debt to a level that reflects the U.S. historical debt burden and ensures a fiscally sustainable path. Fiscal targets should be regularly reviewed and enforced by budget-process tools, including reconciliation and through automatic savings.[32]

- **Adjust with the business cycle.** A sustainable fiscal framework should be responsive to economic fluctuations and resulting needs and pressures. During periods of economic weakness, a sustainable fiscal framework should allow the flexibility to respond to an economic shock with automatic stabilization policies that build a buffer against excessive economic insecurity. During periods of economic strength, the framework must be sufficiently disciplinary to allow the economy to flourish without excessive fiscal stimulus and to generate fiscal space for when economic crisis strikes next.

- **Provide for emergencies.** When natural disaster strikes and when a national security threat

32. A related budget process reform was proposed by the House Committee on the Budget in November 2016. Committee on the Budget, U.S. House of Representatives, "Proposed Rewrite of the Congressional Budget Process, Summary of Selected Provisions," November 30, 2016, p. 5, https://budget.house.gov/uploadedfiles/bpr-shortsummary-30nov2016.pdf (accessed December 12, 2018).

arises, legislators must be able to be responsive. A sustainable fiscal framework should account for disaster assistance that is expected to occur on a foreseeable basis in a designated disaster-related account, with specific guidance regarding the circumstances during which such funds become available. While hurricanes, floods, and wildfires are natural disasters, they occur with relative predictable frequency in the United States and can thus be budgeted for. For large-scale, unforeseen disasters and threats, a sustainable fiscal framework should impose a sufficiently high voting threshold for emergency spending to require broad, bipartisan support and should account for such spending in a notional account that would be required to be paid back over a business cycle, to allow for the immediate expense without permanently burdening the fiscal account.

Prospects for a Sustainable Fiscal Framework in the United States

Recent actions by the U.S. Congress and the Administration paint a grim picture for a sustainable fiscal framework in the United States. Political tensions are high and legislators of both parties have resorted to making unfunded and unsustainable promises to their respective constituents concerning the preservation of current spending policies for popular entitlements, immediate tax relief, and the establishment of new entitlements, such as paid family leave and Medicare for all.

As was the case in Switzerland and Sweden, prior to the adoption of their respective sustainable fiscal frameworks, it may take a crisis to awaken the American people and their legislators to the highly unsustainable fiscal trajectory that characterizes current U.S. budget policy and to motivate necessary reforms. The most recent fiscal restraint enacted by legislators in the U.S. came on the heels of a global financial crisis which led to a political movement in the United States (the Tea Party) that demanded better budget policy. The Budget Control Act of 2011 proved to be inadequate to provide a sufficient fiscal framework for a more sustainable budget policy in the United States and its limited success was short-lived.

Legislators should learn valuable lessons from Switzerland and Sweden and adopt a transparent, sustainable fiscal framework that rests on popular support, reflects a bipartisan commitment, is based on fiscal targets that adjust with the business cycle, and allows a responsible emergency response.

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