THE BUDGET ACT AT FORTY
Time for Budget Process Reform

The Congressional Budget and Impoundment Control Act may be the most important piece of budget process legislation ever enacted in the United States. Yet its essential rules and procedures, adopted 40 years ago, are no longer adequate to meet the most pressing fiscal challenge facing the nation: the rapid rise in spending for federal entitlement programs. Indeed, the current budget process allows the welfare state to continue expanding, putting increasing pressure on other portions of the federal budget. The government is already expected to rack up $7.6 trillion in new borrowing over the next 10 years and to drive its publicly held debt to the size of the entire economy in about two decades.

Reforming the congressional budget process is no substitute for actual policy changes that can correct the government's fiscal problems. Yet according to a new study published by the Mercatus Center at George Mason University, the right kinds of process reforms can open up new potential for agreement between Congress and the president and can focus attention on long-term spending commitments.

Please see "The Budget Act at Forty: Time for Budget Process Reform" to read the entire study and learn more about its author, James C. Capretta, a senior fellow at the Ethics and Public Policy Center and a visiting fellow at the American Enterprise Institute.

THE ORIGINS OF TODAY'S BUDGET PROCESS

The Budget Act was created with two principal aims: to turn back President Nixon's constitutional overreach in budgeting and to organize Congress's budgetary procedures.

- President Nixon had pushed constitutional limits by refusing to obligate funds explicitly appropriated by Congress for what he considered low-priority programs. More than any other reason, Congress passed the Budget Act to rein in this practice of "impoundment." The balance of the legislation aimed at bolstering the legislative branch's role in policymaking, relative to the executive, by creating an organized congressional process for budget development.

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- The Budget Act's most important institutional change was the creation of the House and Senate budget committees and the Congressional Budget Office (CBO). With the help of CBO's independent and nonpartisan budgetary analyses, the budget committees would develop a Congressional Budget Resolution (CBR) to serve as a counter or response to the president's annual budget submission.

- The CBR is built on allocations of spending and taxing authority to the various congressional committees with jurisdiction over government programs. If a committee writes a bill that exceeds its allocated spending authority, it violates the budget rules and puts the legislation in jeopardy.

THE BUDGETARY ELEPHANT IN THE ROOM

One of the key problems with the current budget process is that it does not compel policymakers to address the runaway spending of the welfare state.

- For annually appropriated "discretionary" spending, Congress adopts spending limits that can be enforced through automatic cuts if attempts are made to provide funding above the caps.

- In the case of entitlement programs, however, total spending is determined by complex provisions defining what will be paid, under what circumstances, to deliver benefits promised by law. CBO estimates these amounts in each program's "baseline." If Congress wishes to change these spending levels, it can do so through an optional, fast-track procedure called "reconciliation," which is triggered by instructions in the budget resolution and is not subject to a Senate filibuster. Consequently, a reconciliation bill needs only 51 votes to pass in the Senate, as opposed to the 60 required for most major legislation.

- Nevertheless, nothing compels Congress to make such changes in entitlement programs, and in the absence of such requirements, committees of jurisdiction can comply with the budget by simply doing nothing—letting the programs spend the projected amounts, no matter how rapidly they might be growing.

- In addition, there is nothing to force Congress and the president to agree on a common set of fiscal targets that can be enforced by law. As a result, the two branches spend much of the year operating from different budget plans, leading to a mad scramble at the end of the year to keep the government operating.

A JOINT BUDGET RESOLUTION

One partial antidote to budgetary drift, rising entitlement spending, and endless inertia is the joint budget resolution (JBR).

- Unlike the current congressional budget, a JBR must be signed by the president. Thus, it could facilitate an agreement between the executive and legislative branches on key budgetary aggregates that would govern decisions later in the year. If the president signed the JBR, its principal figures—total discretionary and mandatory spending, revenues, deficits, and debt—would have the force of law. If the president vetoed the measure, Congress could fall back to its own resolution.

- It is critical that a JBR have the capacity to set limits on mandatory spending, along with discretionary spending caps and a floor for revenues. This would ensure Congress and the president truly engage in budgetary decision-making.

THE ALL-IMPORTANT ENFORCEMENT DESIGN

The JBR can be effective only if its spending limits are enforced even without further legislative action by Congress. The current "sequestration" mechanism—across-the-board cuts if spending limits are breached—exempts too many programs and imposes irrational cuts that do not promote real reform. An effective enforcement mechanism should do the following:

- Exempt programs serving very-low-income Americans, such as Supplemental Security Income, even as it implements modest restraint for the highest income categories eligible for other income-tested programs.
- Explicitly include Medicaid in the reductions, reducing state matching payments commensurate with the needed savings. This would require greater flexibility for states to accommodate the federal cut.
- Devise Medicare cuts that promote reform rather than hindering it. For instance, requiring higher-income beneficiaries to pay more for their services would promote more cost-conscious consumption of medical care.
- Preclude any automatic increases if spending came in below the budget resolution caps. Any new spending would require legislation.

OTHER POTENTIAL REFORMS

- *Repeal pay-as-you-go*. Pay-as-you-go embodies the notion that fiscal responsibility means only "paying for" newly enacted spending commitments. It fails to recognize that sound fiscal policy focuses on spending control.
- *Allow expedited consideration of Social Security reform*. Allow fast-track consideration of legislation that achieves a long-term objective, such as eliminating Social Security's long-term unfunded liability.
- *Automatically continue government operations*. Instead of allowing potential government shutdowns to stoke partisan tensions, the budget process should provide for continued funding at gradually declining levels to encourage both branches of government to agree on full-year funding levels.