



## REPAIRING WASHINGTON'S BROKEN BUDGET PROCESS

A COMPREHENSIVE APPROACH TO STRENGTHEN SPENDING CONTROLS, ENHANCE ACCOUNTABILITY, AND INCREASE TRANSPARENCY IN THE FEDERAL BUDGET PROCESS

December 7, 2011

### KEY POINTS:

- The federal budget process is broken; Washington stumbles from budget crisis to budget crisis with little to no oversight of how government spends hardworking taxpayers' money.
- The incentives currently favor those who seek to increase government spending, and the result is a crushing burden of debt that is hurting economic growth today and threatening economic prosperity tomorrow.
- The legislative action items detailed in this report would help lawmakers confront this crisis by:
  - Creating new tools to cut wasteful spending while strengthening caps on borrowing and spending;
  - Enhancing oversight while curbing practices that assume automatic spending increases; and
  - Increasing transparency by forcing government to account more fully for all taxpayer liabilities.

### Introduction

The congressional budget process is broken and ineffective. The current budget process is intended to effectively prioritize taxpayers' dollars and provide rational controls over spending. Right now, it is not performing either function well. Over 60 percent of the budget is on automatic pilot and lies outside the regular control of Congress. The U.S. Senate has not passed a budget in over 950 days, while government spending continues to grow at a dangerously unsustainable pace. This year, Senate Democrats not only failed to pass a budget resolution: They failed to even *propose* one.

To address a broken budget process, members of the House Budget Committee are introducing a series of bills to reform the process and give policymakers new tools to bring spending under control; to get deficits and debt under control; to enhance oversight; and to increase transparency in the budget process:

### Spending Control

- I. **The Legally Binding Budget Act** (Lead sponsor: Rep. Diane Black of Tennessee)
  - Gives the budget the force of law by converting it from a concurrent to a joint resolution, which requires the President's signature. Upon a presidential veto, the joint resolution automatically reverts to a concurrent resolution.
- II. **The Spending Control Act** (Lead sponsor: Rep. John Campbell of California)
  - Establishes binding limitations on federal spending and deficits – all enforced by a sequester of no more than 4 percent of programs – within each category if the program is growing faster than inflation.

- III. **The Expedited Line-Item Veto and Rescissions Act** (Lead sponsors: Chairman Paul Ryan of Wisconsin, Ranking Member Chris Van Hollen of Maryland)
- Provides for the expedited consideration by Congress of specific requests by the President to reduce discretionary spending in appropriations legislation.

### Enhanced Oversight

- IV. **The Biennial Budgeting and Enhanced Oversight Act** (Lead sponsor: Rep. Reid Ribble of Wisconsin)
- Establishes a biennial budgeting cycle where Congress adopts a budget resolution in the first session of Congress (i.e., odd-numbered years) and considers authorization legislation in the second session, providing greater opportunities for review of government spending.
- V. **The Baseline Reform Act** (Lead sponsor: Rep. Rob Woodall of Georgia)
- Reforms the budget “baseline” to remove automatic inflation increases in discretionary accounts and to require a comparison to the previous year’s spending levels.
- VI. **The Government Shutdown Prevention Act** (Lead sponsor: Rep. James Lankford of Oklahoma)
- If Congress fails to enact appropriations bills by the beginning of the fiscal year (Oct. 1), provides automatic authority to fund programs at a slightly reduced rate from the previous year’s level.
- VII. **The Review Every Dollar Act** (Lead sponsor: Rep. Jason Chaffetz of Utah)
- Requires periodic sunset reviews and reauthorization of all federal programs to ensure the programs perform an appropriate role and are operating effectively.
  - Requires all transfers from the general fund to the Highway Trust Fund to be offset or counted as new spending.
  - Removes all direct spending provisions from Pell Grants and moves all funding to the discretionary spending category.
  - Requires any new rule or regulation promulgated by the administration that includes new spending to be explicitly funded by Congress before such regulations take effect.
  - Provides a mechanism through which Members can devote savings from spending bills to deficit reduction.

### Full Transparency

- VIII. **The Balancing our Obligations for the Long Term (BOLT) Act** (Lead sponsor: Rep. Mick Mulvaney of South Carolina)
- Caps total spending over the long term to reduce the burden of government to no more than 20 percent of the economy by gradually reducing spending.
  - Requires Congress to review long-term budget trends every five years and provides a fast-track legislative process to put federal spending on a sustainable path.
  - Authorizes reconciliation of long-term savings (beyond the current limit of the budget resolution’s typical ten-year window, up to 75 years) in Social Security, Medicare, and Medicaid.
  - Requires CBO long-term estimates beyond the ten-year window.
  - Requires the President’s budget to extend beyond the ten-year window.
  - Strengthens the statutory requirement directing the President to submit legislation to save Medicare if the general fund subsidy to the program exceeds 45 percent of the program’s costs.
  - Requires GAO and OMB to report annually on the federal government’s unfunded obligations.

- IX. The Budget and Accounting Transparency Act** (Lead sponsor: Rep. Scott Garrett of New Jersey)
- Reforms the Credit Reform Act to incorporate Fair Value accounting principles.
  - Recognizes the budgetary impact of the GSEs by formally bringing the entities on-budget.
  - Brings the U.S. Postal Service on-budget.
  - Requires a CBO & OMB study on offsetting receipts/collections/revenues.
  - Requires all federal agencies make public the budgetary justification materials prepared in support of their requests for taxpayer dollars.
- X. The Pro-Growth Budgeting Act** (Lead sponsor: Rep. Tom Price of Georgia)
- Requires CBO to provide an assessment of the macroeconomic impact of major legislation.

The following House Budget Committee report explores the sources of dysfunction in the federal budget process, while providing additional details on this series of legislative proposals that would give lawmakers more effective tools to repair this broken process, get government spending under control, and promote economic growth.

### **How the Process Broke Down**

The Senate's ongoing failure to fulfill one of the most basic responsibilities of governing could not have come at a worse time for the nation. Rarely has the need for fiscal discipline and spending control been clearer. The nation's total debt recently surpassed \$15 trillion – roughly the size of the entire U.S. economy. University of Maryland economist Carmen Reinhart, who is considered one of the nation's foremost experts on sovereign debt crises, testified before the House Budget Committee last spring that letting total debt rise above 90 percent of GDP creates a drag on economic growth and intensifies the risk of a major economic crisis.<sup>1</sup>

Furthermore, recent projections from the Congressional Budget Office (CBO) make clear that we face a spending-driven debt crisis.<sup>2</sup> Federal government revenues are projected to return to pre-crisis levels by 2021. But federal government spending is projected to rise far beyond its pre-crisis norm – to 26 percent of GDP by 2021 and 34 percent by 2035.

It is this 70 percent increase in government spending as a share of the economy – not insufficient revenue – that is driving the U.S. government and the U.S. economy to the crisis point. And the breakdown of the federal budget process – a failure of both political parties – deserves a large portion of the blame.

Despite the best intentions of budget reformers over the years, mechanisms for spending restraint have broken down over time, and the rules remain stacked in favor of politicians who want to spend more money. The federal budget process contains numerous structural flaws that bias the government toward ever-higher levels of spending. Large swaths of the budget are not held accountable on a regular basis, and federal budget rules, which are written by Congress, assume that taxpayer money belongs to Washington, not taxpayers. And the processes by which the federal government spends money lack the transparency that is needed for taxpayers to hold Congress accountable.

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<sup>1</sup> Reinhart, Carmen M. Testimony before the U.S. House, Committee on the Budget. *Lifting the Crushing Burden of Debt*. Hearing, March 10, 2011.

<sup>2</sup> Congressional Budget Office. *2011 Long-Term Budget Outlook*. June 2011. <http://cbo.gov/doc.cfm?index=12212>

## A Failure to Control Spending

The most egregious failing of the current process is that it has discouraged spending controls while enabling higher taxes and the evasion of Congressional responsibilities.

This failure has several causes:

*The Budget's Fundamental Weakness:* The current process produces one budget from the President and one from Congress. There is no mechanism to encourage agreement between Congress and the President on overall budget goals. As a result, any agreements on spending and tax legislation are piecemeal and ad hoc, if they occur at all.

Too often, this process creates conflicts that make it more difficult to discipline spending and reduce deficits and debt. Furthermore, the congressional budget is a "concurrent resolution," binding Congress through points of order but not the President through the force of law. Neither Congress nor the President has a statutorily compelling reason to adhere to the budget.

One reason government has lurched from one budget crisis to the next is that the current system has made it all too easy for policymakers to abandon responsible budgeting. The dismal results – an administration that has not put forward a credible budget; a Senate that plans on going *four years* without passing a budget; and uncertainty about government policy weighing on small businesses and hampering job growth – speak for themselves.

*Too Many Loopholes Allow Congress to Evade Spending Restraints:* The budget process contains various loopholes that can be exploited to violate budget limits. The Rules Committee can waive Budget Act points of order on a given bill. But the biggest enforcement loopholes concern the treatment of direct spending.

When spending caps have been implemented in the past, too many direct spending programs have been exempted from sequestration or subject to special rules to limit the effect of a sequestration. Over 90 percent of mandatory spending is either exempt from spending caps or operates under special rules that limit reductions to those programs.

Additionally, under the existing budget enforcement rules, the spending and revenue effects that result from a provision designated as an emergency are exempted from budget caps and a number of other budget enforcement measures. The vast majority of "supplemental" spending has been designated as "emergency" spending, and the two terms are often used interchangeably.

Over the past ten years, the use of supplemental appropriations to enact emergency spending has increased dramatically. According to the CBO, supplemental spending totaled \$99 billion in the 1980s and \$86 billion in the 1990s. By contrast, from 2000 to 2009, supplemental appropriations often exceeded \$100 billion *per year*. According to the Peterson-Pew Commission on Budget Reform, emergency spending during FY2001-2010 was about \$2 trillion. In FY2009 alone, emergency spending totaled \$470 billion, *over 60 percent of which was attributable to stimulus measures.*<sup>3</sup>

While there are legitimate uses of the emergency designation, in the current system, emergency spending has been abused in order to get around budget plans, challenging the effective allocation of limited resources.

*Failure to Secure Line-Item Veto Legislation:* Budget reformers have long struggled with the problem of how to deal with the fact that large and necessary pieces of legislation often become vehicles for wasteful special-interest spending. In 1996, Congress passed the Line Item Veto Act (P.L. 104-130) allowing the President to cancel any dollar amount of discretionary budget authority, any item of new direct spending, or certain limited tax benefits contained in any law, unless disapproved by Congress. But this law was poorly designed, and on June 25, 1998, the Supreme

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<sup>3</sup> Peterson-Pew Commission on Budget Reform. "Budgeting for Emergencies." August 2011.

Court, in the case of *Clinton v. City of New York*, held the law unconstitutional on the grounds that the law violated the presentment clause.

Since that time, Congress has attempted to deal with the problem in other ways, most recently in an agreement to ban earmarks enacted following the 2010 elections. But an earmark ban is not as strong a protection for taxpayers as a legislative line-item veto would be. It is possible for Congress to pass legislation giving the President a precise tool to go after reckless spending without compromising Congress's constitutional authority to make spending decisions, but so far attempts to pass such legislation have not been successful.

### **A Failure to Perform Adequate Oversight**

Oversight of how taxpayers' dollars are spent by government agencies is one of the most critical functions of Congress. Yet a number of structural flaws in the current budget process impede Congress from exercising diligent oversight in this critical area.

*Annual Budgeting Requirements Impede Oversight:* Under current budget rules, once a program is authorized, it is assumed to spend tax dollars forever, and there is no requirement for Congress to evaluate whether programs are achieving their goals or working as efficiently as possible. The problem is complicated by the annual budget process, which consumes a great deal of time that Congress might otherwise devote to oversight. In addition, the CBO has reported that unauthorized appropriations in recent years have ranged from \$160 billion to \$170 billion.

*Biased Baselines:* Under current budget rules, any increases or decreases in federal government agency budgets are judged against a "baseline" that includes automatic spending increases year-over-year. This assumes that every agency will need more money this year than it needed last year, regardless of what the agency's mission might realistically require it to spend. Agencies are thus given an incentive to spend every dollar in their budgets so as to maintain their baselines.

*Shutdown Threats Impede Oversight, Favor Higher Spending:* The biased-baseline problem is especially pronounced in years when government cannot agree on appropriation levels. To prevent a government shutdown, Congress often votes to fund the government through a continuing resolution that funds agencies at the previous year's baseline levels. Thus, failure to agree on spending levels in Washington leads to automatic spending increases, not spending reductions, and this in turn puts those who favor higher spending at an advantage in disputes over spending levels.

The threat of a shutdown also creates a crisis atmosphere around the expenditure of taxpayer dollars, which distracts from oversight efforts intended to ensure that these dollars are not being wasted. In the interest of preventing a shutdown, Congress often pays too little attention to the substance of appropriations bills, the details of where spending is going, or the total amount of money being spent.

*Ever-Higher Autopilot Spending:* Before the Budget Act, Congress provided the majority of spending authority through appropriations bills. By the early 1970s, program reforms enacted by Congress caused this pattern to change. In 1963, just prior to the advent of most of President Johnson's "Great Society" legislation, two-thirds of the federal budget was subject to regular appropriations. About 25 percent was mandatory spending, and the rest was interest.

By the time the Budget Act took effect, for FY1976, mandatory spending – spending not subject to regular appropriations – had nearly doubled as a share of the budget, to about 46 percent, while appropriated spending had fallen to 47 percent. In 2010, mandatory spending consumed 57 percent of all federal spending. The autopilot spending that takes up a steadily increasing share of the federal budget avoids congressional control and scrutiny because it continues without any need for further congressional enactments.

New York Governor Andrew Cuomo has noted the serious flaws with this approach at the state level: "It is dictated by hundreds of rates and formulas that are marbled throughout New York State laws that govern different programs – formulas that have been built into the law over decades, without regard to fiscal realities, performance or accountability."<sup>4</sup>

An important concern about entitlement programs is the lack of regular oversight by the authorizing committees of jurisdiction. With discretionary spending programs, an opportunity for oversight arises every year when appropriations subcommittees review programs in their jurisdictions as they develop their respective spending bills. But once an entitlement is enacted, it generally continues permanently, regardless of whether Congress ever reviews it. As a result, authorizing committees have no requirement to revisit these programs.

### **A Failure to Provide Full Transparency**

For taxpayers to be able to hold government accountable, it is necessary for Congress to require full transparency regarding all taxpayer liabilities. Instead, current budget rules allow government to hide many of these liabilities by failing to fully account for them in the federal budget.

*Failure to Consider Long-Term Spending Challenges:* One weakness of the current budget format is its failure to reflect accumulating long-term obligations, especially in various government insurance or guaranty programs. A recent example is the Pension Benefit Guaranty Corporation (PBGC), which takes over failed defined-benefit pension plans. Even future budget estimates show only the projection of the more limited annual measure of funds going in and out of the PBGC and ignore the total obligations it has assumed. Budgetary accounting hides the true cost of this program from taxpayers.

This is only one relatively minor example of the unfunded long-term obligations of the federal government. The Government Accountability Office (GAO) has estimated that, in total, the federal government has a \$99.4 trillion unfunded liability, primarily due to its Social Security and Medicare commitments.<sup>5</sup> This unfunded liability is not reflected in the federal budget.

*Obligations Not Recognized:* The government faces numerous obligations that are not adequately acknowledged in the budget, including the cost of most credit and insurance programs. In the case of government housing finance programs, under current accounting rules, the government generates income by expanding taxpayer liabilities for home mortgages. The taxpayer exposure is not recognized, and the income from fees is used to offset other spending. Existing accounting procedures underestimate the full costs of these obligations, even though better means of accounting for them are available.

*Omitting Legislative Impacts on Economic Growth:* Under the current rules, the CBO automatically provides Congress with estimates of how proposed legislation will affect revenue, outlays, and deficits – but not economic growth. Because the federal budget affects the economy in important ways, it is critical that policy changes account for their economic impact. Tax rate increases, which negatively affect incentives to work, save, and invest, often generate less revenue than projected because these incentive effects hurt economic growth. Spending cuts, which can reduce fiscal pressure and bring down interest rates, can encourage private-sector economic growth and thereby reduce deficits in excess of static projections. Yet the positive or negative effects on the economy that result from these kinds of changes in law, which are prime considerations for lawmakers, are not estimated by the office charged with providing this kind of information to Congress.

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<sup>4</sup> Cuomo, Andrew. "The Real Albany Sham: The Budget." January 31, 2011. <http://www.governor.ny.gov/therealalbanysham>

<sup>5</sup> Government Accountability Office. *Long-Term Fiscal Outlook: January 2011 Update*. January 2011. <http://www.gao.gov/new.items/d11451sp.pdf>

## **Budget Process Reform: A Framework for Repair**

At a recent hearing of the House Budget Committee, Alice Rivlin, the founding director of the CBO and a former budget director for President Clinton, testified that “Process reform is normally incremental, but the time for incremental reforms in the budget process is over. The Congress should blow it up and start over from first principles.”<sup>6</sup>

What follows is an attempt to heed this call to action with a series of solutions proposed by current members of the House Budget Committee and offered as a good-faith effort to restore responsible budgeting and fiscal discipline to Washington.

### **Spending Control**

#### **1. The Legally Binding Budget Act**

Lead sponsor:

Rep. Diane Black (R-Tenn.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. James Lankford (R-Okla.)

Rep. Todd Young (R-Ind.)

The Legally Binding Budget Act fundamentally reforms the budget process by establishing a mechanism at the beginning of the budget process to reach agreement between the House, Senate, and the President on the appropriate levels of budgetary resources for the upcoming fiscal year. This mechanism is a joint resolution on the budget which would have the force of law and, like all laws, require the signature of the President (or a two-thirds majority of both chambers overriding a veto) to be enacted. The contents of this legislation would be strictly limited to prevent the joint budget resolution from becoming a vehicle for unrelated legislation.

Under the current budget process, the budget resolution is a concurrent resolution that is never presented to the President for his consideration. Instead, the resolution is solely an internal congressional document that governs the consideration of legislation with fiscal implications, but does not necessarily reflect an agreement between Congress and the President on the total levels of spending, revenue, deficits, and debt of the federal government.

In contrast, a joint budget resolution would require agreement between Congress and the President early on in the process. Once that agreement is reached, Congress can then pass implementing legislation that conforms to the framework established in the joint resolution.

If the President chooses to veto the joint resolution, the resolution would be deemed to be in force for purposes of governing congressional consideration of legislation with fiscal implications, thus ensuring that a veto would not unduly delay consideration of legislation by Congress.

The bill also codifies an alternative timetable for the budget process that applies in the first year of a new President’s term. When a new President first assumes office, complying with the “first Monday in February” deadline for submission of the Presidential budget request is nearly impossible. As a result, new Presidents have generally submitted their budgets in the early spring of their first year. This bill recognizes this practice by requiring submission of a new President’s first budget request no later than the first Monday in April, and it adjusts the subsequent deadlines accordingly.

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<sup>6</sup> Rivlin, Alice M. Testimony before the U.S. House, Committee on the Budget. *The Broken Budget Process: Perspectives from Former CBO Directors*. Hearing, September 21, 2011.

## 2. The Spending Control Act

Lead sponsor:

Rep. John Campbell (R-Calif.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Frank Guinta (R-N.H.)

Rep. Todd Rokita (R-Ind.)

The Spending Control Act (SCA) establishes binding limitations on federal spending and deficits to provide Congress with a set of comprehensive controls as it addresses the nation's deficits and debt crisis. These limitations are in the form of statutory caps on the various categories of government spending and on deficits.

The legislation would cap direct spending (i.e., spending that is on autopilot because it is not annually reviewed by Congress and continues in amounts that are determined by permanent law). These caps are subdivided into three major categories: (1) Medicare, (2) Medicaid and other health-related spending, and (3) all other direct spending (excluding Social Security and net interest). The caps are set at the levels contained in the House-passed budget resolution. Any spending in a category above the levels established in statute would result in an across-the-board reduction of spending within that category. The bill also requires that the out-year effects of appropriations bills that result in changes in mandatory program spending (CHIMPS) must be reflected by increasing or decreasing the relevant caps in those years.

The legislation would also cap total spending (i.e., the sum of discretionary and direct spending). This total spending limitation would be set as a percentage of the total U.S. economy (Gross Domestic Product). The caps are set at the levels contained in the House-passed budget resolution. This limitation on the size of the government as a share of the economy would be enforced through sequestration.

The legislation would also cap the size of the deficit as a percentage of the total U.S. economy (Gross Domestic Product). As with the other caps, these caps are set at the levels contained in the House-passed budget resolution.

The SCA reforms the list of exemptions and special rules for implementing sequesters. Under current law, most direct spending is either exempt from sequestration or protected by special rules that limit the effect of a sequester, resulting in a very narrow sequester base. The SCA establishes a short list of exempt programs: (1) net interest; (2) Social Security benefits; (3) veterans' compensation, pensions, and mandatory benefits; (4) obligated balances; (5) constitutional obligations; (6) claims against the government; and (7) intragovernmental transfers. Balancing this expansion of the sequester base is a new special rule that exempts from sequester any program that is growing less quickly than the Consumer Price Index and an overall limitation on any sequester of no more than four percent of its budgetary resources.

The SCA preserves the current-law option for the President to exempt military personnel accounts from a discretionary sequester. As in current law, if the President exercises this authority, then the reduction in other defense accounts would be increased to compensate for the lost savings. The bill also preserves a number of current-law special rules that provide protections for Medicare beneficiaries in the event of a sequester.

The SCA also provides for an expedited procedure to consider changes to these spending caps necessitated by emergencies or the Global War on Terrorism. This procedure would ensure that the full budgetary and economic implications of such excess spending are considered as Congress responds to emergency needs and fully supports the troops in the field.

Finally, the SCA codifies the cut-as-you-go prohibition currently in House rules against legislation that would increase direct spending and repeals the ineffective statutory pay-as-you-go law.



### 3. The Expedited Line-Item Veto and Rescissions Act

Lead sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Chris Van Hollen (D-Md.)

The Expedited Line-Item Veto and Rescissions Act (ELIVRA) would provide for the expedited consideration by Congress of specific requests by the President to reduce discretionary spending in recently passed appropriations legislation. Under the bill, the President would identify specific provisions that increase discretionary spending that he proposes to cancel. Congress would then have a limited period of time in which to consider and debate the President's proposal and must then have an up-or-down vote on whether to approve the proposal. Any proposals that are approved will result in lowering the discretionary caps by the amount of budget authority saved.

### **Enhanced Oversight**

#### 4. The Biennial Budgeting and Enhanced Oversight Act

Lead sponsor:

Rep. Reid Ribble (R-Wis.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Marlin Stutzman (R-Ind.)

Rep. Todd Rokita (R-Ind.)

Rep. Frank Guinta (R-N.H.)

The Biennial Budgeting and Enhanced Oversight Act establishes a two-year ("biennial") budgeting cycle for the U.S. government.

In the first session of each Congress (i.e., an odd-numbered year), the President would submit to Congress a budget resolution for each of the next two fiscal years, the biennium. During that session, Congress would consider and adopt a budget resolution covering both years of that Congress. The budget resolution would provide the framework for the consideration of legislation with fiscal implications over the course of the entire Congress. Also in the first session of each Congress, and once a biennial budget resolution is adopted, the Congress would enact appropriations that would provide separate amounts of budget authority for each year of the biennium.

The second session of each Congress (i.e., an even-numbered year) would be reserved for congressional consideration of authorization legislation.

By moving to a biennial process, Congress would have more time to conduct detailed oversight of the executive branch; a more orderly work process for considering appropriations and authorization legislation; and more budget stability as agencies would know a year in advance the resources they will have.

The bill also codifies an alternative timetable for the budget process that applies in the first year of a new President's term. Complying with the first Monday in February deadline for submission of the presidential budget request is nearly impossible when a new President assumes office on January 20 of that year. As a result, new Presidents have generally submitted their budget in the early spring of their first year. This bill recognizes this practice by requiring submission of the budget request no later than the first Monday in April and adjusts the succeeding deadlines accordingly.

## 5. The Baseline Reform Act

Lead sponsor:

Rep. Rob Woodall (R-Ga.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Todd Young (R-Ind.)

Rep. Diane Black (R-Tenn.)

Rep. James Lankford (R-Okla.)

The Baseline Reform Act would reform the baseline against which legislation is considered by removing the assumption that discretionary spending will automatically increase by inflation in each year of the baseline. It also requires the CBO to prepare an alternative projection of the baseline assuming the extension of current tax policies together. It also codifies the current practice of the CBO providing a long-term budget outlook no later than July 1 of each year.

## 6. The Government Shutdown Prevention Act

Lead sponsor:

Rep. James Lankford (R-Okla.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Todd Young (R-Ind.)

The Government Shutdown Prevention Act ensures that the government will continue to operate in the event that any regular appropriations bill has not been enacted by the beginning of the fiscal year, as has happened in 31 of the last 34 years. The automatic continuing resolution included in the legislation would provide authority for federal agencies to continue discretionary spending for the first three months following a lapse of appropriations at 99 percent of the previous year's level. For each succeeding three-month period, this amount is lowered by 1 percent. In no case are the spending levels permitted to exceed the statutory caps on discretionary spending.

By progressively decreasing the amounts provided under the automatic continuing resolution, the bill provides continued incentives for Congress and the President to reach agreement on the regular appropriations bills.

## 7. The Review Every Dollar (RED) Act

Lead sponsor:

Rep. Jason Chaffetz (R-Utah)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Todd Rokita (R-Ind.)

Rep. Diane Black (R-Tenn.)

The Review Every Dollar (RED) Act reforms direct spending programs to provide greater congressional control over this "autopilot" spending.

First, the RED Act requires periodic sunset reviews and reauthorization of all federal programs to ensure that the programs perform a necessary and appropriate federal role and are operating efficiently. Under the legislation, no new program authorization or any program reauthorization could be for more than seven years.

Second, the RED Act establishes “Deficit Reduction Accounts” into which funds can be transferred during congressional consideration of legislation. This reform would ensure that if an amendment is adopted that reduces the amount of budget authority provided in a bill, then that budget authority is not merely shifted to some other part of the bill but is instead made permanently unavailable and thus used to reduce the deficit.

Third, the legislation establishes a budget rule that ensures the costs to the federal government are considered whenever transfers from the general fund are made to the highway trust fund, which is supposed to be funded through dedicated federal gas taxes. Under current rules, such transfers do not “score” for purposes of congressional budget rules, despite the fact that the transfers provide additional spending authority for the program.

Fourth, the legislation rationalizes the funding of the federal Pell Grants program. Pell Grants are federal assistance to students who fall below certain income thresholds. The program is currently funded through a mixture of annual appropriations and certain direct spending provisions. This legislation would remove the direct spending provisions and provide for an increase in the discretionary caps to accommodate the movement of those budgetary resources from direct spending to discretionary spending. This reform would simplify the program and give Congress greater control over the full costs of running this assistance program, while maintaining the current maximum award amount of \$5,550.

Finally, this legislation would provide for greater control of increases in mandatory spending caused by administrative actions of the executive branch. Under current law, agencies that run programs funded through direct spending can take administrative actions, e.g., changing eligibility rules or changing services available through a program, in ways that increase the cost of that program to the federal government. This reform would require that any such administrative actions cannot go into effect unless Congress enacts new legislation to fund them.

## **Full Transparency**

### 8. The Balancing our Obligations for the Long-Term (BOLT) Act

Lead sponsor:

Rep. Mick Mulvaney (R-S.C.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Todd Rokita (R-Ind.)

Rep. Marlin Stutzman (R-Ind.)

The Balancing our Obligations for the Long Term (BOLT) Act builds on the statutory spending controls established in the Spending Control Act by extending those controls beyond the ten-year budget window. It also requires that that Congress and the President consider the long-term fiscal impact of policy proposals.

The BOLT Act establishes binding limitations in the form of statutory caps on direct spending and total government spending for the three decades following the budget window. These caps are enforceable in three ways: (1) long-term reconciliation; (2) a fiscal sustainability review every five years; and (3) sequestration.

The direct spending (i.e., spending that is on autopilot because it is not annually reviewed by Congress and continues in amounts that are determined by permanent law) caps are subdivided into three major categories: (1) Medicare, (2) Medicaid and other health-related spending, and (3) all other direct spending (excluding Social Security and net interest). The caps are set as percentage of the total U.S. economy (Gross Domestic Product) at the levels contained in the House-passed budget resolution.

The legislation also caps total spending (i.e., the sum of discretionary and direct spending) over the long term. This total spending limitation would be set as a percentage of GDP until FY2050. The caps are set at the levels contained in the House-passed budget resolution.

First, the congressional budget resolution would be required to establish long-term levels (as a percentage of GDP) for the budget aggregates (total spending, revenues, deficits, and debts) for the first three decades after the budget window. The BOLT Act also codifies the point of order against legislation that would increase deficits by more than \$5 billion for any ten-year period over the next 50 years. The budget resolution could also include reconciliation directives to congressional committees to report legislation to achieve the levels set forth in the resolution.

Second, every year, the CBO is required to report to Congress on the fiscal sustainability of the federal government. Beginning in 2018 and every five years thereafter, forty-five (45) days after this report is submitted, the Budget Committees (incorporating advice provided by the committees of jurisdiction) must publish an analysis of this report. Within 30 days of this report's submission, both the Majority Leader and the Minority Leader must introduce legislation to achieve the level of savings necessary to adhere to the caps and/or necessary to make the government's fiscal position sustainable. This legislation would be referred to the Budget Committee and must within seven days be reported by the committee, or it will be automatically discharged of further consideration. This legislation is then accorded fast-track procedures on the floor of both the House and Senate to ensure that an up-or-down vote is taken.

Third, if/when the cap year is reached and spending is still projected to exceed the cap, then there will be a sequestration to achieve the necessary savings. The BOLT Act reforms the list of exemptions and special rules for implementing sequesters. Under current law, most direct spending is either exempt from sequestration or protected by special rules that limit the effect of a sequester, resulting in a very narrow sequester base. The BOLT Act establishes a short list of exempt programs: (1) net interest; (2) Social Security benefits; (3) veterans' compensation, pensions, and mandatory benefits; (4) obligated balances; (5) constitutional obligations; (6) claims against the government; and (7) intragovernmental transfers. Balancing this expansion of the sequester base is a new special rule that exempts from sequester any program that is growing less quickly than the Consumer Price Index and an overall limitation on any sequester of no more than four percent of its budgetary resources.

The BOLT Act preserves the current law option for the President to exempt from a discretionary sequester military personnel accounts. As in current law, if the President exercises this authority, then the reduction in other defense accounts would be increased to compensate for the lost savings. The bill also preserves a number of current-law special rules that provide protections for Medicare beneficiaries in the event of a sequester.

The BOLT Act also provides for enhanced information and analysis to be made available to assist Congress in the consideration of the long-term implications of the legislation. The CBO is required under the BOLT Act to prepare estimates of the long-term implications of major legislation in time for Congress to consider that information during its debates.

The BOLT Act also requires annual analyses by the GAO and the Office of Management and Budget (OMB) of the government's fiscal condition, specifically the long-term unfunded obligations of the U.S. government. The President's budget request would also be required to include long-term projections of the budget and of the policies proposed in that request.

Finally, the legislation reaffirms the requirement for the President to submit legislation to save and strengthen Medicare if the general fund subsidy to the program exceeds 45 percent of the program's costs.

#### 9. The Budget and Accounting Transparency Act

Lead sponsor:

Rep. Scott Garrett (R-N.J.)

Original co-sponsors:

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

Rep. Tom Price (R-Ga.)

Rep. Tim Huelskamp (R-Kan.)

The Budget and Accounting Transparency Act increases transparency in federal budgeting by reforming the way certain costs are calculated and requiring that certain costs incurred by the federal government are included in the budget.

First, the legislation requires that in calculating the costs of federal credit programs (i.e., programs offering loans or loan guarantees), the executive branch and Congress use “fair value” methodologies that consider not only the borrowing costs of the federal government, but also the costs of the risk the federal government is incurring by issuing a loan or loan guarantee or by making an investment in a private entity. This reform would bring federal budgeting in line with private sector cost-estimating practices.

Second, the legislation would require the CBO and the OMB to conduct studies on extending this “fair value” methodology to federal insurance programs, which are currently accounted for on a cash-flow basis.

Third, the legislation would recognize the budgetary impact of the housing-related government-sponsored enterprises, Fannie Mae and Freddie Mac, by formally bringing these entities on-budget and requiring that their new debt issuances be included in the calculation of the federal debt. Since the financial crisis, these enterprises have become the explicit financial responsibility of the federal government, and these reforms would ensure that the budgetary implications of that fact are reflected in the federal budget. The legislation would also put the U.S. Postal Service back on-budget, recognizing the reality that the liabilities assumed by the USPS have repeatedly been funded by the federal government regardless of the off-budget or on-budget nature of the Postal Service.

Fourth, the legislation would require the CBO and the OMB to conduct studies on the use of budgetary terms related to money collected by the federal government, which have become jumbled and inconsistent over the decades.

Finally, the legislation would require that agencies make public the budgetary justification materials prepared in support of their requests for use of taxpayer dollars.

#### 10. The Pro-Growth Budgeting Act

Lead sponsor:

Rep. Tom Price (R-Ga.)

Original co-sponsors:

Rep. Scott Garrett (R-N.J.)

Rep. Paul Ryan (R-Wis.)

Rep. Jeb Hensarling (R-Texas)

The Pro-Growth Budgeting Act requires that, for major legislation, the CBO prepare an analysis of the effect that legislation could have on the U.S. economy. This analysis must include an estimate of the changes in economic output, employment, capital stock, and tax revenues resulting from the enactment of the proposal. For purposes of this legislation, major legislation is defined as any legislation estimated by the CBO to have a budgetary effect of at

least 0.25 percent of GDP (approximately \$38 billion in 2011) in any year within the budget window. These analyses would cover the next 40 years.

### Conclusion

There is much that needs to be done to fix the government's broken budget process. But process reform alone will not be enough to meet the nation's greatest fiscal and economic challenges. In order for budget process reform to work, members of Congress must have the will to make it work. There is no procedural reform that can displace the need for political courage and principled leadership to get the government's fiscal house in order.

Americans deserve a real debate over the nation's fiscal future, and the budget process is an appropriate forum for that debate. Congress urgently needs to fix what's broken and build upon what's working. The solutions offered in this report point the way forward to a better process of prioritizing Americans' hard-earned tax dollars. The nation's leaders owe it to the country to offer bold solutions within that process to tackle the drivers of the debt, putting the budget back on the path to balance and the economy on the path to prosperity.

*This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives.  
It has not been approved by the full committee and may not reflect the views of individual committee members.*