

Background

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10 Elements of Comprehensive Budget Process Reform

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Congress has set aside time this summer to work on budget process reform. This is not a moment too soon. Created in 1974, the current budget process has been subjected to over 30 years of abuse from lawmakers trying to exploit its structural flaws. Instead of providing an orderly roadmap for determining the nation's annual spending and revenue priorities, the current budget process stifles debate, prevents cooperation, and frequently breaks down.

The flaws in the budget process are numerous. No statutory spending caps exist that require lawmakers to set priorities and make trade-offs. Even modest congressional budget restraints are routinely overridden by a simple majority vote in the House of Representatives and a three-fifths vote in the Senate. When crafting annual budgets, the President and Congress are not brought together to agree on a basic framework until the end of the process. Once the appropriations process begins, two-thirds of the budget is deemed "uncontrollable" and excluded from the oversight of annual appropriations. Emergency spending is also typically excluded from annual appropriations bills and is instead relegated to *ad hoc* budgeting outside of normal budget constraints. Static tax scoring and baseline budgeting create biases in favor of spending increases and against tax cuts. Budgeting by credit card, Congress does not even measure its own long-term financial commitments. Overall, the broken budget process has enabled Congress's spending spree and hindered rational allocation of taxpayer dollars.

Talking Points

- The current budget process is a relic of the 1974 Congressional Budget Act. It encourages runaway spending, stifles debate, prevents cooperation, and frequently breaks down.
- A better budget process would put all spending on the table and require lawmakers to set priorities and make trade-offs.
- The most effective reforms of the budget process would impose government-wide spending caps, account for long-term unfunded liabilities, and better enforce existing budget constraints.
- Out-of-control federal spending threatens to force massive tax increases, and the Social Security, Medicare, and Medicaid costs from the impending retirement of the baby boomers will place an unprecedented strain on the federal budget.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/bg1943.cfm

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While the entire budget process needs an overhaul, three reforms deserve priority attention. Members of Congress should:

- Enact government-wide statutory spending caps that force lawmakers to set priorities and make trade-offs. These caps should apply to both entitlement and discretionary spending.
- Begin measuring the federal government's long-term unfunded obligations, particularly in Social Security and Medicare. They should also pass rules to prevent Members from adding to these unfunded obligations and then develop a plan to address the \$44 trillion in current debt and unfunded social insurance obligations.
- Strengthen budget rule enforcement by closing the plethora of loopholes that currently render most budget restraints meaningless.

The following list provides 10 elements for reforming the federal budget process. Most ideas are drawn from the think tank community, House Republican Study Committee, House Republican Tuesday Group, House Democrats Blue Dog Coalition, and Senate Steering Committee.¹

Element #1: Statutory Spending Caps

- **Taxpayers' bill of rights cap.** The most promising budget reform would be to cap federal spending increases at the inflation rate plus population growth (economic growth rates could be another, albeit more loose, target). Lawmakers could allocate federal spending however they wish as long as total government growth does not exceed this predetermined rate. Such a cap could save \$3 trillion over the next decade by forcing lawmakers to set priorities and to make trade-offs. (See Chart 1.)
- **Omnicap.** Like a taxpayers' bill of rights cap, an "omnicap" would apply a single cap to all fed-

eral spending (including mandatory). Rather than cap spending increases by a preset formula, lawmakers would manually set omnicap levels every few years, similar to the discretionary spending caps of the 1990s.

- **Discretionary spending caps.** Discretionary spending caps successfully restrained discretionary spending while in effect from 1990 through 2002. Bringing back these caps would help to rein in federal spending, although lawmakers should improve on previous caps with supermajority enforcement and by closing the "emergency" loophole.
- **Entitlement spending caps.** With entitlement spending projected to consume the entire federal budget eventually, the country cannot afford to allow entitlements to remain on autopilot. Lawmakers could write one cap for total entitlement spending or write a formula that would apply to each program individually (such as inflation plus beneficiary population). This could be enforced by requiring Congress to reform excessive entitlement spending or face an across-the-board sequestration.

Element #2: Realistic and Honest Budget Scoring

- **Accounting for unfunded liabilities in the budget.** While businesses compute their long-term liabilities, Congress does not. Budgets should include a calculation of all future explicit and implicit taxpayer liabilities and lawmakers should create a point of order against increasing these liabilities.
- **Dynamic scoring of taxes.** Currently, Congress evaluates tax policies by "static scoring," a method that assumes changes to tax policy have almost no economic impact. History, economics,

1. For a proposal from the Republican Study Committee, see Office of Representative Paul Ryan (R-WI), "The Family Budget Protection Act," 2004, at www.house.gov/ryan/press_releases/2004pressreleases/family_budget_protection_act.htm (June 12, 2006). For a set of joint principles authored by the Republican Study Committee and House Republican Tuesday Group, see press release, "Conservatives & Moderates Come Together: Announce Consensus Principles to Reform the Budget Process," Republican Study Committee and House Republican Tuesday Group, February 11, 2004, at www.house.gov/pence/rsc/doc/Consensus%20Budget%20Process%20Reforms.pdf (June 12, 2006). For a summary of the Blue Dogs' proposals, see Centrist Policy Network, "Blue Dog Coalition 12-Point Reform Plan for Restoring Fiscal Sanity," at www.centristpolicynetwork.org/pages_2005/02/blue_dog_budget_reform/blue_dog_12_point_plan.html (June 12, 2006).

and common sense prove this assumption false. Dynamic scoring would more accurately estimate the economic and budgetary impact of tax changes.

- **Ending baseline budgeting.** Baseline budgeting keeps entitlement spending on autopilot and creates the false impression that anything less than a large, previously assumed spending increase is a “cut.” That is a recipe for rapidly accelerating spending.

Element #3: Strengthening the Budget Resolution

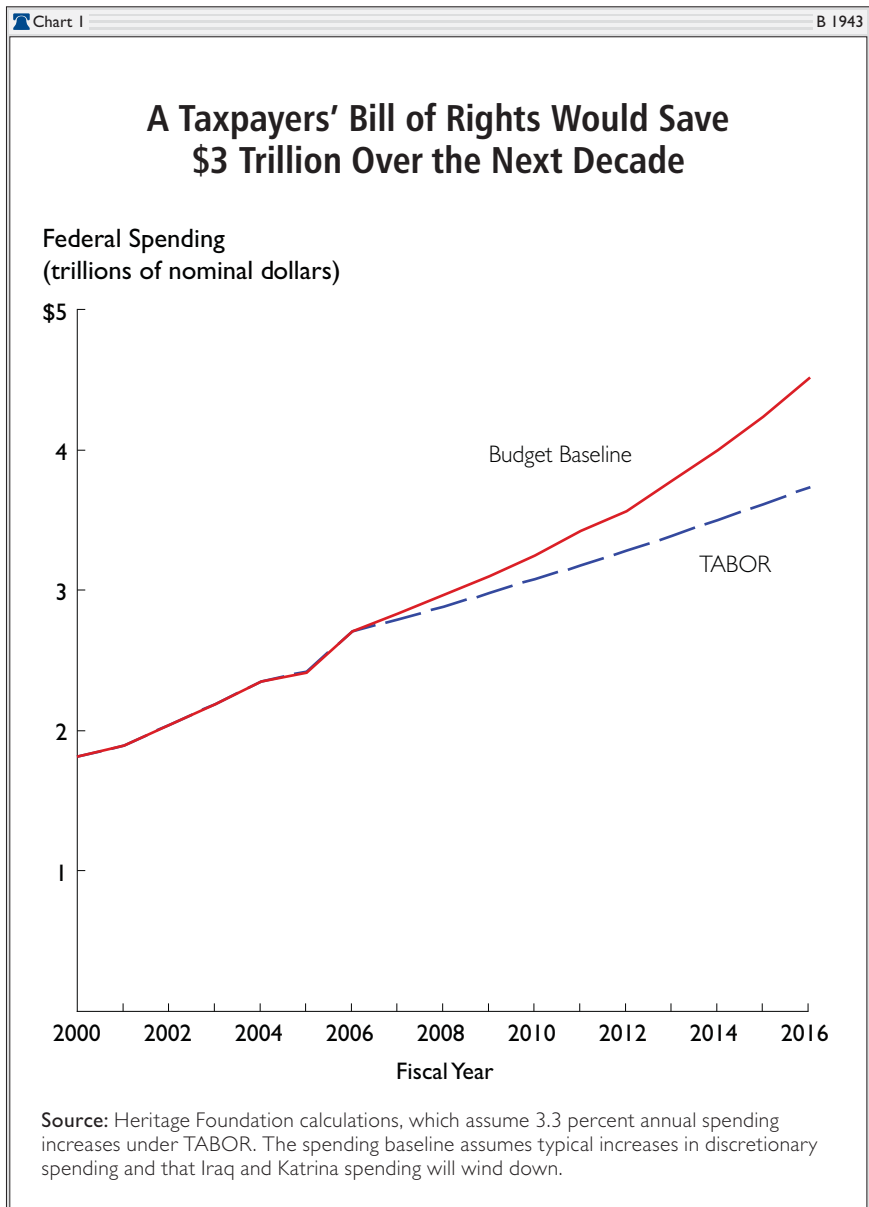
- **Joint budget resolutions signed by the President.** Because concurrent budget resolutions do not carry the force of law, appropriators can easily bypass them. A joint budget resolution would not only add the force of law, but also allow the White House and Congress to negotiate spending levels in the spring, rather than waiting until the completed appropriations bills reach the President’s desk in the fall.
- **Dividing budget resolution by committee, not function.** The budget resolution’s functional breakdowns have no binding effect and can be altered by the Appropriations Committees. Dividing the budget resolution’s discretionary spending by appropriations subcommittee makes more sense, especially since Congress uses this breakdown when filling in the discretionary budget.

Element #4: Enforcing Existing Budget Rules

- **Requiring a roll call vote to waive a point of order.** The House Rules Committee has rou-

tinely reported rules automatically waiving all points of order against excessive spending. Rules that can be so easily circumvented quickly become irrelevant.

- **Requiring a supermajority to waive a point of order.** Budget rules are supposed to prevent a simple majority from violating predetermined budget standards. Yet allowing the same simple majority in the House to vote to ignore its own rules effectively eliminates all enforcement. Raising the bar to three-fifths would make it harder to violate budget rules.



- **Requiring a caucus majority to waive a point of order.** If the majority party fears a three-fifths requirement would give the minority party a veto on bypassing budget rules, they could enact an internal party rule requiring a majority vote of the caucus before bringing to the floor a motion to waive a point of order.
- **Budget Committee enforcement of spending limits.** The Budget Committees should be empowered to enforce the budget resolutions that they write. Spending bills that exceed the 302(a) or 302(b) allocations should be sent back to the Budget Committees for approval, modification, or rejection.

Element #5: Tools for Accountability

- **Requiring a roll call vote for authorizations.** Lawmakers often pass expensive authorization bills by voice vote, thus removing individual lawmaker accountability with voters. Roll call votes should be required to pass legislation authorizing \$50 million or more over five years.
- **Congressional Budget Office cost estimate for every bill.** The CBO does not provide cost estimates for all bills and only rarely for conference reports. Lawmakers should always know the cost of a bill before they vote.
- **Repealing the Gephardt rule.** House lawmakers should not be able to hide debt limit increases by automatically including them in the budget resolution. Lawmakers who truly believe in policies to increase federal debt should be willing to publicly vote that way.
- **Term limits for appropriators.** Long-time appropriators have some of the highest spending records in Congress. Even appropriators who may wish to restrain spending are often required to vote for runaway spending to remain on the committee long enough to build seniority. Placing a term limit on membership on these committees would help to tear down the barrier between appropriators and other Members of Congress, and free appropriators to vote for less spending.
- **Caucus election of appropriations subcommittee chairmen.** Currently, only the chairman

of the House Appropriations Committee is elected by his peers. Yet chairmen of appropriations subcommittees also have enormous power and have been accused of wielding that power in ways detrimental to Congress as a whole. Basic accountability requires that subcommittee chairmen also be elected by their peers in a caucus vote.

- **Biennial budgeting.** Lawmakers rarely finish all budget bills by October 1, when the federal fiscal year begins. Biennial budgeting would free lawmakers to spend more time overseeing federal programs and reforming failed or unnecessary programs.

Element #6: Tools for Spending Restraint

- **Including mandatory spending in the appropriations process.** Entitlement program budgets are currently left on autopilot outside the normal budget process, growing each year with little or no congressional oversight. Bringing entitlements into the appropriations process would improve accountability and force lawmakers to set priorities and make trade-offs.
- **Ending advance appropriations.** Lawmakers can currently appropriate spending that does not become available until future years. This loophole encourages spending by making it appear “free” today. The justification that certain education programs need advance appropriations because of the school year’s unique calendar has been proven false.
- **Family budget protection accounts to cut spending on the floor.** Lawmakers who cut appropriations bills on the House or Senate floor typically see those savings automatically allocated to other spending. This reform would create a deficit reduction account to protect any such savings.
- **Ending “such sums” authorizations.** Authorization laws are supposed to cap the amount that can be annually appropriated to particular programs. Authorizing “such sums as necessary”—which basically means no cap at all—

ignores that duty and encourages runaway spending.

- **Point of order against funding unauthorized programs.** Lawmakers continue to fund unauthorized programs despite their non-existent or expired statutory guidelines. If lawmakers cannot decide how to run a program, they should not fund it.
- **Point of order against adding to unfunded liabilities.** Medicare and Social Security currently have \$44 trillion in unfunded future liabilities. Lawmakers should not be able to put trillions of new spending on the credit card and then dump the payments in the laps of the next generation.
- **Point of order against entitlement expansions.** Entitlement expansions permanently push up the long-term spending baseline and worsen the fiscal picture. Lawmakers should create some roadblocks for these unaffordable policies. This provision is broader than the one covering only unfunded liabilities.
- **Enhancing presidential rescission.** President George W. Bush's line-item veto proposal is actually an enhanced rescission bill that would require Congress to vote up or down on presidential rescission requests. This would provide another tool to rein in spending.

Element #7: Tools for Eliminating Wasteful Spending

- **Point of order against budget increases for agencies that fail audits.** The Government Accountability Office (GAO) has found that several federal departments and agencies cannot pass a basic audit. There is no reason for lawmakers to throw budget increases at agencies without sufficient evidence that the funding will not be wasted.
- **Requiring congressional committees to produce public oversight reports.** Congress is supposed to oversee the executive branch, but

few congressional committees produce reports determining whether the agencies that they oversee are effectively and efficiently accomplishing their goals. Semiannual oversight reports would strengthen oversight.

- **GAO "duplication estimate" for each bill.** Even with 342 economic development programs, 130 programs serving the disabled, and 130 programs serving at-risk youth, Congress continues to add new programs on top of existing ones. A GAO duplication estimate could help lawmakers to streamline bureaucracy and reduce administrative confusion by reducing program duplication.
- **Government waste commission.** President Bush, Senator Sam Brownback (R-KS), Representative Kevin Brady (R-TX), and Representative Todd Tiahrt (R-KS) have each proposed legislation creating commissions modeled on the Base Realignment and Closure commissions. These commissions would write legislation eliminating wasteful and unnecessary programs that would receive expedited floor consideration and an up-or-down vote with no amendments allowed.²

Element #8: Pork and Grant Reform

- **Legislative sponsors and written justifications for each earmark.** Lawmakers should be required to specify why each earmark is necessary and constitutional and to disclose any personal or financial interests in the earmark.
- **Requiring earmarks to be placed in the bill itself.** Placing earmarks in conference reports, rather than in the bills themselves, prevents lawmakers from amending them out of legislation. No earmark should be placed in a category above congressional debate and amendment.
- **Point of order against earmarks added in conference committees.** Adding earmarks in last-minute conference committee reports prevents

2. Senator Brownback's bill is the Commission on the Accountability and Review of Federal Agencies Act (S. 1155). The Abolishment of Obsolete Agencies and Federal Sunset Act of 2005 (H.R. 3282) is authored by Representative Brady. The Commission on the Accountability and Review of Federal Agencies Act (H.R. 2470) is authored by Representative Tiahrt.

Heritage Foundation Resources

Many of these proposals are explained in greater depth in the following Heritage Foundation papers:

- Brian M. Riedl, "What's Wrong with the Federal Budget Process," Heritage Foundation *Backgrounder* No. 1816, January 26, 2005, at www.heritage.org/Research/Budget/bg1816.cfm.
- Brian M. Riedl, "Restrain Runaway Spending with a Federal Taxpayers' Bill of Rights," Heritage Foundation *Backgrounder* No. 1793, August 27, 2004, at www.heritage.org/Research/Budget/bg1793.cfm.
- Brian M. Riedl and Alison Acosta Fraser, "Four Principles of Budget Process Reform," Heritage Foundation *Backgrounder* No. 1746, April 8, 2004, at www.heritage.org/Research/Budget/bg1746.cfm.
- Alison Acosta Fraser, "Time for the Federal Budget Process to Include Unfunded Entitlement Obligations," Heritage Foundation *Backgrounder* No. 1818, February 3, 2005, at www.heritage.org/Research/Budget/bg1818.cfm.
- Brian M. Riedl, "Better Budget Reform: A Guide to the Federal Budget Protection Act," Heritage Foundation *Backgrounder* No. 1758, May 14, 2004, at www.heritage.org/Research/Budget/bg1758.cfm.
- Brian M. Riedl, "The Blue Dog Democrats' Budget Process Proposal: An Emerging Bipartisan Consensus," Heritage Foundation *Web Memo* No. 670, February 18, 2005, at www.heritage.org/Research/Budget/wm670.cfm.

The House Republican Study Committee, House Tuesday Group, House Blue Dog Coalition, and Senate Steering Committee could provide more detail on many of these proposals.

lawmakers from having sufficient time to scrutinize earmarks before voting on legislation. Lawmakers should be willing to add their earmarks in broad daylight.

- **Federal grant database.** There is currently no searchable, user-friendly, public database of federal grant recipients. Taxpayers have a right to know who is receiving their tax dollars in the form of grants. Senators Tom Coburn (R-OK) and John Ensign (R-NV) have each authored bills to create such a database.³

Element #9: Rational Emergency Spending

- **Defining "emergency."** Congress currently skirts budget constraints by classifying regular spending as "emergencies." Lawmakers should limit emergency spending to only sud-

den, urgent, unforeseen, and temporary events.

- **Requiring a supermajority for emergency spending.** To restrain lawmakers' appetite for abusing the "emergency" designation, a three-fifths supermajority should be required to designate legislation as emergency, unless the funding comes from a designated emergency reserve fund.
- **Reserve fund for emergencies.** Just as families are encouraged to keep emergency reserves, so should the federal government follow this sound practice. A good target would be 1.5 percent of discretionary budget authority (\$12 billion today), with unused balances rolling over to the following year. This would prevent small-scale emergencies from busting the budget.

3. Senator Coburn's bill is the Federal Funding Accountability and Transparency Act of 2006 (S. 2590). Senator Ensign's bill is the Website for American Taxpayers to Check and Help Deter Out-of-control Government Spending (WATCHDOGS) Act (S. 2718).

- **Automatic across-the-board emergency off-sets.** This would automatically trigger an across-the-board rescission if emergency spending exceeded designated emergency reserve funds.

Element #10: Reducing Uncertainty

- **Automatic continuing resolution.** Members of Congress have proven themselves increasingly incapable of finishing appropriations by the start of the new fiscal year (October 1). To reduce uncertainty, Congress should pass an automatic continuing resolution that funds federal programs at a rate slightly below the rate of the previous budget until the funding bills are enacted.

Conclusion

Out-of-control federal spending threatens to force massive tax increases. Furthermore, the

Medicare and Social Security costs from the impending retirement of the baby boomers will place an unprecedented strain on the federal budget. The current budget process, which dates from the 1970s, makes addressing these budget challenges of the 21st century even more difficult. This antiquated budget process does not cap spending, does not force Congress to set priorities or to make trade-offs, and is heavily biased towards spending and tax increases. The options presented in this paper can create a budget process that better matches America's budget priorities.

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