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Comprehensive Budget Reform: The Need Has Never Been Greater

The Honorable Paul Ryan

MICHAEL G. FRANC, VICE PRESIDENT, THE HERITAGE FOUNDATION: It's my pleasure today to introduce our keynote speaker, Congressman Paul Ryan from Wisconsin, who will talk about a couple of ideas he has relating to line-item veto reform and finding ways to control the growth of federal spending.

Congressman Ryan is an example of an elected official who can teach a lot to his district. He represents a district that, in a lot of people's minds, ought to be in the hands of a Democrat and probably a liberal Democrat. Congressman Ryan, in 1998, ran a race that was viewed as among the top 10 races in the country, and he won it very easily: 57 percent of the vote. Ever since then, he's held on to the seat with margins in the mid to high 60 percent range, and he's done it without compromising his core conservative values.

He's been a great proponent of pro-growth tax relief and was one of the leading proponents of Social Security reform, where he combined with Senator John Sununu to introduce a very ambitious proposal in the last Congress. Michael Barone, author of the *Almanac of American Politics*, referred to his work on the House Budget Committee and the House Ways and Means Committee as making him a leading voice: "a Republican fiscal conservative."

In just a few short years, Congressman Ryan has moved up. He has great Committee assignments to qualify him to speak today on his budget ideas: the Ways and Means Committee, which handles the enti-

Talking Points

- The 1974 Budget Act is a bad law. It is biased heavily toward high taxing and high spending and makes it very difficult for any kind of coordinated legislative effort to limit government, reduce taxes, and reduce spending and reform entitlements.
- The proposed legislative line-item veto is an important tool to bring more transparency and accountability to the federal spending process.
- Budget process reform, including earmark reform, strong spending caps, and a sunset commission for federal programs, is essential in controlling the explosion of entitlement spending.
- Without these reforms, we will have to double the size of our federal government within one generation just to pay for the government we have today.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/h1945.cfm

Produced by Thomas A. Roe
Institute for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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tlement programs as well as the tax code, and the Budget Committee.

THE HONORABLE PAUL RYAN: Thank you for having me here today. I've been coming to Heritage since I was 21 years old, as an intern. I got started in this battle of ideas as an intern and began learning how this system works or doesn't work and how it can be improved.

The line-item veto is one tool in our arsenal that we are trying to build to combat wasteful spending, big government, and to re-limit the federal government. I want to talk about the mechanics and the specifics of the legislative line-item veto bill, but more important than that, I'd like to discuss how this fits in the broader context of government and society, and why this is important in the big picture.

Number one, I think we can safely conclude that the 1974 Budget Act, which is the law that governs how Congress taxes and spends, is a bad law. It's a law that builds government. It's a law that is biased heavily toward high taxing and high spending and makes it very difficult for any kind of coordinated legislative effort to limit government, reduce taxes, and reduce spending and reform entitlements. I've been working on this issue most of my adult life, from the time that I worked as a staffer on the Budget Committee to today as a Member of Congress on the Budget Committee, and I believe this 1974 Budget Act is probably the primary problem we have in reforming big-spending, big-government entitlements.

For years, conservatives in Congress have been trying to make sense out of this system and fix its loopholes and flaws. Then-Congressman Chris Cox (R-CA) was the leader in the beginning. I picked this up with Chris afterwards. In 1999 and 2000, I advanced proposals in the House to amend budget process rules to save money and reduce wasteful spending. In 2002, together with several colleagues, I introduced the Budget Fraud Elimination Act—comprehensive legislation to improve the government's budget and accounting standards and give Congress the tools it needs to combat overspending. We have reintroduced this reform plan more recently as the Family Budget Protection Act.

Now a team of us—myself, Jeb Hensarling (R-TX), Chris Chocoma (R-IN), and Mike Pence (R-IN)—are pushing to reform our federal budget process. We've been set back in the past: We brought the Family Budget Protection Act to the floor in 2004, and broke it up into 11 different amendments and lost all but one of those amendments. The bill itself failed.

How did that happen? It happened because although most Republicans voted for it, most members of the Appropriations Committee, people who wanted to curry favor with the Appropriations Committee, and most, if not all, Democrats voted against it. That was a pretty tough vote coalition to get past.

Where are we today? We are at a moment where our party is on the line, where our sincerity as Republicans, as freedom-loving limited government advocates is being questioned. We have strayed off this path in many ways, so the question is, "Are we who we say we are? Are we going to do the things we said we would do when we got elected to Congress and came to Washington?"

Four Key Reforms

So conservatives have been making an attempt, and a fairly successful one so far, at bringing some common sense to this budget process. If you want to take a look at what we think is the Gold Standard of budget process reform, read the Family Budget Protection Act, a comprehensive package of 16 reforms. This year, we have focused our energy on enacting four key reforms:

- Earmark reform, cleaning up the earmark system;
- Emergency spending reform, cleaning up this incredible loophole where you can designate just about anything as an "emergency" to get around spending caps;
- A Sunset Commission, where we acknowledge the fact that not every federal government program should be on autopilot, where we actually sunset things and review the worthiness of federal programs; and
- The legislative line-item veto.

Two of these have already passed the House. Emergency spending reform passed two weeks ago when we passed our budget resolution. Earmark reform passed when we passed the lobbying disclosure bill that's in conference right now. Next week, we're going to mark up the legislative line-item veto; the week after that, it's coming to the floor. And that week, we'll also consider Kevin Brady's (R-TX) and Todd Tiahrt's (R-KS) Sunset legislation.

Why is the legislative line-item veto important? We are trying to bring more transparency and accountability to the federal spending process. There are many stages in this process, and where you have the least amount of transparency, the least amount of accountability is at the end of the spending process.

Earmark reform is helpful in cleaning up appropriations bills and transportation bills as they come to the floor of the House and the Senate; but it's in that final stage of the process—that conference report stage where a Member of Congress has one vote, “yes or no,” on the entire bill, and the President has one decision: sign the entire bill into law or veto the entire bill—that is the stage where a lot of unnecessary, unscrutinized spending gets put into these bills.

That is why my legislative line-item veto bill is necessary. Simply put, we're trying to complement earmark reform, which brings more transparency and accountability at the front of the spending process, by having this tool at the end of the spending process so that the President can pull out of bills wasteful, unnecessary spending programs, special-interest tax breaks, and direct spending pork—things like transportation projects that are not discretionary—and send them back to Congress for an up-or-down vote.

Based on past experience, many people ask: “Is this constitutional?” In 1996, the line-item veto became very popular. It was a part of the Contract with America. The version that they passed was ruled unconstitutional by the Supreme Court, and I think that ruling was accurate and correct. I believe it is wrong for the legislative branch to delegate its lawmaking power to the executive branch. The legislative branch should preserve that power, and we should preserve the separation of powers.

My legislation carefully addresses all of these concerns. The bill is in keeping with the presentment clause and the separation of powers. As a matter of fact, the gentleman who argued successfully against the line-item veto in the Supreme Court in 1998, Charles Cooper, is one of the people we consulted with in drafting this bill, and he is coming to Congress to testify on behalf of this legislation.

This is not a line-item veto where the President has the final say-so, as a governor typically has. It's basically an expedited rescission process. Clearly, today's rescission system doesn't work. Congress can ignore it and often has. Ronald Reagan sent \$25 billion of rescissions to Congress in the 1980s, which were totally ignored.

Practical Tool

With the legislative line-item veto, we are trying to fix the flawed rescissions system so that it can finally serve as a practical tool for cutting government waste and embarrassing pork out of the system in the first place. Under our proposal, the President can single out a specific item of pork-barrel spending when a bill lands on his desk for signature and send that item back to Congress for a separate vote on whether to retain or rescind this spending.

For example, let's take the \$50 million rain forest museum in Iowa. With the legislative line-item veto, the President can take that \$50 million rain forest museum piece out of the larger spending bill, send it back to Congress, and within 10 days we have to vote on it, up or down: no filibusters, no amendments, clean votes up or down in Congress. This way the Congress has the final say-so. The Congress retains its power of the purse, and the Congress is the final decision-maker as to whether spending is executed or not. It just gives the President the ability to pull line-item provisions out and have us vote independently on those items after he signs in the overall bill into law.

Imposing Fiscal Discipline to Tackle Entitlements

This whole effort is part of a broader drive to bring fiscal discipline to Washington. If it is seen as just some quirky, technical thing in Congress, then it will fail because there are plenty of people,

including some in the Republican Party and most Democrats, that want to see this fail, that prefer the status quo. We have the vast majority of votes in our caucus, but we don't have all the votes. If people pay attention to this issue, if voters know that Congress is considering a new tool of fiscal responsibility, if voters know that Congress is actually wising up to the fact that spending has been wasted, that earmarks have been abused, and they are taking action to fix that problem, then we have a chance of passing this. Then this won't be some quiet vote that people can vote down and not worry about any electoral consequences.

That's why it's important that we draw attention to this issue. As I have mentioned before, this is one brick in the dike against a flood of big government.

Let me just give you a couple of statistics to put this into perspective. Right now, entitlements consist of about 60 percent of our federal budget, and most entitlements are basically three programs: Medicare, Medicaid, and Social Security. Within 30 years, entitlements will consume 100 percent of the federal budget. Now, does anybody here honestly believe that national defense, education, and NIH basic research will fall by the wayside? Of course not. That spending will be done on top of it.

Let me give it in another way: When my kids are in my age bracket, if we want to have today's federal government exactly as it is today—with the same programs, no new programs, no fewer programs—we will have to double the size of the federal government. We will have to double the take of the federal government from the American economy and the American taxpayer.

According to the Congressional Budget Office, historically, the federal government has taken 18 percent, 19 percent of our GDP—gross domestic product, our national income—to finance, through taxes, the federal government. If we want to take today's federal government and finance it in 2050, when my kids are at their peak earning years, raising their family, the federal government will have to take 38 percent of GDP to run this government. We will have to double the size of our federal government within one generation just to pay for the government we have today.

Why is this? Because of the explosion of entitlements. Entitlements are demographically based. They are pay-as-you-go systems. Current workers pay today's taxes to finance the benefits for current beneficiaries, and when you are doubling the generation of retirees, with the baby boomers retiring, and only increasing the generation of workers behind them by 17 percent, you have a demographic train wreck; you have a fiscal implosion that's taking place.

I think, at best, we have about a dozen years to fix this before it's too late. The problem we have is that the left understands this probably much better than we do. The left believes and knows that all they have to do is wait, stall, and obstruct us from reforming entitlements.

So why am I talking about boring budget process reform? I don't think we will get real entitlement reform without real budget process reform, because the process itself is designed and rigged to stifle entitlement reform. Maybe it wasn't the intention at the time, but it is the practical outcome of the moment.

So we have this moment now, where Republicans can reclaim who they are, can reclaim a mantle of being freedom-loving, limited government advocates. We can reform a little piece of this budget process so we can get momentum to reform the rest of this budget process so we can convert the 20th century government-monopoly, dependence-generating, command-and-control entitlements into individually owned and controlled, independence-generating programs so that, finally, we can preserve America's freedom and liberty and prosperity in the 21st century.

That, at the end of the day, is really what this is all about. It takes a lot of blocking and tackling and planning, and it starts with passing things like the legislative line-item veto that give us some of the tools we're going to need to change the culture of spending in Washington and to change the culture of Congress.

I am one who believes that people are fed up with the kind of spending that's occurred. Our constituents care about this quite a bit. I've done 27 town hall meetings this year in my district, and this

is probably the number one issue on people's minds—the fact that their tax dollars are being wasted—and they want to see something done about it. This is a concrete tool that can be used to go after that, and it's a part of a more important, larger effort to make sure that we can do the things we need to do to secure and maintain America's freedom and prosperity in the next century.

If you want to see what the alternative world looks like, if you want to see what 38 percent of your GDP going to the federal government looks like, just look at the misery on display in old Europe today. That is a path and road we do not want to follow, and I'm one who believes that if we get these fundamentals right, we can prevail. We can change these things, and the American people will be better off for it, and the next generation will be as free as this generation.

That's why this is important. We have a window of opportunity to do this; and at the end of the day, if we fail to do this and the boomers do become the consumers of these programs, they'll be the most significant, powerful voting bloc we've ever seen in this country, and they will probably be reluctant to see any kinds of significant changes made to these programs. Unfortunately, that's the way Washington works.

So I'm one who believes that if we can make these common-sense reforms today, get Congress on the path to cleaning up spending and the budget process, we can save these entitlements. We can reform these entitlements, and we can preserve our freedom and prosperity by making sure that we're not taking 38 percent of the American economy out of the economy, out of our paychecks, out of our families and our businesses, for the federal government.

MICHAEL FRANC: Our next speaker is Brian Riedl, the Grover M. Hermann Fellow in Federal Budgetary Affairs at The Heritage Foundation. Brian is going to comment on what Congressman Ryan talked about and expand upon it from the Heritage perspective.

BRIAN RIEDL: I'll start off by saying that I agree with everything Congressman Ryan just said,

although I will add that Congressman Ryan mentioned that the CBO projects that we'll spend 38 percent of GDP in 2050, and it's important to know that in those assumptions, CBO assumes that defense will be cut in half, all other spending will be cut by 12 percent, Medicare will spend less than the trustees' estimates, and, perhaps most importantly, a decupling of national debt will have zero effect on interest rates and net interest costs. If you incorporate those factors, we could end up at double that 38 percent of GDP, so as scary as that scenario is, it could be even worse.

Basically, the budget process has two functions: first, to provide an orderly framework for Congress to allocate spending and taxes and, second, to give lawmakers an incentive to do the right thing. The current budget process, which was created back in 1974 to maximize federal spending, fails miserably on both functions. As a result, we are in the midst of a large spending spree. The federal government last year spent a peacetime-record \$23,760 per household. Adjusted for inflation, that's the most since World War II. Who believes they're getting \$23,760 worth for what they're paying?

Three broad issues are the most important issues in budget process reform. First, we need meaningful spending caps. It is impossible to restrain federal spending without basic spending caps. Lawmakers every day hear a parade of special interests asking for money—we need money for this project; we need money for this program—and the concentrated benefits and diffused costs make it politically advantageous for lawmakers to repeatedly give in to each funding request they get. Since the political process encourages spending, we need spending caps that will help lawmakers say “No!” It will help them set priorities, make trade-offs, and tell these people who come into your office that you have a fabulous idea, but we have these spending caps that we have to adhere to, so my hands are tied.

In the 1990s, we had discretionary spending caps to help keep spending down, and they need to be brought back. But we can no longer exempt runaway entitlement costs, which cover nearly two-thirds of the budget, from these caps either. This is why we think something such as a “taxpayers' bill of rights” law, which would limit the total growth of

federal spending to inflation plus population, or something like what we call “omni-caps,” which takes the discretionary spending cap model where lawmakers set the caps on their own every couple of years and apply it to total federal spending, would be good ways to restrain spending.

A second area that’s important for budget process reform is the need to budget better for entitlements. We take 60 percent of the budget off the table and put it on permanent autopilot outside the regular budget process. Look at the 2003 Medicare drug entitlement. Lawmakers created a new benefit with an \$8.1 trillion, 75-year liability. Yet the federal government underwent no credit check, made no down payment, and never had to show that it could make the regular payments; it just put the entire \$8.1 trillion on the credit card without a plan to pay for it. In fact, the costs, beyond a short 10-year window, weren’t even calculated; they just looked at the \$400 billion over 10 years, which is now a lot more, and ignored the 8.1 trillion long-term costs.

Just as businesses do, it’s important for Congress to calculate its long-term, unfunded obligations, which currently stand at about \$50 trillion. They need to develop a plan for fulfilling or paring back these obligations and create basic budget rules against adding to these long-term obligations. Otherwise, we will end up with these long-term entitlement costs dumped into our children’s lap.

The third thing that’s important is enforcement. Even the best budget rules don’t matter if they’re not enforced. Right now, any spending limits we

have can be bypassed by writing the word “Emergency” on the top of the bill. It’s that simple: You write the word “Emergency” on a bill, no spending limits, and nearly all the rules that are in place can be bypassed by a majority vote in the House.

Think about it for a second. If the point of a spending limit is to constrain the majority and prevent them from spending too much money, does it make sense to let that same majority vote to ignore the spending limits? You’re not really creating any new hurdles, because the same majority can still spend as much money; they now just have to, along the way, vote to ignore the spending limits. So rules are only as strong as their weakest link, and the “Emergency” designation and the easily waived points of order basically dilute all budget restraints. They must be strengthened, and spending limits have to have teeth.

So the three things that we need to focus on in budget process reform are meaningful spending caps, better budgeting for long-term obligations and entitlements, and better enforcements. Lawmakers are under enormous daily pressure to increase spending, and it’s so important to have a budget process that helps them say “No” rather than one that further encourages lawmakers to spend. If you can do that, then you can have the budget process that changes the incentives of the entire political system and helps lawmakers protect the family budget from the federal budget.

—*The Honorable Paul Ryan (R) represents the First District of Wisconsin in the U.S. House of Representatives.*