Budget Process Solutions

Federal budgeting is an annual process that devotes most of its attention to the upcoming fiscal year — the budget year. That makes the current budget process ill-suited for managing the nation’s long-term fiscal affairs.

While budget process reform alone cannot substitute for political agreement about fiscal policies and priorities, there are many reforms that would help encourage long-term fiscal sustainability. Areas of reforms include:

- **Adding a long-term focus.** Extending the current 10-year “window” that Congress generally uses during the budget process to increase the visibility of the projected effect of lawmakers’ actions on our fiscal future.

- **Setting targets.** Requiring Congress and the president to set medium- and long-term fiscal goals, then reporting annually on the progress they have made toward those objectives to help improve accountability for the fiscal future.

- **Strengthening enforcement.** Adding new or strengthening existing enforcement measures that would help policymakers’ stay on the path towards their budget targets over longer periods. Naturally, these reforms would have to be flexible enough to accommodate changing economic conditions and new political priorities, but, at the same time, be strong enough to establish and reinforce overall commitment to long-term fiscal sustainability.

- **Additional reforms.** There are a number of budget process reform options frequently discussed by policymakers.

Policy Options

Below is a more detailed look at the areas of budget process reform.

**Adding a Long-Term Focus**

Although the president’s Office of Management and Budget, the Congressional Budget Office, and the Government Accountability Office publish information about the long-term budget outlook, that information has little effect on the annual budget process. The president is only required to estimate the budgetary impact of the administration’s proposed policies for the budget year and subsequent four years. Official estimates of the budgetary impact of congressional action — the only ones that truly matter in legislative debate — only cover a 10-year period at most. That discourages policy reforms that would create short-term political and budgetary costs but would improve the long-term outlook. The 10-year window also hides the long-term costs of policies that may look manageable in the shorter term.

Process reforms that require more information about the long-term budget outlook could help to overcome the current, short-term focus. Some reforms include:
• Extending the time horizon for baseline budget projections and estimates of the budgetary effects of legislation to 25 years instead of the current 10 years.
• Requiring the Congressional Budget Office to evaluate the long-term impact of the president’s budget proposals.

Setting Medium- and Long-Term Fiscal Targets

Although policymakers generally acknowledge that the current projections of rising debt are unsustainable, they do not agree on the appropriate target for our long-term debt. Without such a consensus, it is more difficult to agree on the revenue and spending levels that would achieve a better long-term fiscal outlook.

To encourage lawmakers’ focus on improving the budget’s long-term outlook, the budget process could require Congress and the president to establish statutory medium-term and long-term targets for the national debt, as the Peterson-Pew Commission on Budget Reform has recommended. Once agreement is achieved, subsequent president’s budgets and congressional budget resolutions could also be required to include policies for reaching those targets and reporting on a regular basis about their progress toward achieving those goals.

Alternatively, policymakers could agree that the budget should be balanced over the business cycle (that is, run surpluses when the economy is growing and allow deficits when the economy is weak). If the budget stayed in balance, debt as a percent of GDP would decline over time.

Any targets should be set at levels that would be reasonably attainable and flexible enough to allow for unanticipated circumstances, such as economic downturns, national emergencies, and major disasters. That means that targets should be designed to rein in deficits and debt gradually to avoid sudden impacts on the economy and to allow for gradual policy changes that would give Americans time to adjust to resulting changes. Policymakers would also be free to adjust the goals through subsequent budget legislation.

Strengthening Budget Enforcement Provisions

Once policymakers reach agreement about levels of revenue, spending, deficits and debt, they could use budget enforcement provisions to help keep fiscal policies on the agreed-upon path.

• The existing pay-as-you-go (PAYGO) rules that apply to legislated changes to revenues and entitlement programs could be strengthened by scaling back or eliminating the number of programs that are exempt from the PAYGO requirement and subsequent enforcement action.
• Statutory limits on discretionary spending, which are in effect through 2021, could be extended further into the future. To increase the likelihood that the caps will be observed, they should be set at realistic levels, based for example, on historic levels. Otherwise, policymakers may try to get around the caps by exempting more spending or by voting to overturn the limits completely.
• A new enforcement procedure to back up agreed-upon debt targets could be added. This reform could use sequestration to enforce debt goals as a last resort to encourage lawmakers to adopt policy changes to meet the targets.

Other Frequently-Mentioned Budget Process Reform Options

• Change the budget resolution into a joint resolution that would be signed into law by the president, thus providing a means to achieve overall agreement between the president and Congress on a budget blueprint that would guide subsequent legislative activity.
• Change from an annual to a biennial budget process. If Congress had to pass a budget only in non-election years, it could allow for more bipartisan budget negotiation without the heightened pressure that special interest groups bring to bear during election years. It could also give lawmakers more time to focus on
oversight and longer-term policy development, and would provide more certainty in the operation of federal activities.

- Create a means to automatically increase revenue (similar to sequestration provisions currently in place that automatically reduce spending) that would be triggered if budget targets are missed. Like sequestration, this provision would be intended to be a last resort and so undesirable that policymakers would be motivated to act to avoid triggering it. It could take the form of an automatic surtax, or it could “trigger off” certain tax provisions.
- Enhance the president’s authority to rescind funds by requiring Congress to vote on his proposed rescissions. (Currently, Congress can ignore the president’s request, which allows the funds to be spent.)

The annual budget process would almost certainly benefit from reform. But fundamental problem is not the budget process itself, rather a lack of political will to make difficult choices. Without changes in policy, deficits are projected to rise to unsustainable levels in coming decades due to the aging of the population, rising healthcare costs, and an inefficient tax code. Solving these problems will take political leadership from both parties.

For more about options to reform the budget process, see:

- The Brookings Institution, Reforming the Budget: How to fix the Congressional Budget Process (2014)
- The Heritage Foundation, An Analysis of Selected Budget Process Reforms (2014)
- American Enterprise Institute, Reforming the Budget Process (2014)
- Urban Institute, The Budget Process (2011)