Peterson-Pew Commission Report

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GETTING BACK IN THE BLACK – A Report of the Peterson-Pew Commission on Budget Reform

The Peterson-Pew Commission on Budget Reform recently released its second report, Getting Back in the Black . It offers a detailed set of options to reform the federal budget process, in order to make it more effective and capable of achieving fiscal goals like those described in their first report, Red Ink Rising. In that report, issued last year, the commission recommended a goal of stabilizing federal debt at 60 percent of GDP by 2018, followed by a gradual reduction of the debt-to-GDP ratio over the long term.

The Peterson-Pew Commission comprises federal budget and fiscal policy experts, including former directors of the Congressional Budget Office and the Office of Management and Budget, and former Chairmen and Ranking Members of the House and Senate Budget Committees. The Commission is a joint project of the Peter G. Peterson Foundation and The Pew Charitable Trusts.

The Commission believes that “the broken process contributes significantly to the nation’s dangerous situation.” They note that the current budget process limits its focus to the upcoming year, rather than planning for the medium- or long-term. The report proposes a “Sustainable Debt Act,” which focuses on three goals for reforming the budget process – adopting fiscal targets, instituting triggers, and increasing transparency in the budget process. The major legislative changes proposed by the report are listed below.

1. **Adopting the following target-based process:**
    - A statutory medium-term debt target
      The President and Congress should agree to a medium term debt target and corresponding annual fiscal targets. At debt target would establish limit on the size of the nation’s debt in proportion to the overall economy. Currently there is no agreed upon fiscal goal for the nation, and hence, little motivation for budget discipline. In Red Ink Rising, the Commission recommended a target of stabilizing the debt at no more than 60 percent of GDP by 2018. (This is the level recommended by the IMF and used the European Monetary Union, and is designed to provide a manageable level of fiscal restraint.) However, the Commission notes that whatever goals are set, it is important that the medium-term targets include flexibility to accommodate changes in economic conditions.
    - A multi-year budget plan (rather than annual budget plans) with annual fiscal targets
      The President should submit and Congress should adopt a multi-year plan which meets the medium-term debt target. This should include annual debt targets, which could guide the process of identifying savings. The budget process should be further strengthened by including members from both the appropriations and revenue committees on the Congressional budget committees.

- A longer-term fiscal target
  After the medium-term goal has been achieved, Congress and the President should continue to set new targets, lowering it to an even safer level. Reforms should be made to "the largest drivers of budgetary imbalances: Social Security, health, and tax expenditures." The report suggests a goal of balancing budgets over the business cycle after 2018, which would result in a debt-to-GDP level of 40 percent by 2028.

2. **Instituting "triggers" to ensure that budgets meet fiscal goals:**
   - Discretionary spending caps and a strengthened statutory PAYGO
     These should be modeled after the 1990 Budget Enforcement Act (BEA), without loopholes. Under BEA, various spending limits were placed on discretionary spending. These statutory caps were in effect until 2002.

   - A medium-term fiscal trigger that would automatically activate if budget legislation fails to meet the annual debt target
     Each fall, the Office of Management and Budget (OMB) would estimate the budgetary impact of all legislation enacted in the previous fiscal year ending on September 30. If the estimates showed that enacted policies would exceed the statutory debt target for the current year, Congress and the President would have the opportunity to enact additional legislation to meet the targets. The OMB would again score legislation, and a strict but realistic set of across-the-board spending cuts and tax increases would be automatically triggered – or activated – if the budget is off-track. The report recommends that the debt trigger be composed of 50 percent spending cuts and 50 percent tax increases, and apply to the broadest base possible, including tax expenditures, Social Security, and mandatory health programs.

   - Providing the President increased rescission authority
     The President can propose to rescind—i.e., withdraw and not spend— funds appropriated by Congress for various reasons, such as a determination that the funds would be an unnecessary or an unwise use of public resources. However, Congress can ignore those proposals, and, after 45 days, the President must release the funds and allow them to be spent. In 2010, President Obama, like many earlier Presidents, proposed legislation that would require the Congress to vote proposed rescissions up-or-down. The Commission supports this proposal, and envisions the President using rescission authority in cooperation with Congress to help achieve fiscal targets.

   - Longer-term fiscal triggers
     As mentioned above, the report calls for longer-term targets after the medium-term debt target has been achieved. If these targets are not met, automatic adjustments would be made to the drivers of long-term debt. Illustrative options include a cap on total losses from tax expenditure provisions, increases in payroll taxes and adjustments to Social Security benefits, and adjustments to health programs proposed by the Independent Payment Advisory Board (IPAB).
     The Commission notes that other developed nations such as the Netherlands and Switzerland have had success using similar fiscal rules.

3. **Increasing the transparency, timeliness and completeness of information used in the budget process**
   - Budget presentation

Budgets should begin by displaying proposed changes from current-year levels, followed by an explanation of why those changes are proposed. (Currently, the congressional budget displays proposed changes from a baseline level, which incorporates adjustments for economic factors such as inflation, and programmatic factors like changes in the number of beneficiaries for entitlement programs.)

- Long-term outlook in budgeting
  The President's Budget and CBO's budget analyses should highlight the long-term outlook, and explicitly report progress towards meeting statutory fiscal targets. Moreover, OMB should publish an analysis of fiscal exposures in each year's budget. Fiscal exposures would include future promises for Social Security and Medicare benefits, explicit liabilities and other contractual obligations, and military and civilian pensions. They would be estimated from the annual financial statements of the U.S. government.

- Budgetary treatments of tax expenditures
  The tax deductions, credits, and exemptions in the tax code that result in favorable tax treatment of certain activities are known as "tax expenditures." The report proposes that tax expenditures be treated as equivalent to entitlement spending programs, and displayed with other spending in the budget. They also propose requiring the OMB and CBO to provide analysis on the incidence and efficiency or major tax expenditures.

- Changes to budgeting for emergency spending
  Rather than funding disaster and other emergency assistance programs after an event has occurred, the report recommends that the estimated average annual cost of emergencies be allocated each year to an emergency reserve. There would be strict rules governing the use of reserve funds.

- Accounting for federal retirement, pension, and long-term insurance programs
  The costs of such benefits and insurance programs should be recognized on an accrual basis—when the obligations are incurred—rather than when the bills come due and must be paid. This would provide the government with a more effective way of controlling such costs. Social insurance programs would be exempt from this change.

- Accounting for guarantees extended to Government-Sponsored Enterprises (GSEs)
  Government sponsored enterprises, such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) benefit from lines of credit to the U.S, Treasury, which amount to implicit guarantees of their finances from the federal government. For GSEs that receive implied subsidy guarantees, the budget should show the cost of those guarantees explicitly, and account for the estimated amount of federal financial exposure they represent.

- Performance metrics
  The President should devise a system of national metrics in areas such as security, health, economic growth, and environmental protection, so that budget decisions can be made in the context of information on performance.

The Peterson-Pew Commission does not make any recommendations (beyond a few illustrative options) for programmatic reform. The report contains no proposals to cut specific spending or tax measures. Rather, its task was to focus on ways to strengthen the budget process through greater transparency, better enforcement of budget goals, and longer-term focus in the process of budgeting.
