

Research Summary

OPTIONS TO RESTORE MORE DISCRETION TO THE FEDERAL BUDGET

The US government’s fiscal policy has long been recognized as unsustainable, driven largely by automatically growing entitlement spending and insufficient revenues. Often overlooked, however, is the extent to which this preordained fiscal policy limits current lawmakers’ discretion to act on new priorities each year—let alone contain debt, or even pass a budget on time.

A new study jointly published by the Mercatus Center at George Mason University and the Urban Institute finds that the diminished discretion of lawmakers is a primary driver of the federal budget process’s increasing failure to work as intended. Specifically, current and future budgets have been set in law to an extraordinary extent, creating a network of expectations that simply cannot be met. Unlike most budget process reform studies, which tend to emphasize deficit reduction or budgetary procedure, this study focuses on restoring and protecting congressional discretion as a key fiscal objective—and it lays out reforms that could help achieve that end.

To read this study in its entirety and learn more about its authors, Urban Institute fellows Rudolph G. Penner and C. Eugene Steuerle, please see [“Options to Restore More Discretion to the Federal Budget.”](#)

KEY POINTS

- The federal budget process increasingly fails to relate to changes in the economy, the environment, or the demands of voters—let alone to contain debt.
- This failure is due largely to a phenomenon generally unknown in past budgets: the extent to which current and future budgets are set in law by the policy decisions of previous Congresses.
- Improving budgetary processes and outcomes requires restoring congressional discretion over budgetary policy. Key to this is placing entitlements and tax expenditures on a more even footing with discretionary spending.

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- Greater discretion does not imply that government must be larger or smaller or that programs should not grow or taxes be cut. It simply means that spending and tax schedules should be aligned so that revenues are enough to pay bills. It also means that future voters and elected officials should not be locked into contracts that usurp their ability to decide among future opportunities and needs that cannot possibly be fully predicted beforehand.
- More programs, including tax expenditures, should be subjected to periodic review and reauthorization, with policy decisions debated frequently and rationally, and should require Congress's explicit vote to continue growing.
- Carefully designed triggers should be employed to slow the growth of entitlements and tax expenditures, reconciliation should be limited to policy changes that reduce deficits, and the budget window should be lengthened and more informative budget displays adopted to produce a clearer view of long-run budget problems.

SUMMARY

Congressional budgets have long failed to address the key drivers of federal debt: automatically growing federal health entitlements and Social Security. In general, politicians find it extremely painful to vote to raise taxes, and slowing the growth of entitlement spending is often spun as “cutting” the program.

No change to the budget process can completely substitute for political courage, nor can improving the budget process entirely substitute for improving fiscal policy. There are, however, substantive procedural reforms that can enable, and then reinforce, fiscally responsible choices:

- *Triggers.* Design triggers that will automatically limit the growth of specific entitlements and tax expenditures if these expenditures cross a predetermined threshold, thereby providing lawmakers with some cover as they deal with painful political decisions. Successful triggers must be highly publicized, rely on a variable that is not too volatile, and make policy changes that are not too painful. Triggers work best when they are adopted along with fundamental reforms of a program.
- *Reconciliation.* Restrict reconciliation procedures to policy changes that reduce deficits. Remove rules that prevent reconciliation procedures from being used for Social Security reform.
- *Periodic reauthorizations or formal reexaminations.* Subject all spending programs, including tax expenditures, to regular review against the evidence to see whether they are working, and force Congress to take explicit votes on whether taxpayers should continue to devote resources toward them.
- *Improved communication and display.* Adopt more informative displays of the long-run implications of current law and any policy changes to hold lawmakers accountable for their decisions. Lengthen the congressional budget baseline projection to 20–30 years to more clearly show that the current fiscal path is unsustainable, and to limit Congress's ability to

manipulate the process by shifting costs outside of the current 10-year budget window. Produce a “Sources and Uses of Budgetary Resources” table to better illustrate the national priorities that are embedded in current law.

- *Long-run goals.* Specify long-run goals for spending on entitlements and for the size of tax expenditures, paying most attention to expenditures that are growing faster than the economy.
- *President’s fiscal report.* Require the president to present an annual financial State of the Union report to indicate whether the long-run budget problem is getting more or less serious and describe recommended reforms.