

# WebMemo



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## Obama's Fiscal Commission: Avoiding a Standoff

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Today President Obama's fiscal commission will hold the first of its meetings in an attempt to find policies to rein in the federal government's looming debt and deficits. Reports leading up to the meeting have painted this endeavor with a bleak outcome. Indeed, the panel's chances that a requisite 14 out of 18 members will be able to rally behind one set of recommendations to reduce the long-term deficit seem slim to none. Democrats are lining up against any spending cuts to Social Security, Medicare, or Medicaid, fearing it will shred the safety net. Republicans view this as a spending problem—understandable since spending on these programs is projected to more than double as a share of GDP by 2050—and are equally dug in against tax hikes or new taxes like the VAT.

At best, some view the commission as an exercise in improving public education. But it need not be merely that. In addition to wrestling with tough policy changes to popular programs, the commissioners should tackle reforms of a much less politically favored institution: the budget process itself. In so doing, the commission could establish an important legislative process framework for implementing vital, substantive programmatic reforms down the road and for ensuring their success.

In particular, the commission should draft proposals that:

- Put the long-term unfunded entitlement obligations front and center in the budget and establish a long-term obligation limit,

- Score major policy proposals over the long term, not just the current budget window, and
- Create a long-term budget for entitlement programs.

**Budget Transparency.** Congress establishes its annual budget plans in the budget resolution. This frequently includes a limit on the debt, which today stands at \$14.3 trillion. This often contentious vote is not the only mark of the federal government's obligations, since it does not measure the excess costs, or unfunded obligations, of entitlement programs into the future. This is akin to setting a family debt limit by including only the credit card and ignoring the costs of the mortgage. Those costs for Social Security and Medicare are nearly \$46 trillion.

The commission should recommend that Congress:

- Disclose the long-term entitlement obligations in the budget resolution, providing lawmakers and the public a much fuller understanding of the current and future budget outlook
- Require a similar long-term assessment for Medicaid be made by the Centers for Medicaid and Medicare Services, and

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- Set a firm limit on these obligations, with Members being required to vote on whether they will increase these costs on future generations.

**Long-Term Scoring.** The commission should recommend that all major policy changes should be scored over the long-term, in addition to the traditional five- or 10-year budget window, to indicate what impact they would have on these unfunded obligations. This would prevent lawmakers from gaming the system by, for example, starting new benefits midway through a shorter-term scoring period to make their costs seem artificially low. It would force Members to indicate whether new policies are affordable over the long run.

That information was sorely lacking in the recent health care legislation, and it would have painted a much different picture of the bill's true cost. Policymakers cannot responsibly make sound fiscal decisions without such information. Congress requires such disclosure of the private sector; Members should hold themselves to the same standard.

**Long-Term Budget for Entitlement Spending.** The actual annual budget laws, passed through appropriations bills, account for about 40 percent of total federal spending. The rest of the budget is called "mandatory" spending and is not required to go through an annual spending authorization. Instead, mandatory spending is governed by the often highly complex prescriptions contained in their programmatic enabling laws.

The lion's share of this spending belongs to the entitlement programs Social Security, Medicare, and Medicaid. Unlike other mandatory programs such as farm subsidies, these entitlement programs do not sunset and so are not required by Congress to be periodically reviewed or re-authorized. They are on budgetary autopilot.

Thus, during annual budget debates, Congress does not see the true costs of these programs but just a projection of likely costs, so there is no sense

of a true budget. As a consequence, entitlement spending consumes a larger and larger share of tax revenues and less room is left for the other priorities that Congress does debate.

This autopilot budget should be changed into a real budget. Certainly, retirement programs require a longer time horizon and more planning certainty so beneficiaries will not face abrupt annual changes in their benefits. The commission should recommend a long-term framework for a constrained entitlement budget that would be periodically evaluated to ensure that these programs are sustainable and affordable over the long term.

This could be done by creating a long-term budget window—30 years, for example. All spending would be reviewed regularly every five years, and Congress would be required to take action to keep the programs within this budget framework, with some form of automatic triggers put in place if Congress does not act.<sup>1</sup> Alternatively, a bipartisan commission could recommend measures to Congress for an expedited vote to bring the programs back within the budget framework.

**A Path for the Commission.** The future does not have to unfold under the gloomy economic scenario now projected, but very tough choices will be needed to get the budget back in order. By fixing the budget process, the commission can avoid the needless deadlock over programmatic reforms that many now fear.

Serious changes to the budget process are needed to help—even force—Congress to put the federal budget on an affordable and sustainable path and ensure that it remains there. The commission should take the first serious steps toward fixing the budget process and long-term budget responsibility.

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1. See Stuart Butler *et al.*, "Taking Back Our Fiscal Future," Heritage Foundation *White Paper* No. 0408, March 31, 2008, at <http://www.heritage.org/Research/Reports/2008/03/Taking-Back-our-Fiscal-Future>.