Testimony before the Senate Federal Financial Management Subcommittee. May 25, 2006

By Timothy J. Penny, Senior Fellow, University of Minnesota Humphrey Institute

In Congress, the budget process does matter. Past budget reforms have often curtailed spending.

In the 1980s, Gramm-Rudman-Hollings stipulated that Congress must meet certain deficit targets – or automatic cuts would ensue. During the early years of its implementation, deficits fell routinely. Congress essentially gave itself no option except to make the tough decisions or face across the board cuts.

The 1990 Budget Enforcement Act (amended and extended in 1993 and 1997) required a "pay go" approach to tax and entitlement policy. Simply put, "pay go" stipulated that any increase in entitlement spending or decrease in taxes would be deficit neutral. In other words, these costs would be off-set by a corresponding decrease in spending or a revenue increase. In addition, the Budget Enforcement Act required spending in various categories to stay within specific spending levels or caps. It was adjusted - and through an emergency-spending loophole – it was sometimes violated – but, still, spending restraint was the norm for most of the decade of the 1990s.

The Budget Enforcement Act also established a sixty percent majority vote in the Senate before unrelated items could be included in tax or entitlement legislation.

As I stated earlier, budget process matters. Sadly, today, there is no budget discipline in Washington. The Budget Enforcement Act was allowed to lapse, and in the years since its demise, deficits have grown, entitlements have expanded, emergency spending has mushroomed, and porkbarrel spending has grown like topsy.

The first rule of filling holes is to stop digging. However, many politicians in Washington can't seem to put down their shovels.

To fix our broken budgeting system, let's start with the easy stuff: porkbarrel spending. In short, if Congress can not develop the will to eliminate "pork," there is little likelihood that Congress will muster the courage to seriously reduce entitlement expenditures.

What is an "earmark" or "porkbarrel spending?" In short, it can be defined as an expenditure or project that is strictly local or parochial, rather than providing a regional or national benefit. These parochial spending items are typically hidden in the fine print of major spending bills dedicated to truly national needs.

These porkbarrel items are almost never the subject of a hearing in a congressional committee. They are seldom, if ever, subjected to a recorded vote in a committee or on the floor of the House or Senate. These items very often are not even included when legislation initially passes the House or Senate, but are instead added to the legislation during a conference committee.

Earmarks or porkbarrel spending – always a problem on Capitol Hill – are increasingly getting out of control. Congress is often thought of as a partisan institution. But when it comes to porkbarrel spending, bipartisanship is the norm.

For example, the 1998 Highway Bill was – at the time - a modern day monstrosity. It included nearly 1500 porkbarrel projects for Democrats and Republicans alike – totaling over $9 billion. It included more pork than in all the previous highway bills combined going back forty years. That was until the 2005 Highway bill which took porkbarrel spending to even greater heights.

Worse yet, emergency spending for natural disasters is not exempt from the politics of pork. In 1999, Clinton requested an emergency measure related to hurricane relief. In bipartisan fashion, Congress proceeded to lard the emergency bill with $12 billion in unrelated spending, including many porkbarrel projects. Today, the same ugly practice replays itself with the passage of each new emergency spending bill.

In Congress, the budget process does matter. The Budget Enforcement Act included the Byrd rule, named for the senior senator from West Virginia. It placed a point of order against extraneous matters being included in a reconciliation bill (affecting tax and entitlement policy) – unless a sixty percent majority of Senators agrees to allow the practice. The Byrd rule helped to keep reconciliation bills lean and clean. To stop pork, the same budget principle should be applied to all spending bills.

My second point: Any responsible budget process must anticipate the looming Medicare and Social Security crises.

Let's simply look at Social Security. When you hear some politicians and journalists say, "Social Security is fine. The Social Security trust fund will be able to pay all promised benefits until 2042," hold on to your wallet. The fact is that the Social Security Trust Fund contains no cash, just government bonds. When the Social Security payroll taxes coming in to Washington aren't enough to pay promised benefits to existing retirees – beginning in 2017—the Social Security Administration will begin cashing in those bonds.

Those trust fund bonds carry the "full faith and credit of the federal government," and are a first claim on general revenues. Congress will have to then decide whether to cut some existing government programs or increase income taxes.

But if Congress cut government programs to cover the Social Security shortfall, how much would have to be cut? The numbers are mind-boggling, but examples of possible program cuts may be a useful way to understand the magnitude of the problem.

In the first year of the Social Security cash deficit, the shortfall is relatively small, sixteen billion dollars. Using the cost of government programs in 2003, we'd have enough money to make up the shortfall if we eliminated the Environmental Protection Agency, the Head Start Program, and the Federal Drug Administration. The following year, 2019, the shortfall more than doubles. So, added to the first round of cuts, we'd have enough to pay Social Security benefits if Congress also eliminated the WIC nutritional program, the Centers for Disease Control, student loans, Food Safety and Inspections program, and the Small Business Administration. The third year, instead of raising taxes, Congress could make up the deficit by also cutting the entire department of the Interior, including all money for Fish and Wildlife Service, the National Parks and the Bureau of Indian Affairs. Three years later, added to these cuts could be the Food Stamp program and SSI. And on and on, each year. You get the picture.

No one in their right mind believes that Congress will cut the equivalent of these programs to make up the shortfall. Yet, whatever Congress does to meet this Social Security challenge – cut, tax or borrow - represents an unfair burden on our children.

That is why I believe we need an intergenerational PAYGO framework to help align the government's cash flows to demographic trends.

Eight years ago, when times were flush, there was bipartisan agreement to balance the operating budget of the federal government (and to use Social Security surpluses to retire publicly-held debt). Once the budget surpluses evaporated, however, so did that agreed-upon framework. This year policy makers seem unable to agree on any fiscal goals. Foreign policy and military challenges abroad, economic and other security worries at home, and upcoming mid-term elections that will determine next year's congressional majorities all pull in different directions. Consequently, the Congress has yet to adopt a budget resolution for next year.

Meanwhile the time draws closer when a significant increase in resources—public and private—will be needed to support an older population. Policy makers should begin to address the complex policy questions related to the aging of the population. They should consider the consequences the benefits promised by the Social Security, Medicare and Medicaid programs will have on the rest of government. But since they can't agree on priorities for next year, the Congress and the President seem unlikely to address longer term questions.

Current budget decisions matter to future taxpayers. Policy makers can't stop the population from aging. But they can acknowledge the possibility of longer-term fiscal problems and avoid short term actions—like another big tax cut or expensive benefits expansion—that could worsen future budget prospects.

One way legislators could acknowledge the relationship between immediate policy changes and their longer-term consequences would be set a goal of holding future taxpayers (who are our children and grandchildren) harmless. By asking themselves if contemplated changes to policy—when taken together—would make the longer term situation better or worse—the Congress and the President would bring an intergenerational framework to fiscal decision making.

An intergenerational framework would have to be qualitative because it is difficult to estimate accurately fiscal impacts far into the future. However, continued absence of intergenerational considerations allows annual budget deliberations to focus only on immediate concerns and ignore future taxpayers, who already face the greater burden of supporting a population that will be older than today's. The Congressional Budget Office should be asked to develop an Intergenerational Impact Statement to accompany every Budget resolution.