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Chairman Casey, Vice-Chairman Brady, and members of the committee, I appreciate this opportunity to discuss with you the efficacy of fiscal rules that many believe can help to restrain federal spending.

Over the past few years it has become abundantly clear that the nation is careening down an unsustainable fiscal path and that we will have to restrain the growth of spending significantly to put the federal budget on a more viable trajectory. Notwithstanding the growing realization that long-run spending restraint is imperative, elected policymakers find it difficult to curb both outlays and tax expenditures.

There is no mystery behind why this is the case. While it is easy to give speeches embracing unspecified spending cuts, the termination of low-priority, wasteful or duplicative programs, the elimination of fraud, and the streamlining of the bureaucracy, it is another matter to vote to cut something that has an appropriation account number be it NIH research, veterans' health, or NASA. It is even harder to vote to change authorizations that guarantee Social Security recipients a certain sized benefit, reimburse states for Medicaid expenditures they have already made, or pay hospitals—only partially at that—for the costs they have incurred treating Medicare beneficiaries. Such votes engender opposition from affected constituents and interest groups who, no matter how broadly the sacrifice is shared, argue that some different distribution of the cuts would be more in the nation's interests, fairer, and better for the economy.

Despite the rhetoric, there is no significant constituency for deep spending cuts that are specific. The pain from such cuts is immediate, significant and measurable and those affected are identifiable. The benefits of the fiscal restraint such cuts would generate are distant, uncertain in magnitude, and diffuse. When they materialize they will be difficult to identify and no one will reward those who made the tough decisions. If history is any guide, many of those lawmakers will have "moved on" involuntarily to other careers.

Given this situation it is reasonable to ask whether there are some fiscal rules that might create a more hospitable environment for those who must make unpopular but unavoidable decisions involving fiscal restraint. Among the measures that have been put forward to do this are proposals that would:

- Transform the concurrent budget resolution into a joint resolution,
- Impose statutory spending caps,

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- Reinstitute strong PAYGO rules,
- Give the President expedited or enhanced rescission authority, and
- Amend the Constitution to require a balanced budget.

Joint Budget Resolution

The Congressional Budget Process was established to allow the legislative branch to set its own budget priorities, look at the budget comprehensively and with a multiyear perspective, set fiscal policy by considering the interdependence of the budget and the economy, provide structure and discipline to congressional budget decisions, and reduce Congress's dependence on the executive branch for fiscal information. The concurrent budget resolution establishes the framework for accomplishing these objectives. If the concurrent budget resolution were replaced with a joint resolution requiring the President's signature, Congress would be giving up its independence on these matters. In years when the House, Senate and White House are in hands of a single party, this might make little difference; at other times implications would be profound. For example, Congress would almost certainly have to rely on OMB scoring of its actions.

For many years, formulating and passing a budget resolution in the timeframe called for by the Congressional Budget Act has been a challenge. More recently, the two chambers have not even been able to agree on a common resolution. Adding the President to the mix would undoubtedly slow down the process and would make it even more likely that a consensus budget resolution could not be fashioned. A joint resolution would also fog the responsibility for failure as few would be able to judge whether the House, Senate or White House was most intransigent.

Discretionary Spending Caps

Statutory caps can be imposed on discretionary spending and enforced through sequestration. They are not an effective way of controlling mandatory spending because such spending is affected by many factors over which lawmakers have little or no control such as the strength of the economy, weather, college attendance rates, new developments in medical technology, and interest rates.

Many have argued that spending caps are a tool that has been proven to work and, therefore, a heavy emphasis on such caps should be part of any deficit reduction plan enacted to resolve the debt ceiling crisis. First imposed by the Budget Enforcement Act of 1990, discretionary spending caps, in one form or another, existed through the early years of the 21st century. However, after budget surpluses appeared in 1998, adherence to them waned and they were frequently waived or circumvented.

Before placing too much emphasis on this mechanism for our future salvation, the record of the past should be examined carefully. On the surface, the discretionary spending caps of the 1990s look very successful. Between 1990 and 2000, total discretionary spending in constant 2005 dollars fell from $784 billion to $737 billion—or almost 6 percent. As a fraction of GDP, the fall was even more dramatic, from 8.7 percent to 6.3 percent of

GDP, which is a drop of over one-quarter (27.5%). But this successful record was largely a story about the defense budget and rapid and sustained economic growth during the last half of the decade.

The Berlin Wall came down in the fall of 1989 and the Soviet empire collapsed soon after. Our military budget, which had been justified by the Cold War, had to be rethought and there was widespread support for cashing in on the peace dividend. Because of the changed environment and spurred on by the spending caps, defense outlays in 2005 dollars declined from $463 billion to $362 billion—or by over one-fifth—between 1990 and 2000. Relative to GDP, the fall was 42 percent (from 5.2 percent of GDP to 3.0 percent).

The story was different on the non-defense side of the discretionary budget. In constant 2005 dollars, non-defense discretionary spending increased by 17 percent over the 1990-2000 period (from $321 billion to $375 billion). While non-defense discretionary spending as a percent of GDP declined slightly—from 3.5 percent to 3.3 percent of GDP—this was largely a reflection of rapid GDP growth during the last half of the 1990s, a portion of which the collapse of the Dot-com bubble revealed to be illusory.

The lesson to be taken away from the 1990-2000 experience with spending caps is that this tool can be effective if there exists a broad and bipartisan consensus that a certain budget function or a specific large program should be scaled back. While today there is widespread support for reducing spending on the military conflicts in Afghanistan and Iraq, more uncertainty surrounds the pace and the extent of the possible drawdown than was the situation when the Soviet Union collapsed in 1990. As was the case in the 1990s, there is little consensus concerning deep cuts in the non-security portion of the discretionary budget.

Spending caps are relatively easy to agree to because no one knows how they will play out over time, that is, which specific programs will be reduced disproportionately. Therefore, there is a real risk that more will be promised than can be delivered and that the caps will prove to be unsustainable. Some will try, as they did at the end of the 1990s, to evade the caps by attempting to designate certain spending as an emergency. Advocates of programs that will be cut deeply in regular appropriations will try to stymie the process knowing that their accounts would be better off under an across-the-board sequestration of a continuing resolution. In short, spending caps represent general promises that are easier to make than to fulfill.

PAYGO

Like discretionary spending caps, PAYGO rules were first introduced by the Budget Enforcement Act of 1990. In the original formulation, PAYGO required that the impact on the deficit of all direct spending legislation and all changes to the tax code enacted during a legislative session not increase the deficit. In the aggregate, increases in direct spending or decreases in revenue had to be offset by other spending decreases or revenue

increases or a sequester would be imposed on a select set of mandatory programs to make up the difference.

Unlike spending caps, which can be used to lower future deficits, PAYGO procedures can only ensure that new mandatory or revenue legislation does not make the deficit situation worse. In that role PAYGO was effective at restraining mandatory spending initiatives and new tax cuts during the decade of the 1990s. In the current situation, PAYGO, with a more balanced sequestration process that included selected tax expenditures and protected low-income mandatory programs, would be an essential component of any deficit reduction plan.

Enhanced rescission authority

The Budget Control and Impoundment Act gives the President the authority to propose rescissions of all or parts of items within appropriation bills and to delay obligating the relevant budget authority for up to 45 days while Congress considers the request. The Congress has no obligation to take up the President's requests and usually they are ignored.

Enhanced rescission authority would require the Congress to vote up or down the President's rescission requests, without amendment, within a fixed number of continuous legislative days. Some proposals would limit the President to one package of rescissions per spending bill and require that the request be made within a fixed number of days following enactment of the spending bill.

Spending bills are amalgamations of many items, some large and others quite small, some directed at national concerns and priorities, others quite narrow and parochial in nature. Enhanced rescission would give the President a strengthened ability to weed out narrow, special interest allocations that do not have widespread congressional support. It is doubtful, however, that large amounts of budget authority would be rescinded under this tool. Furthermore, to ensure that the rescinded amounts reduced overall spending rather than were redirected to other accounts through subsequent appropriation bills, mechanisms to reduce the budget resolution's budget authority allocations by the rescinded amounts would have to be adopted.

Enhanced rescission would shift budget power marginally in the direction of the executive branch. It would improve transparency and accountability. Extending the reach of the process to mandatory spending legislation and to bills that provide targeted tax benefits would increase the deficit reduction potential of this tool.

Balanced budget amendment to the Constitution

A balanced budget amendment to the Constitution may well dampen the growth of spending but this would come at an extremely high price. The automatic stabilization role that the federal government now plays for the economy would be seriously undermined. When economic weakness caused federal revenues to fall and expenditures

on unemployment insurance, SNAP benefits, Medicaid and Social Security to rise, other programs would have to be cut precipitously or the spending on these essential safety net programs would have to be curtailed significantly. Economic downturns would be both deepened and prolonged.

Under a balanced budget amendment, the federal government would lose much of its flexibility and ability to respond quickly to unexpected events. It would become more difficult to respond to natural disasters such as hurricanes and Tsunamis be they at home or abroad and to mitigate the consequences of events like terrorist attacks.

Balanced budget amendments that require revenues to equal or exceed spending on an annual basis would not allow Social Security or the government's military and civilian worker pension systems to draw down the reserves they have built up over the years to pay benefits unless the remainder of the budget was running an equal-sized surplus. A similar constraint would face the FDIC, the PBGC and the many government insurance and loan guarantee programs, effectively eliminating the reason for their existence.

While the wording of the many proposals being considered by the Congress seems simple, clear and straight forward, all of these balanced budget amendments would raise many questions involving definitions, implementation and enforcement, which the courts would be reluctant to resolve. For example, answers would have to be found for such questions as, "What is the budget? Is Congress or the President responsible for achieving balance and through what processes? What remedies would be imposed if balance were not achieved and on whom?"

To have any chance of achieving a balanced budget amendment's objectives, Congress would probably have to cede much of its short-run authority over the budget to the President and OMB. Those who do business with the government and those who receive government benefits would have to expect some uncertainty with respect to when they would receive expected payments or benefit checks.

In the short run, the volume of federal spending cannot be controlled with any precision. Millions of actors—individuals, states, federal contractors, hospitals and so on—make decisions that result in outlays. Unless the budget included a significant surplus for contingencies, the President would probably have to be given authority to vary taxes somewhat during the year.

Conclusion

Fiscal rules and procedural innovations can help to frame and organize budgetary decisions, influence expectations and provide a bit of political cover for those who must take difficult votes, but they can't force lawmakers to support policies they strongly oppose or ones they believe will end their political careers. In short, fiscal rules cannot create political will.

Fiscal rules that are found to be too stringent will be ignored, waived, evaded, circumvented or repealed. Activities can also be moved "off-budget" to escape the discipline of a fiscal rule. Recent experience suggests that there exists a bottomless well of budget gimmicks that lawmakers can draw from to avoid the discipline implied by the fiscal rules they have endorsed but cannot find the will to impose.

In conclusion, it is worth noting that spending is not the only route lawmakers can take to achieve their objectives. Denied the ability to respond to the nation's needs through spending programs, Congress and the President will turn to the other tools they have available to achieve their objectives such as regulations imposed on businesses, unfunded mandates placed on individuals, states and localities, and tax expenditures. In most cases these approaches are less effective, less transparent and more difficult to control than is spending.