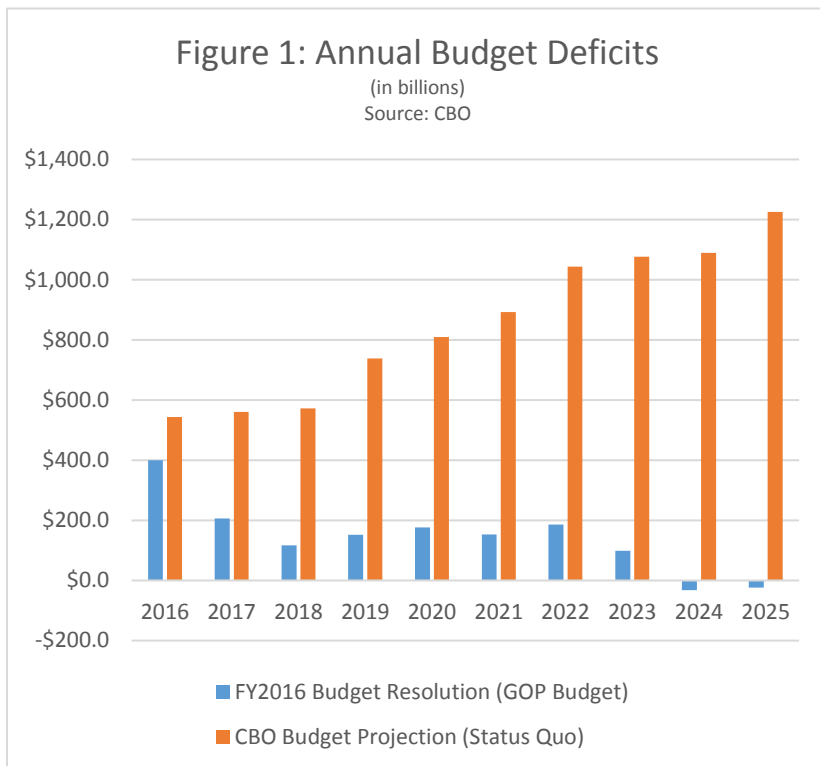


The Outsider's Guide To The Federal Budget

*“Until we fix the way Washington funds the federal government, more often than not, we will have to say **we cannot afford it.**”- Senator David Perdue*

Since the passage of the *Congressional Budget and Impoundment Control Act*, or 74 Budget Act, Congress has seen the budget process as prescribed in the 74 Budget Act work to completion only four times. Spending continues to rise unabated and the national debt has been growing at a steady rate since 2002. The disconnect between budgeting, authorizing, and appropriating is a major reason the process has only worked to completion four out of the last 42



years. While several changes to the process have been made over the years, Congress should instead take a clean page approach to developing a process that funds the government in a more routine and timely manner.

Why The Budget Process Is Not Working

The current budget process has dysfunction and disorder built into the process. Unlike authorizing and appropriating legislation, the budget resolution's privilege status allows passage with a 51-vote majority. The budget resolution's status compels the majority to force their views down the throat of the minority, encouraging the creation of a political, rather than a governing, document.

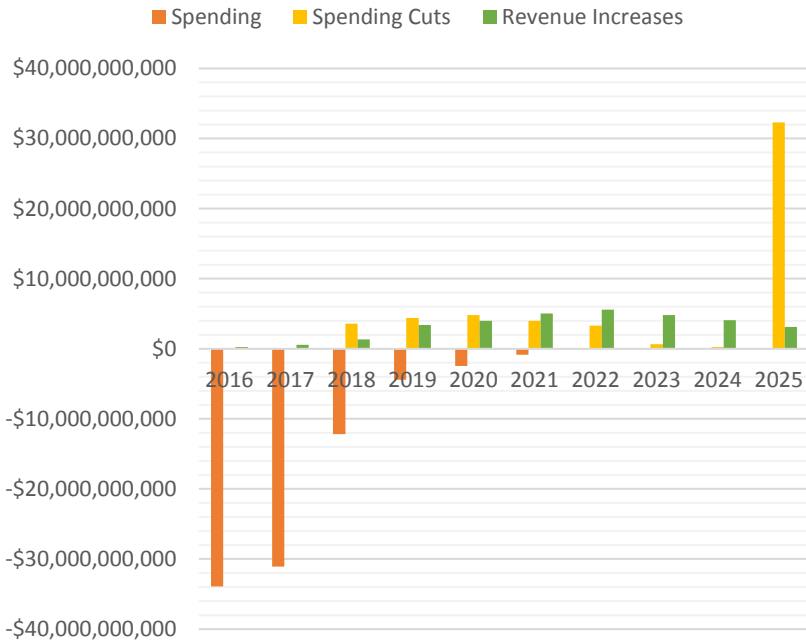
In early 2015, the budget process began under a new majority. The FY 2016 budget unveiled on

March 18, 2015 set out an ambitious goal of cutting \$7 trillion from the President's budget request. This majority proposal was forced upon the minority and eventually passed without a single minority vote. This budget was nothing more than a political statement that lasted for exactly 180 days. As the minority party was cut out of the budget resolution process, they complicated the authorization and appropriations process by preventing the consideration of appropriations bills and forced a short-term continuing resolution. Forced with the prospect of another continuing resolution or a possible shutdown, on November 2, 2015, the *Bipartisan Budget Act*, also known as the Grand Bargain, waived the FY 2016 budget agreement and re-imposed the same excessive spending that the majority party fought to prevent.

Figure 1, shows the deep disparity between the now defunct budget and the status quo (continued spending as expected by the Grand Bargain). **Further, this chart shows Washington will be back to trillion dollar deficits in just six years and will add \$9 trillion to the federal debt in the next 10 years alone.**

Figure 2: Spending Under the Bipartisan Budget Act

Source: CBO



If the grossly excessive spending agreed to in the Grand Bargain is not bad enough, the savings it claims are only speculative, occurring mostly in the last year of the 10 year budget window. It should be noted this 10 year window was imposed by the 74 Budget Act.

Figure 2, provides a picture of the Grand Bargain in terms of spending and savings. The academic exercise of “spend now, save later” becomes a reality very quickly when you front load spending and back load savings to a notional future date.

Unfortunately, this chart is not unique to the Grand Bargain. This is how Congress has done business for far too long. While the “spend now, save later” approach is one of the reasons for our \$19 trillion debt, it is not the only way our budget process has failed.

The Crisis Is Here Now

Federal debt as a percentage of GDP has reached historic peacetime highs not seen since the years shortly following World War II. Under conservative projections, the Congressional Budget Office (CBO) is estimating trillion dollar deficits by 2022. By 2026, our gross national debt will be approaching \$30 trillion.

Figure 3: Defense Spending as % of GDP

Source: OMB Historical Data

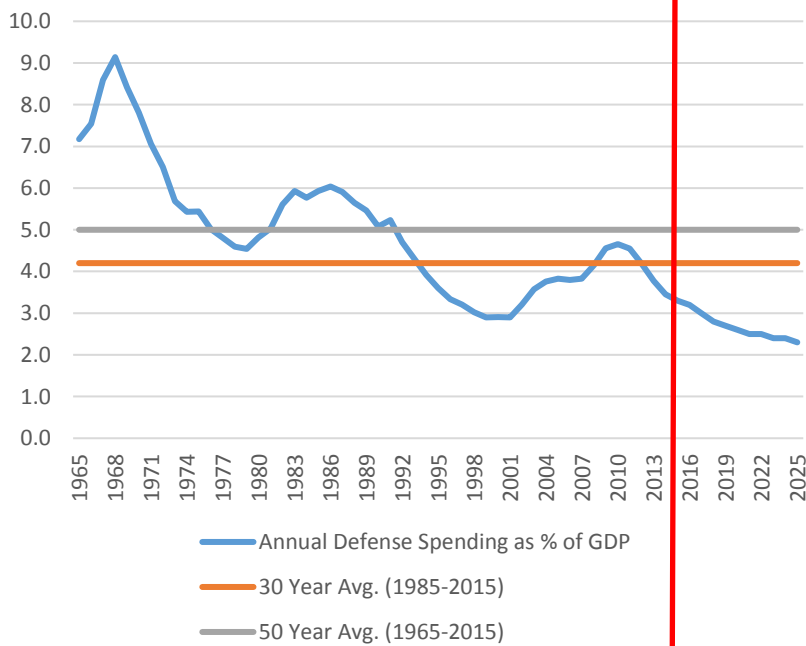


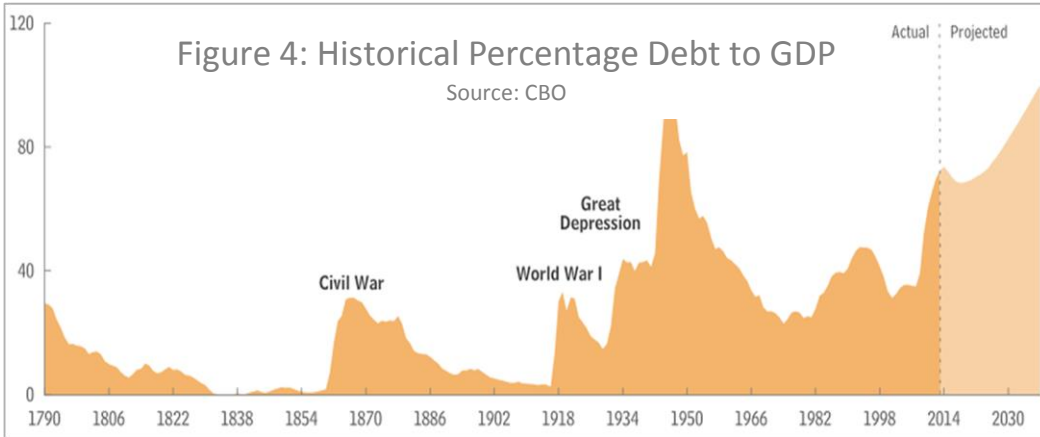
Figure 3, shows United States defense spending as a percentage of GDP.

The provision for a common defense is a Constitutional mandate but our dysfunctional funding process now threatens Congress’s ability to provide for our common defense.

As shown in Figure 3, spending as a percentage of GDP has consistently dropped since 1968. Our 30 year average for defense spending has been 4.2 percent of GDP. The 1 percent gap between our 30 year average and current spending is a \$200 billion defense funding shortfall and this funding gap will only grow as projected defense spending steadily falls over the next decade.

For most of our nation’s history, the federal government and the American people it serves, both shared a common belief that the federal budget should be balanced. Similar to a family checkbook, the nation balanced its ledgers year after year. During normal times, the government issued debt only to pay for long-term investments such as the Louisiana Purchase. Only during times of war or economic depressions, was it viewed appropriate for the government to spend beyond its means.

Figure 4, shows the historical percentage debt to GDP level for the United States. Each time after a period of government deficit spending, whether it was for the Civil War or the Panic of 1893, the government would run surpluses in subsequent years following to pay down the national debt.

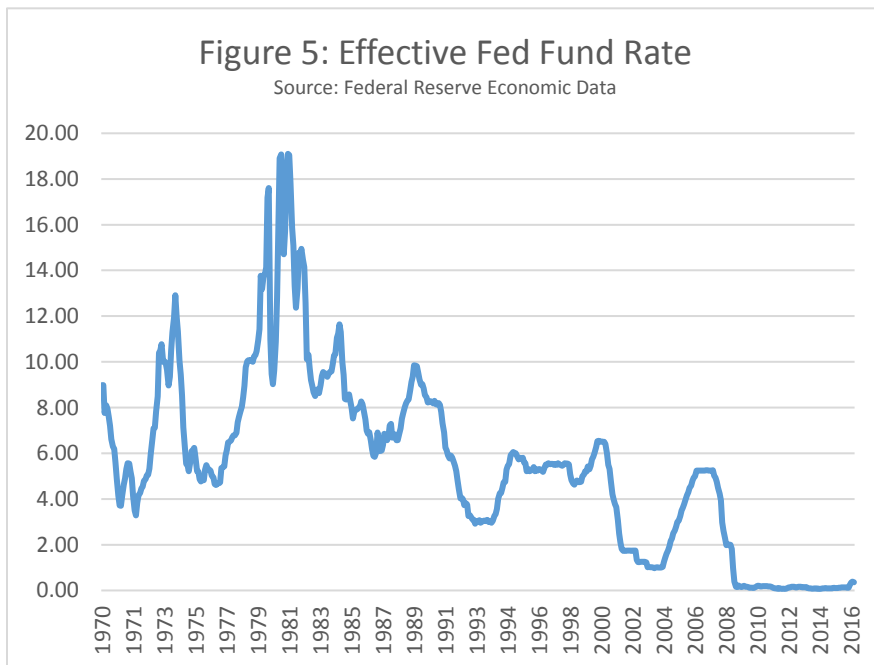


Over the past century, there has been a fundamental shift of norms.

Our nation previously expected to spend within its means and resort to deficit spending only during extraordinary circumstances.

Today, deficit spending is seen as the norm leading to the exponential growth in our national debt.

As seen in **Figure 5**, for the past eight years, we’ve been living in an artificially low interest environment. If interest rates were to return to their 50-year average of roughly 5 percent, we would be required to pay \$1 trillion in yearly debt service based on current debt level of \$19 trillion.



changed *right now*.

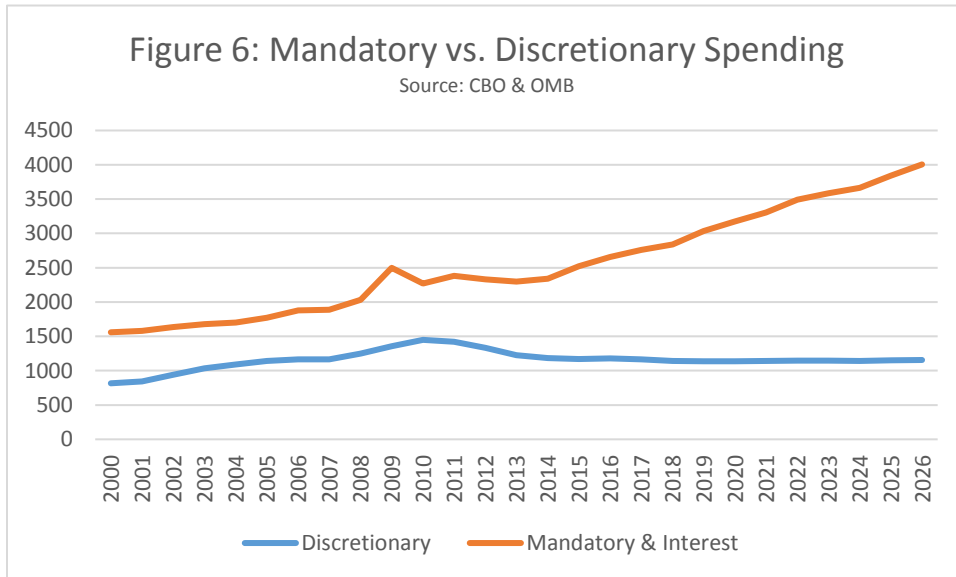
**The Way Forward-
Reinventing The Budget Process:**

The primary responsibility of Congress is to fund the federal government; however, years of dysfunction and gridlock led to runaway spending by both parties. In order to address our fiscal imbalance, we must first restore restraint and fiscal sanity back to Washington by reforming our broken budget process. The process for funding the federal government needs to happen on a regular and predictable cycle. Unlike previous post-1974 reforms that seek to reform the current funding process, this needs to be a clean sheet approach – a reinvention of the funding process.

This can be changed. In fact, it must be

We are out of time for idle debate and partisan bickering. As we consider creating new funding process, there are a few guiding principles Washington should consider when creating a completely new budgeting process:

First, the budget should have the enforcement power of a law. Fiscal discipline cannot be fully achieved if the agreed upon budget can be ignored or abandoned at any time when financial decisions become too tough or politically motivated.



Second, the budget should be all encompassing. It should include all spending and all revenue including tax expenditures. In **Figure 6**, we see that mandatory spending explodes in the coming decades. Most people do not know that about seventy percent of what the federal government spends is mandatory and is not accounted for in the budget process. We must have a realistic accounting of all government spending to fully understand the fiscal catastrophe we are facing and be able to fix it.

Third, there should be real consequences for Congress if it does not fund the federal government on time. Firm deadlines for each phase of the funding process should be enforced without exception. Consequences for not completing every step of the process should impact those who failed to do their job – Congress – not the military or the American people.

Fourth, Congress should redesign its process to accommodate the timely completion of funding the federal government. The current committee structure and the funding timeline need to be realigned to facilitate a timely debate of the issues so funds can be allocated appropriately and ensure accountability. Part of this realignment should include changing the funding process from the fiscal year to the calendar year, in order to allow a full budgeting cycle for each new Congress.

Today, Washington’s budget decisions are not aligned with the very principles the American people follow in their day-to-day lives to ensure fiscal discipline. The result is what we are seeing today: \$19 trillion in debt, \$100 trillion in future unfunded liabilities, and a budget that is no longer a governing document but a political document.

It is time to fix this broken budget process and hold Congress accountable for their fiscal decisions.