Issue Analysis

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Creativity versus Conviction: A Brief History of Federal Budget Reform

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The Constitution outlines with a great deal of specificity operational rules for the branches of government; Article 1, Section 7, Line 2, for example, is a detailed description of the process by which a bill becomes law. However, no such line, article, or section, describes with any comparable amount of detail a formal procedure for drafting and implementing a budget for the federal government. While the power of purse is clearly delegated to Congress, no description beyond its ability to collect and appropriate funds is provided, nor can any official role of the executive branch in the process be found. This may be considered a glaring omission by some; however it is generally accepted that the framers of the Constitution believed that such a uniform annual process was not necessary so long as the government remained small, within the functions of Article 1, Section 8, and maintained stable revenues and spending.[1] Such has not been the case, at least since the turn of the late 1800s into the early 20th century. In fact, as the government has expanded in size, instability has escalated in the appropriations process. Congress has attempted to gradually establish various frameworks to standardize the budget process and retain a degree of control; however their solutions have failed to achieve any level of permanency. As the size and scope of the U.S. government has grown, Congress has, with relative frequency, lost its grip on the federal purse, submitting to internal and external forces alike. Thus, despite a century-long chronicle of repeated attempts at sweeping reform, the budget process has returned to disarray as a direct result of uncontrolled growth of government. This has left Americans with multiple, trillion-dollar, deficits, staggering debt, and a 4 year-and-counting absence of any sort of comprehensive budget plan.

The Anti-deficiency Act

The first major push for reform came in 1870. Executive branch agencies were entering into contracts and agreements that committed resources beyond their annually appropriated funds from Congress. So as not to jeopardize the full faith and credit of the U.S. government, Congress was forced in these

[1] Bill Heniff Jr., Sandy Streeter, Megan Suzanne Lynch, Jessica Tollestrup, *Introduction to the Federal Budget Process*, CRS Report for Congress, Dec. 2, 2010.

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situations to draw on reserves or accrue new debt to finance these obligations made outside of the informal annual budget. With such a loophole existing, department and agency heads, and in-turn the president, quickly expanded their own power at the expense of both the Treasury and Congress's clout. In response, Congress attached the Anti-deficiency Act to the 1870 appropriations bill. This bill prevented agencies from making any obligations or entering into any contracts that would force them to exceed their annually appropriated funding. [2]

Through the Anti-deficiency Act, Congress was able to reassert a more complete power of purse and prevented executive departments from twisting their arms at the end of the year. Though a dated piece of legislation, it has only undergone a handful of minor changes since its implementation[3], remaining the oldest and arguably most effective form of budget control on the books. However, while the Anti-deficiency Act's powers effectively halted unilateral appropriations by bureaucracy chiefs, the act did not affect the original budgeting process still in place at the time. Congress still approached the appropriations process on a case by case basis, with each individual agency or department submitting a separate budget request annually.[4] This remained sustainable so long as the individual authorization and appropriations committees in Congress could grasp each function and role of every agency that required funding.

The Debt Ceiling and the Budget and Accounting Act

In the early 20th century, as a result of both the Industrial Revolution and World War I, the amount of endeavors the various bureaus sought funding for once again overwhelmed Congress.[5] The miles of red tape sent the Treasury into the red. In the 20 years between 1901 and 1921, the country ran 10 separate deficits. During the height of World War I, government expenditures were nearly quadruple that of revenues. [6]

Financing government operations with debt is nothing new. In fact, just the second line of Article 1, Section 8 of the Constitution states "[The Congress shall have Power] To borrow Money on the credit of the United States." However, prior to World War I, money was only borrowed on a case by case purpose and issued for specific purposes by Congress. This level of specificity helped Congress maintain control

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[2] *The Congressional Budget Process: An Explanation*, Committee on the Budget United States Senate Committee Print, Dec. 1998. http://budget.senate.gov/democratic/index.cfm/files/serve?File_id=13495ebd-11c0-4d9d-8215-7c99d2b23735

[3] Puja Seam, Brad Shron, *Government Shutdowns*, Harvard Law School Federal Budget Policy Seminar Briefing Paper No. 10, Appendix I, May 4, 2005. http://www.law.harvard.edu/faculty/hjackson/GovernmentsShutdowns_10.pdf

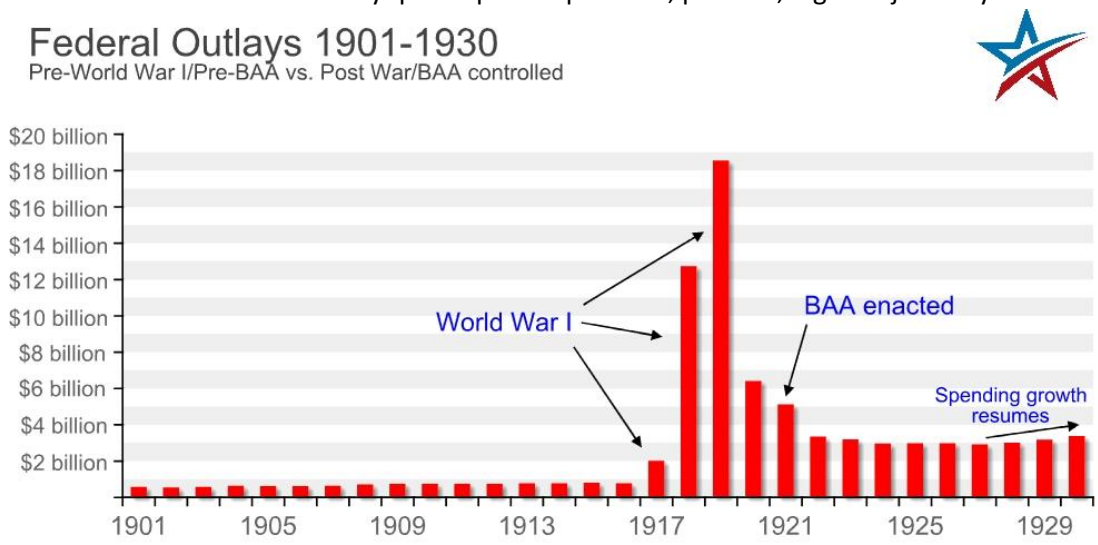
[4] James A. Thurber, *The Dynamics and Dysfunction of the Congressional Budget Process: From Inception to Deadlock*, American University Center for Congressional and Presidential Studies. http://www.american.edu/spa/ccps/upload/Congressional-Budget-Process-article.pdf

[5] Glen S. Krutz, *The Path of Congressional Budget Reform*, Extensions, Carl Albert Congressional Research and Studies Center, University of Oklahoma, Summer 2012. http://www.ou.edu/carlalbertcenter/extensions/summer2012/Krutz.pdf

[6] OMB Historical Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789–2017

over the federal budget and kept deficit levels within reason for much of the country's early history. Yet the rapidly increasing role of government leading up to World War I prompted Congress to ease restrictions on the issuance of debt, as debating each separate issuance of debt of an expanding, and eventually wartime, government proved too cumbersome. The first move to do so was the elimination of certain limits on bond maturity and redemption contained within the Second Liberty Bond Act of 1917 in the lead up to the war. This became the eventual precursor to the modern debt ceiling, as subsequent measures to increase the government's borrowing authority through the 1980s were passed as amendments to the Second Liberty Bond Act.[7]

As the war spending subsided, Congress acted to develop a more consolidated budget process, hoping that increased oversight would reduce the occurrence of deficits. In 1921, Congress passed the Budget and Accounting Act (BAA). The act moved to assign budgetary responsibilities to the president, creating the predecessor to the Office of Management and Budget (OMB), the Bureau of the Budget, to assist the president in drafting a unified budget of all the executive departments. This amalgamated budget would be submitted to Congress each year as a guideline by which their budgets would be drafted, in effect streamlining the process. However, like the Anti-deficiency Act, the BAA did not directly address the process by which Congress came to final decisions on appropriations and authorizations.[8] The effect of the BAA simply began a gradual secession of Congress's power of purse to the executive branch. Without its own equivalent to the OMB, Congress remained helpless to control increased federal spending. Such is evident when comparing pre-WWI, pre-BAA spending to post-war, BAA years. Save for the Civil War, federal outlays never surpassed $746 million (1915) annually prior to World War I and the BBA; yet after the war, aggregate spending never retreated back down to pre-war levels. The lowest level of federal spending after the war was achieved in 1927, when the total federal budget was $2.85 billion. This 'lowest' value was nearly quadruple the previous, pre-war, high set just 12 years earlier.[9]



[7] D. Andrew Austin, Mindy R. Levit, *The Debt Limit: History and Recent Increases*, *CRS Report for Congress*, Feb. 7, 2013.
[8] Bill Heniff Jr., Sandy Streeter, Megan Suzanne Lynch, Jessica Tollestrup, *Introduction to the Federal Budget Process*, CRS Report for Congress, Dec. 2, 2010.
[9] OMB Historical Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789–2017

The Joint Committee on the Reduction of Non-Essential Federal Expenditures

Year to year, spending began to grow at an exponential level. New monetary policy and tax authority allowed for the government to finance the increased spending in the short-run following World War I. However, the combination of this new standard of big government and the onset of the Great Depression in 1929 began to result in massive deficits. In 1936, the government borrowed roughly 52 percent of its total outlays for the year, a drastic shift from just 6 years prior, when the government ran a 23 percent surplus.[10] To further aggravate the situation, the gradual elimination of separate issuances of debt in favor of a single limit on all federal debts was finally realized in 1939, when Congress approved the first aggregate limit on all federal debt at President Franklin Roosevelt's request.[11] The debt ceiling as it is known today was born and resulted in a further resignation of Congressional budgetary authority in favor of executive branch power and more debt.

With the prospect of a second global war looming by 1941 and the likelihood of drastic spending increases coming with it, Congress stepped back to once again evaluate its role in the budget process. Senator Harry Byrd, a fiscal hawk of the time, spear-headed this latest effort and created the Joint Committee on the Reduction of Non-Essential Federal Expenditures through an amendment to the Revenue Act of 1941. The committee, created with little to no objection, was comprised of 14 members: 6 Senators and 6 Representatives from the respective chambers' appropriations committees, plus the Secretary of the Treasury and the director of the OMB's precursor, the Bureau of the Budget. The Joint Committee was the first major effort to wrestle dominance over the budget process back from the executive branch. In the committee's early years, it made numerous recommendations to Congress of areas where "nonessential" spending could be cut-back or eliminated, a crucial mission considering the economic conditions that preceded America's entry into World War II.

However, despite the Joint Committee's widespread support and extensive history beyond the World War II era, the body was entirely devoid of any sort of legislative authority. Further, the Joint Committee was forced to make policy recommendations based entirely on data provided by the Bureau of the Budget (OMB), the president's personal advisors in the budget process; thus the data generally favored allowing the budget to expand, and with it the president and his cabinet's power.

Eventually, as World War II subsided, so too did Congress's general concern for fiscal responsibility. Hence the Joint Committee on Reduction of Non-Essential Federal Expenditures was rendered powerless to halt government's expansion in the future.[12] Yet before the spirit of Senator Byrd's committee was lost on Congress, an effort was made to produce a similar body with actual legislative teeth.

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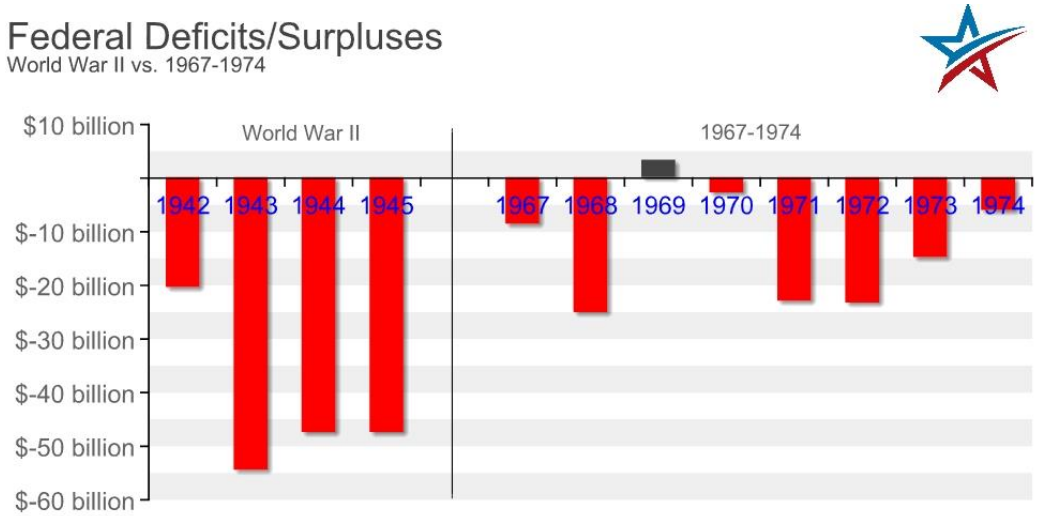
[10] Ibid.
[11] D. Andrew Austin, Mindy R. Levit, *The Debt Limit: History and Recent Increases*, CRS Report for Congress, Feb. 7, 2013.
[12] Michael L. Koempel, Justin Murray, Brian P.J. Tabit, *History of the Joint Committee on Reduction of Non-Essential Federal Expenditures (1941-1974) with Observations on Oversight Today*, CRS Report for Congress, Oct. 26, 2010.

The Joint Committee on the Legislative Budget

The Joint Committee on the Legislative Budget was created in 1946 to bring members of Congress from both chambers together at the beginning of the year to establish a combined budget which included annual spending caps. This committee was the first effort to standardize a budget process specifically for Congress. However it quickly proved to be fruitless. By 1949 the procedure was abandoned as its numerous members could infrequently reach an agreement. Interestingly, however, while the Joint Committee on the Legislative Budget presided over the Congressional budget process, the budget resolution it drafted and issued to both chambers was required to contain a statement reflecting how much public debt would be accrued if the budget should not be balanced.[13] Perhaps coincidentally, each of the three years Congress attempted to create a joint budget through this committee, the government ran surpluses. Once the committee was abandoned, the budget deficits immediately resumed, with the government running a surplus only 4 times between 1950 and 1974.[14]

The Congressional Budget and Impoundment Control Act

For the better part of the next two decades, Congress went dormant on its efforts to overhaul the budget process. Despite the return of cyclical deficits, these deficits, more often than not, remained within one percentage point relative to GDP, levels not seen since before the Great Depression.[15] Two key factors began to crack Congressional complacency on the budget and deficits. Beginning in 1967, deficits began creeping up. In 4 separate years between 1967 and 1974, deficits reached raw dollar figures not seen since 1942, the first full year of U.S. combat operations during World War II.[16]



[13] James A. Thurber, *The Dynamics and Dysfunction of the Congressional Budget Process: From Inception to Deadlock*, American University Center for Congressional and Presidential Studies.
[14] OMB Historical Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789–2017
[15] OMB Historical Table 1.2—Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930–2017
[16] OMB Historical Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789–2017

In addition to these growing deficits, the president openly and directly challenged Congress's power of purse.

In 1972, President Nixon took a series of actions known as impoundments, where his administration withheld funding for numerous projects and programs which had already been approved by Congress, including funding for housing, agricultural, and disaster relief programs. This outraged Congress and impelled action.[17] Though the courts ultimately defeated Nixon's impoundments, Congress sought the chance to both correct the growing deficits and take another strike at establishing a comprehensive budget process for itself. The result was the Congressional Budget and Impoundment Control Act (CBICA) of 1974.

First, the law established control over presidential impoundments. Whether the funding was to be delayed or cut entirely, CBICA established a review process requiring the president to notify and submit to Congress any impoundment decisions, which could ultimately be reversed by the legislature. Secondly, the law requires separate budget committees to be established in both the House and Senate tasked with investigating on-going budget reform ideas and, most importantly, creating a concurrent budget resolution at the beginning of each year. This resolution, though not a formal budget, is a set of guidelines agreed upon by both chambers that sets the spending and revenue priorities for the following fiscal year. This may seem similar to the informal powers of the Joint Committee on the Reduction of Non-Essential Federal Expenditures; however CBICA provides one clear distinction. The CBICA established the Congressional Budget Office (CBO). The CBO is tasked with providing bipartisan analytical support for members of Congress in regards to the budget process. With its own budgetary framework and support staff to support its conclusions, Congress was finally able to offer a direct challenge to the executive branch during budget negotiations.[18] Congress finally achieved a significant level of control over the budget process that has eluded them since the 1800s. Yet the CBICA had one major failure: it lacked any protocols for balancing the budget.

Previously record level deficits were shattered overnight. From 1974 to 1975, the deficit exploded by nearly $50 billion, rivaling, and, within 5 years, completely dwarfing deficits seen during World War II. Congress's "control" of the budget was essentially too effective. "The basic problem was that both parties were successful in obtaining the funding they desired for their priority areas," explains Professor Glen S. Krutz of the University of Oklahoma. "Basically, both coalitions got what they wanted," he continues.[19] To further exacerbate the situation, the dramatically increased spending on federal entitlement programs such as Social Security and Medicare was, for all intents and purposes, ignored.

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[17] Milton J. Socolar, *Letter to William V. Roth, Jr.*, Office Comptroller General of the United States, Novemter 20, 1981. http://www.gao.gov/assets/180/170152.pdf

[18] James A. Thurber, *The Dynamics and Dysfunction of the Congressional Budget Process: From Inception to Deadlock*, American University Center for Congressional and Presidential Studies.

[19] Glen S. Krutz, *The Path of Congressional Budget Reform, Extensions, Carl Albert Congressional Research and Studies Center*, University of Oklahoma, Summer 2012.

The Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings)

Political reality began to set in during the Reagan Administration. In 1985, Democrats in the House balked at drastic defense spending increases and their Republican counterparts in the Senate refused to stomach the $180 billion deficit contained in the 1986 budget. Prolonged negotiations throughout the year concerning the 1986 budget and an adjoining debt ceiling increase led to the passage of the Balanced Budget and Emergency Deficit Control Act. The act, which came to be known as Gramm-Rudman-Hollings after the senators who spearheaded the measure, initially bound the president and Congress to balancing the budget within 6 years. This was done by creating a set of gradually decreasing deficit limits each year, eventually reaching zero. In the event of a year's deficit limit being breached, the president was to use executive orders to cut the necessary amount to remain under the limit from equal parts of defense and non-defense spending in a process known as sequestration.

This marked the first time the government had established statutory restrictions on annual deficits and committed itself to deficit elimination, save for the historically neglected debt ceiling. Whereas all previous budget reform hoped to achieve deficit control as a secondary benefit of reforming the budget process, Gramm-Rudman-Hollings finally gave the government legislative teeth and made deficit reduction a primary goal. These teeth, however, were quickly dulled as Congress once again managed to hamper its ability to control the budget in favor of preserving much of what caused the government to grow to nearly a quarter of the GDP for the first time since World War II. The enforcement mechanism of Gramm-Rudman-Hollings, sequestration, was riddled with exemptions. Programs like Social Security and Medicaid, which each had spending expand roughly 300 percent in the decade prior to Gramm-Rudman-Hollings[20], were given complete exemptions, while other major programs like Medicare were given exemptions that limited cuts to within one or two percentage points. This effectively laid the burden of any potential sequester disproportionately on a select few mandatory programs and defense. To further complicate matters, while Congress was able to agree on what not to cut, little progress was made in putting other programs on the chopping block. Within a year, the deficit targets proved impossible without the implementation of sequestration. Thus, when revisiting the original Gramm-Rudman-Hollings to revise a clerical error, Congress and the president agreed to delay the agreed upon deficit targets. This came to be known as the 1987 Reaffirmation Act[21]

Under the original targets set out under Gramm-Rudman-Hollings, the 1990 deficit was scheduled to be the last deficit at $36 billion. The Reaffirmation Act pushed reaching a balanced budget back 3 years and retargeted the 1990 deficit at $100 billion.[22] The actual 1990 budget deficit was far from this target and eventually totaled more than $220 billion.[23] Given the amount of exempted programs, a sequestration triggered by such an off-target deficit would have essentially starved remaining agencies and non-

[20] OMB Historical Table 8.5—Outlays for Mandatory and Related Programs: 1962–2017
[21] Megan Suzanne Lynch, *Statutory Budget Controls in Effect Between 1985 and 2002*, CRS Report for Congress, July 1, 2011.
[22] Ibid
[23] OMB Historical Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789–2017

exempt functions. The Department of Defense alone would have lost nearly 35 percent of its funding.[24] Congress and President George H.W. Bush quickly convened to develop a plan that still kept the focus on deficit reduction, yet allowed for them to renege on the sequester stipulations of Gramm-Rudman-Hollings.

The Budget Enforcement Act

The solution to avoiding the devastating sequester, rather than actually adhering to the guidelines of Gramm-Rudman-Hollings, was to once again move the targets. Congress and President Bush agreed to move the deficit reduction targets out 5 years, through 1995, in the Budget Enforcement Act (BEA). Further, the deficit caps were replaced with discretionary spending caps by the BEA. Instead of focusing on how large the aggregate deficit was, scorekeepers such as the OMB, CBO, the Comptroller, and GAO would now be focused on categories of spending, allowing Washington to dodge the super-sequester in 1990. Finally, the BEA established separate rules for direct spending, on mandatory programs such as entitlements, and revenue legislation known as Pay-As-You-Go or PAYGO. PAYGO rules required that the net impact of new legislation affecting mandatory direct spending and revenue to be deficit neutral. If such legislation was not neutral, cuts or new revenue would be required to cover the balance. The OMB was charged with maintaining a scorecard that recorded PAYGO violations, or balances, on a year-to-year basis.[25]

Both the discretionary caps and PAYGO rules were enforced by the threat of sequestration. However it is important to recall that these new BEA guidelines were implemented in an effort to circumnavigate sequestration. In the 5 years of Gramm-Rudman-Hollings prior to the BEA, sequestration was triggered by deficit limits 3 times. In the 12 years since 1990 where BEA regulations were in effect, sequestration took effect only once in 1991 as a result of a discretionary spending cap breach.[26] The reason for the drop off in sequestration implementation is that these discretionary limits were adjustable, allowing Congress and the president great flexibility prior to resorting to sequestration. In addition to adjusting the various limits, these limits were routinely broken out into multiple categories with different cap levels. At the outset, separate caps were established for defense, international, and domestic spending which were eventually condensed into a single discretionary cap by 1995. By 1998, this one aggregate category was broken to establish a separate cap for transportation spending after the passage of a major infrastructure spending bill. In 2000, the limits were again modified, creating 6 new spending caps for separate categories of conservation spending on projects such as coastal rehabilitation and urban renewal.

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[24] Megan Suzanne Lynch, *Statutory Budget Controls in Effect Between 1985 and 2002*, CRS Report for Congress, July 1, 2011.
[25] Ibid
[26] Robert Keith, *Sequestration Procedure Under the 1985 Balanced Budget Act*, CRS Report for Congress, Sep. 27, 2001. http://www.policyarchive.org/handle/10207/bitstreams/1278.pdf

In all, the original discretionary caps set out by law would have slowed government growth to a halt and eventually, by 2002, caused the government to begin shrinking year-to-year. However, while capping actual spending rather than deficits did slow the rate of spending growth, Congress again failed to reduce net spending. Thus the caps had to be adjusted to prevent actual spending from triggering sequestrations:

Original BEA Caps

In Billions ($)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Original Cap[27]	$514.4	$524.9	$534.0	$534.8	$540.8	$547.3	$547.3	$547.9	$559.3	$564.3	$564.4
Spending[28]	$533.3	$533.8	$539.8	$541.3	$544.8	$532.7	$547.0	$552.0	$572.1	$614.6	$649.0

Adjusted BEA Caps

In Billions ($)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Adjusted Cap[29]	$551.6	$545.7	$550.4	$547.6	$548.7	$552.7	$553.6	$560.2	$584.2	$604.2	$652.2
Spending[30]	$533.3	$533.8	$539.8	$541.3	$544.8	$532.7	$547.0	$552.0	$572.1	$614.6	$649.0

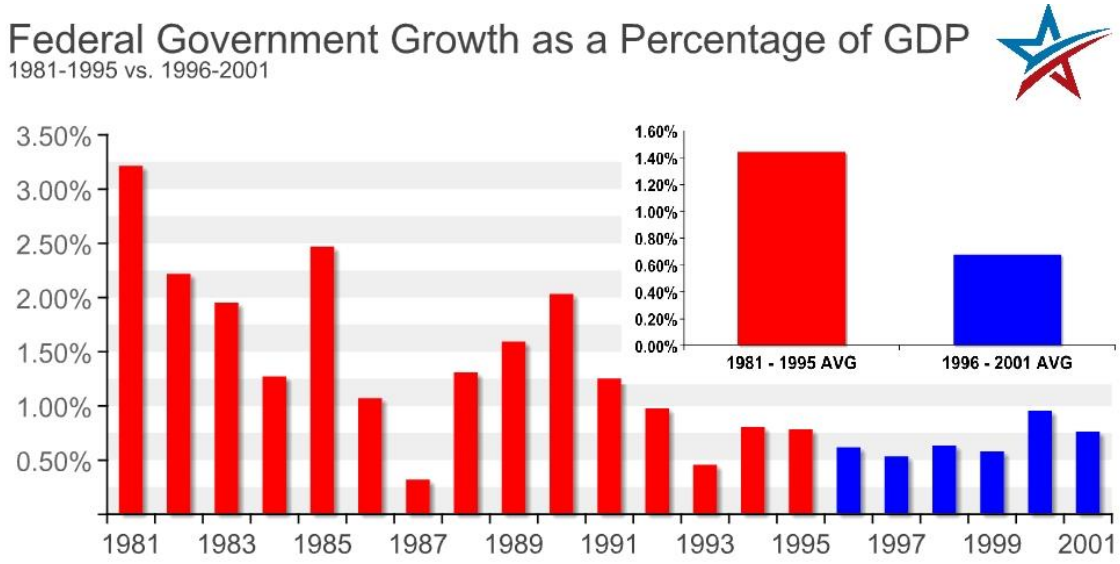
With the help of a budget gimmick in 2000 that brought spending back down below the adjusted cap for that year, federal spending was allowed to continue to grow under a guise of comprehensive budget control.

Balanced Budgets and Budget Enforcement Act Extensions

In 1993, Congress and President Bill Clinton extended the statutory caps and PAYGO rules through 1998 and in 1998 the rules were again extended, with only minor technical adjustments, through 2002. As a result of these caps, despite the tinkering and adjustments conducted to bring actual spending in under the sequester trigger, federal spending slowed significantly.

[27] Budget of the United States Government: Analytical Perspectives 2003. Table 14.1 https://fraser.stlouisfed.org/download-page/page.pdf?pid=425&id=472486
[28] OMB Historical Table 8.5—Outlays for Mandatory and Related Programs: 1962–2017
[29] Budget of the United States Government: Analytical Perspectives 2003. Table 14.1
[30] OMB Historical Table 8.5—Outlays for Mandatory and Related Programs: 1962–2017

Between 1980 and 1995, federal spending grew at an average of 1.25 percent relative to GDP. However from 1996 through 2001, government expenditures grew at barely half of that rate, 0.67 percent relative to GDP.[31] As a result, favorable economic conditions allowed for revenues to briefly exceed expenditures during the late 1990s, resulting in the first budget surpluses since an isolated surplus in 1969.



On the surface, the BEA reforms seemed to be working. Discretionary spending, while still expanding, was not driving budget deficits. The four years of surpluses between 1998 and 2001 should have helped pay down the aggregate national debt, which at the end of 1997, stood at $5.37 trillion. Yet by the end of 2001, the national debt had grown to $5.77 trillion. In four years of surpluses totaling $559 billion, the federal government accrued another $400 billion in debt.[32] This was a direct result of Congress failing, once again, to address fundamental problems with the largest drivers of federal budget growth: entitlements.

PAYGO to PAYGONE

The Budget Enforcement Act did address, though insufficiently, entitlements through PAYGO restrictions on direct spending. PAYGO prevented new legislation regarding direct spending, much of which is used to finance entitlements, from creating a net increase in the annual deficit. However PAYGO only applied to new legislation, and failed to apply to existing law. As a result, the formulas that continued to drive up the price of programs like Social Security, Medicare, and Medicaid remained in place after the

[31] Calculations based on OMB Historical Data
[32] OMB Historical Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789–2017

implementation of PAYGO.[33] As a result, Social Security grew from 19.7 percent of the budget in 1990 to 23 percent in 2001, while discretionary spending shrank from 40 percent to 34.8 percent over the same period.[34]

To further complicate matters, surpluses created in the Social Security Trust Fund are required by law to be invested in U.S. Treasury Securities.[35] Hence, the federal government essentially uses this fund as a new source of annual revenue. Money drawn from these funds is counted as offsets against expenditures, cancelling them out in the annual budget scoring.[36] However, these investments must eventually be paid back. So while financing government expenditures in the short-run, more long-term debt is accrued. The surpluses of the 1990s could, essentially, be considered artificial because of this structural issue with Social Security. Consequently, U.S. government debt and entitlement liability continued to grow during the peak effective period of the BEA, despite the 'surpluses' on the OMB's books.

Beyond the BEA: Historic Deficits, No Budgets, and the BCA

In 2002, the BEA caps and PAYGO rules were allowed to expire, primarily to allow the government greater flexibility following the September 11th attacks in 2001. As a result, discretionary spending resumed pace, growing alongside entitlement and other mandatory programs.

Yet the entirety of the blame cannot be laid on increased defense spending on Afghanistan, the Iraq War, and other defense increases as a part of the broader war on terror. The abandonment of BEA budgetary barriers in response to 9/11 allowed the Bush Administration, aided by willing Republican majorities in both chambers of Congress, to increase nondefense discretionary spending by a staggering 36 percent during the first term of the administration.[37]

The federal government, under this new big-government culture created by Bush-era Republicans, thus expanded from 18.2 percent relative to GDP in 2001 to 24.3 percent in 2012, peaking at 25.2 percent in 2009 during the apex of the financial crisis.[38]

Major spending initiatives in response to the financial crisis ended the political honeymoon of this government expansion. Hundreds of billions of dollars were added to federal outlays in the form of the

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[33] Bill Heniff Jr., Sandy Streeter, Megan Suzanne Lynch, Jessica Tollestrup, *Introduction to the Federal Budget Process*, CRS Report for Congress, Dec. 2, 2010
[34] OMB Historical Table 8.3—Percentage Distribution of Outlays by Budget Enforcement Act Category: 1962–2017
[35] Dawn Nuschler, Social Security: Trust Fund Investment Practices, CRS Report for Congress, October 27, 2010. http://aging.senate.gov/crs/ss5.pdf
[36] Bill Heniff Jr., Sandy Streeter, Megan Suzanne Lynch, Jessica Tollestrup, *Introduction to the Federal Budget Process*, CRS Report for Congress, Dec. 2, 2010
[37] Veronique de Rugy, *The Republican Spending Explosion*, Cato Institute Briefing Papers, March 3, 2004. http://www.cato.org/sites/cato.org/files/pubs/pdf/bp87.pdf
[38] OMB Historical Table 8.4—Outlays by Budget Enforcement Act Category as Percentages of GDP: 1962–2017

Troubled Asset Relief Program (TARP), the auto bailouts, and the American Recovery and Reinvestment Act, better known as the Stimulus.

The drastic spending increase effectively halted the budgetary process. The spending legislation passed in the name of combatting the financial crisis, along with the looming healthcare reform battle Democrats were preparing to embark upon, were politically charged. The mid-term election results of 2010 effectively demonstrated this point, with Republicans vastly increasing their presence in Congress, and taking control of the House of Representatives. Thus in early 2009, the Senate passed its final budget in roughly four years. Voting on budget has been largely suspended to provide political cover for Senate Democrats. While a violation of law, no penalties technically exist if the Senate fails to actually pass a budget.[39]

Budget frameworks submitted by President Obama were deemed too costly, politically and literally. Upon being forced to the Senate floor for votes, the Democrat-controlled chamber struck down the Democratic President's budget two years in a row, unanimously. Republican budgets met a similar fate. Those GOP budgets passed in the House have been essentially dead on arrival if they reach the Senate floor.

Congress, at the end of a century long saga of reform to increase frameworks and limit deficits, was back to square one. The government has since been funded through individual appropriations bills that are not held against an agreed upon agenda. As a result, deficits have ballooned to sizes that rival and exceed entire federal budgets as recent as the early 1990s and the resulting debt has totaled roughly $6.5 trillion in just 4 years.[40]

The spending situation came to a head in mid-2011, as the aggregate statutory debt limit of $14.294 trillion was reached, a level rivaling the country's GDP. A clean increase of this borrowing ceiling failed to achieve enough support, and government ran the risk of only operating on available revenue, a potential cut in government operations by nearly a third.

Congress, again, had lost control and used the need to increase the debt limit as a bargaining chip to force spending cuts.

After extensive negotiations, the Budget Control Act (BCA) of 2011 was signed into law by President Obama. The law contained several provisions, though none were aimed at returning Congress to the process of adhering to annual resolutions to guide appropriations. Instead the legislative equivalent of an obstacle course was established for Congress and the president to navigate over the next year.

Congress agreed to raise the debt ceiling, by a grand total of $2.4 trillion, but tied this final amount to multiple deficit reduction provisions. First, spending caps, similar to those used under the BEA of the early 1990s, were established through 2021. These caps reduced projected spending over this 10 year

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[39] Rachel Weiner, *Why Senate Democrats haven't passed a budget*, Washington Post, Jan. 22, 2013. http://www.washingtonpost.com/blogs/the-fix/wp/2013/01/22/why-senate-democrats-havent-passed-a-budget/
[40] OMB Historical Table 7.1—Federal Debt at the End of Year: 1940–2017

period by just under $1 trillion total. The BCA also required another $1.5 trillion be cut over the next decade, and established the Joint Select Committee on Deficit Reduction, infamously known as the Super Committee, to develop such a framework. The final obstacle instituted required Congress to vote on the passage of a Balanced Budget Amendment to the Constitution. Theoretically such an amendment would render appropriations bills that exceeded annual revenue unconstitutional, eliminating deficits upon implementation.

Congress ultimately failed to hurdle the final two obstacles. Congress not only failed to pass the required $1.5 trillion reduction plan from the Super Committee, but the committee itself failed to even produce a plan. Further, the Balanced Budget Amendment never even made it to the states for ratification, failing in both houses of Congress. Enforcement provisions of the BCA, designed to encourage Congress to fulfill its obligations, ultimately went into effect. The debt limit increase was reduced from $2.4 trillion to $2.1 trillion and $1.2 trillion of sequestration, contingent on a failure of the Super Committee, became law.

On January 2, 2013, the first spending reductions of the 10-year sequestration process were slated to take effect. Assuming savings from the lower net interest associated with financing smaller deficits, the total sequestration for 2013 was estimated at $109.3 billion, divided evenly between defense and non-defense spending. The same reductions are planned from 2014 through 2021, yet these are to be achieved through lowering the spending caps set out for these years under the Budget Control Act by $109.3 billion, rather than sequestration.[41]

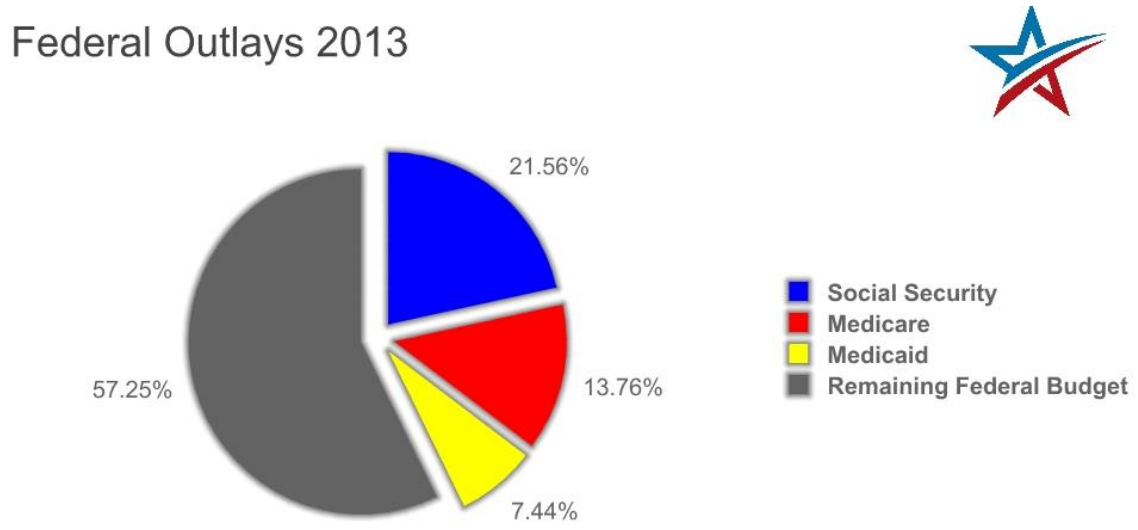
Ultimately, Congress again failed to adhere to standards it set out for itself. Legislation was pushed through Congress upon the realization that the original sequestration set out under the BCA would have taken effect within 24 hours of hefty tax hikes as a result of expiring George W. Bush-era rates. Politicians feared the market backlash of the combined tax increases and spending cuts of what came to be known as the "fiscal cliff" and used a bill called the American Taxpayer Relief Act (ATRA) to delay and reduce the sequester. The 2013 sequestration was reduced to $85.3 billion and delayed until the beginning of March 2013 through the ATRA.[42]

Spending Reductions, Not Spending Cuts

Despite the spending caps and sequestration set out by the BCA, federal spending is still projected to continue to rise through 2021. The caps themselves allow for discretionary spending to expand by as much as $800 billion or more when considering adjustment protocols contained in the BCA.[43] This is the

[41] Richard Kogan, *How the Across-the-Board Cuts in the Budget Control Act Will Work*, Center on Budget and Policy Priorities, April 27, 2012. http://www.cbpp.org/cms/?fa=view&id=3635
[42] Richard Kogan, *The Pending Automatic Budget Cuts How the Two "Sequestrations" Would Work*, February 26, 2013. http://www.cbpp.org/cms/index.cfm?fa=view&id=3910
[43] Bill Heniff Jr., Elizabeth Rybicki, Shannon M. Mahan, *The Budget Control Act of 2011*, CRS Report for Congress, Aug. 19, 2011.

result of two factors. First is Congress's continued ambivalence to the growing instability of mandatory spending on entitlement programs. Despite comprising 42.8 percent of projected outlays for 2013[44], Social Security, Medicaid, and Medicare are almost completely exempt from sequestration and spending caps. Social Security and Medicaid are totally exempt while Medicare can never be subject to more than a 2 percent cut.[45]



These programs, among numerous other exempted mandatory entitlement and welfare programs, are driving the growth of government and hence the repeated budget crises. Combined with the fact that the BCA only instituted flat rate spending reductions of $109.3 billion each year, the reductions will have a progressively smaller effect. Within the 10 year BCA cycle, the spending reductions will drop from 7.3 percent of the budget to 5.5 percent of the discretionary, non-defense budget. [46]

Thus, while advertised as cuts, sequestration and the discretionary spending caps will only amount to reductions in future spending. With the BCA, total federal spending is projected to grow by 51 percent over its 10 year enforcement window. Without the BCA the projection was only 4 percentage points higher, growing by 55 percent over the same period.[47] Therefore, despite the best efforts of Congress and President Obama through the BCA, Americans should brace themselves for more budgetary

[44] OMB Historical Table 8.5—Outlays for Mandatory and Related Programs: 1962–2017
[45] Karen Spar, *Budget "Sequestration" and Selected Program Exemptions and Special Rules*, CRS Report for Congress, Jan. 10, 2013.
[46] Richard Kogan, *The Pending Automatic Budget Cuts: How the Two "Sequestrations" Would Work*, February 26, 2013.
[47] Veronique de Rugy, *Federal Spending and Sequestration 2013-2023*, Mercatus Center, George Mason University. http://mercatus.org/sites/default/files/Sequester-2013-analysis-v2.pdf

uncertainty and drawn out battles aimed at sweeping reform within the immediate future as spending continues to grow and the budget process inevitably deteriorates further.

Conclusion

What the history of budget reform shows us is not a lack of innovation. Congress, in its saga of seeking to reaffirm its power of purse, hasn't lacked creativity; what it has lacked is conviction. Washington refuses to actually reduce the presence of government in the economy, whether it's through ever increasing discretionary spending or mandatory sacred cows. Legislative efforts to do something about the out-of-control budget situation are increasing in frequency at a rate only rivaled by the expansion of the scope, and ultimately the price, of the federal government itself. Further, legislation produced are increasingly becoming gimmicks; gimmicks that have gone so far as to produce more debt every single year, even if the rare surplus comes to fruition on the books. Expansion, instability and so-called reform have become the new standard, thus it's hard to consider any future procedural changes, caps, or sequestrations as revolutionary.

What the history of budget reform teaches is not the need to try something new, but perhaps to try something old. The consistent expansion of government has repeatedly destabilized the budget process and the national economy and is contrary to the expectations of the framers of the Constitution. The failure to check expansion and reform entitlements that are growing at an exponential rate has quickly led to problems as soon as discretionary spending on more central functions of government has spiked.

Thus to reverse the cycle of dominating deficits and crippling debt, budget reform can no longer amount to a reshuffle of powers and responsibilities or changes in rules of the game. Tangible control over the federal purse will only be achieved through a long term reduction of the size and scope of government. Finally, and perhaps most importantly, this process, or any future standards or goals set out, must be taken seriously. Commitments to reducing spending and tackling deficits must not be defaulted upon at the first sign that their political expedience is waning.