A REPORT OF THE PETERSON-PEW COMMISSION ON BUDGET REFORM

GETTING BACK IN THE BLACK

NOVEMBER 2010

Peter G. Peterson Foundation
Our America. Our Future.

THE PEW CHARITABLE TRUSTS

THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Peterson-Pew on Budget Reform Commission Members

Co-Chairs

The Honorable Bill Frenzel
Former Ranking Member, House Budget Committee

The Honorable Timothy Penny
Former Member of Congress

The Honorable Charlie Stenholm
Former Member of Congress

Commissioners

Barry Anderson
Former Acting Director, Congressional Budget Office

The Honorable Roy Ash
Former Director, Office of Management and Budget

The Honorable Charles Bowsher
Former Comptroller General of the United States

Steve Coll
President, New America Foundation

Dan Crippen
Former Director, Congressional Budget Office

The Honorable Vic Fazio
Former Member of Congress

The Honorable Bill Gradison
Former Ranking Member, House Budget Committee

The Honorable William H. Gray, III
Former Chairman, House Budget Committee

G. William Hoagland
Former Staff Director, Senate Budget Committee

Douglas Holtz-Eakin
Former Director, Congressional Budget Office

The Honorable James Jones
Former Chairman, House Budget Committee

Lou Kerr
President and Chair, The Kerr Foundation, Inc.

The Honorable Jim Kolbe
Former Member of Congress

The Honorable James Lynn
Former Director, Office of Management and Budget

Maya MacGuineas
President, Committee for a Responsible Federal Budget

The Honorable James T. McIntyre, Jr.
Former Director, Office of Management and Budget

The Honorable David Minge
Former Member of Congress

The Honorable Jim Nussle
Former Director, Office of Management and Budget and
Former Chairman, House Budget Committee

June O'Neill
Former Director, Congressional Budget Office

The Honorable Paul O'Neill
Former Secretary, U.S. Treasury Department

Marne Obernauer, Jr.
Chair, Beverage Distributors Company

Rudolph G. Penner
Former Director, Congressional Budget Office

The Honorable Peter G. Peterson
Founder and Chair, Peter G. Peterson Foundation

Robert Reischauer
Former Director, Congressional Budget Office

The Honorable Alice Rivlin
Former Director, Congressional Budget Office and
Former Director, Office of Management and Budget

The Honorable Charles Robb
Former U.S. Senator

The Honorable Martin Sabo
Former Chairman, House Budget Committee

C. Eugene Steuerle
Fellow and Richard B. Fisher Chair, The Urban Institute

The Honorable David Stockman
Former Director, Office of Management and Budget

The Honorable Paul Volcker
Former Chair, Federal Reserve System

Carol Cox Wait
Former President, Committee for a Responsible Federal Budget

The Honorable David M. Walker
Former Comptroller General of the United States

The Honorable Joseph Wright
Former Director, Office of Management and Budget

Table of Contents

List of Figures and Boxes

Letter from Co-Chairs of the Peterson-Pew Commission on Budget Reform

We are pleased to present this report on behalf of the Peterson-Pew Commission on Budget Reform. It is the result of a two-year process that included our first report, *Red Ink Rising*.

In that report we called on policymakers to stabilize the federal debt through a six-step plan so that debt would no longer grow faster than the economy. We warned that if policymakers do not gain control of the soaring federal debt, the nation's fiscal future is bleak. We recommended that Congress and the White House adopt a specific fiscal target of stabilizing the publicly held debt at 60 percent of GDP by 2018, and then continue to reduce the debt as a share of the economy over the longer term.

This second report, *Getting Back in the Black*, builds on our earlier report by laying out a detailed set of reforms designed to help improve the nation's fiscal position. We recommend a new budget regime that requires policymakers to set medium- and long-term debt targets, provides a process to reach them, and includes strong enforcement mechanisms to help keep the process on track. We also offer a series of reforms to provide better information to policymakers to aid them in making the difficult budget choices now required, and to provide greater transparency and accountability to the public for those choices.

This report draws on our members' decades of experience wrestling with a flawed budget process. We all firmly believe it is urgent to reform that process so that it supports the decisions necessary to turn red ink to black. The Commissioners have no illusions about the power of process to substitute for leaders with foresight and a public that demands fiscally responsible action. Yet although process alone cannot fix the problem, we believe these reforms can help leaders balance commitments with resources. We look forward to working with the Administration and a new Congress to achieve that goal.

On behalf of the entire Commission, we also thank the Peter G. Peterson Foundation, The Pew Charitable Trusts, our staff and consultants, and all the individuals and organizations who advised us.

Bill Frenzel   Tim Penny   Charlie

Bill Frenzel   Tim Penny   Charlie Stenholm

Executive Summary

The federal budget is deep in the red, and getting it back in the black will not be easy or swift. On its current course, the debt is likely to reach 100 percent of the nation's gross domestic product (GDP) early in the next decade and would continue to grow faster than the economy thereafter. Excessive debt can do much harm: draining productive capital from private investment; increasing the interest payments in the federal budget, which in turn squeeze out other spending or room for tax cuts; and reducing the government's flexibility to respond to future crises or opportunities. High debt levels also present a real risk of some type of fiscal crisis. The federal budget cannot continue on its current path.

The Peterson-Pew Commission on Budget Reform has spent almost two years looking at how to improve the federal government's budget process. In our first report, *Red Ink Rising*, we called on policymakers to stabilize the national debt so that it would no longer grow faster than the economy. We recommended that the government immediately adopt a statutory goal of stabilizing the debt at 60 percent of GDP and enact a specific and credible plan of policy changes that would phase in beginning in 2012 and achieve that goal by 2018. We also recommended that the commitment be backed by strong enforcement mechanisms and that the debt be further reduced as a share of the economy after 2018.

This second report, *Getting Back in the Black*, builds on our earlier recommendations by laying out a detailed set of reforms to the budget process designed to help policymakers achieve that goal. The current federal budget process contributes to the poor fiscal outcomes. The current process involves incremental, annual decisions that lack coherence and discipline, leaving the nation ill-equipped to deal with the current fiscal challenge. Budgets are created without a fiscal target to constrain the result. The process contributes to unsustainable policies because it does not require policymakers to lay out a fiscal plan with feasible limits or to consider the long-term implications of their decisions. We conclude that to improve the nation's fiscal position, policymakers must overhaul the budget process as part of a package of fiscal reforms.

We believe that budgeting can and should be more far-sighted, disciplined, and transparent. Specific fiscal targets must be established and used to guide budget choices. Budgets should be multi-year plans to reach those targets. Stronger enforcement mechanisms are needed to keep the budget on track. And the longer-term tradeoffs required for this need to be made more transparent to policymakers and the public, leading to greater accountability. A better process will lead to better decisions and yield better results.

The Sustainable Debt Act

Given the need for comprehensive action to put the budget on a sustainable path, the Commission's first recommendation is that Congress pass and the President sign a "Sustainable Debt Act."

- This new law would establish a medium-term debt target along with annual fiscal targets and new enforcement mechanisms.
- The medium-term fiscal target would specify when, and at what level, the public debt would be stabilized as a percentage of the GDP.
- Annual debt targets would provide a path to the medium-term debt target.

A Credible Multi-Year Budget Plan

The Commission provides a new framework whereby specific policies would be enacted to meet the multi-year targets established in the Sustainable Debt Act.

- The President would be required to submit a budget that meets the statutory targets.
- Congress would adopt a budget resolution that included multi-year savings allocations and policy direction to other committees for spending, tax expenditures, and revenues to meet that year's debt target, putting the budget on a path to the medium-term fiscal target.
- To strengthen the House and Senate Budget Committees' role in guiding the process, their membership would include House and Senate leaders and the chairs and ranking members of both the appropriations and revenue committees and other key authorizing committees.

Strong Enforcement Mechanisms

The Act would establish procedures to enforce the enacted targets.

- Statutory multi-year discretionary spending caps and a strengthened pay-as-you-go (PAYGO) statute would provide discipline.
- If enacted budget legislation does not meet the target, the President could propose rescissions to help meet it.
- If the target were still missed, spending reductions and tax increases would be imposed through automatic trigger mechanisms.

The Longer Term

The Commission recommends that, after the medium-term debt target is reached, the new budgeting framework be carried forward to continue reducing the debt each consecutive decade to safer levels.

- A long-term goal would be established to continue reducing the debt, and a new set of multi-year debt targets would be enacted.
- After specific long-term policy plans are put in place, programmatic caps and triggers would be established for the policies and programs that are then driving the debt—presumably health care, Social Security, and tax expenditures.

Increased Transparency

The Commission believes additional changes are needed to strengthen the budget process and allow policymakers to make responsible decisions about our nation's priorities. The Commission recommends reforms to increase budget transparency and accountability to the public.

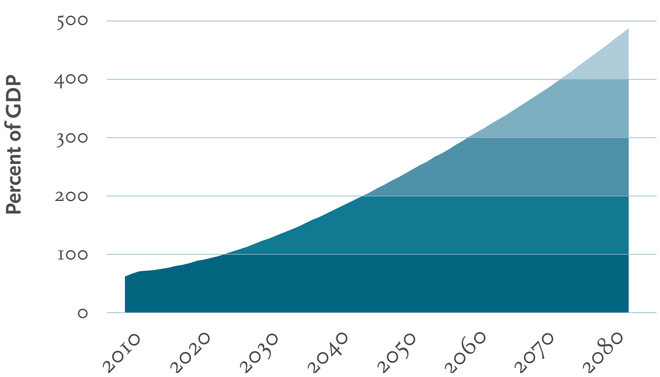
- The President would be required to report to Congress at the end of each fiscal year on the effects of enacted budget legislation and related actions on progress toward the medium-term debt targets and reducing the longer-term fiscal imbalance.
- Budget presentations would include a display of proposed programmatic changes from current-year levels.
- Both the President's budget and analysis of the congressional budget resolution by the Congressional Budget Office (CBO) would include prominent displays of the long-term outlook, report progress toward meeting the statutory fiscal goals, and provide evidence on whether proposed budgets can be sustained indefinitely.
- Accounting and presentation would be improved in the budget for fiscal exposures; emergencies; retirement, pension, and long-term insurance programs; federal programs that extend financial guarantees or that hold risky assets; and Government Sponsored Enterprises (GSEs) and other financial institutions that receive subsidies from implied guarantees.
- The budget treatment and presentation of tax expenditures would be changed to make them more equivalent to other entitlements and they would be fully incorporated in the annual budget process.
- Program evaluation and oversight would be strengthened.

The Commission's members have no illusions about the power of process to substitute for leaders with foresight and a public that demands fiscally responsible action. Absent wide demand for fiscal responsibility, process reforms will not put the federal budget on a sustainable course. Although process alone cannot fix the problem, we believe these reforms will encourage more fiscally responsible policies and keep them on track, resulting in a sustainable balancing of commitments with resources. Put simply, they will help the United States budget get back in the black.

Introduction

The United States is on a dangerous fiscal path, with the federal debt projected to climb to unsustainable levels. Under reasonable assumptions (see Figure 1 and Box 1), the publicly held federal debt is projected to reach 100 percent of the nation's gross domestic product (GDP) by fiscal 2024, 200 percent by fiscal 2043, and will continue to grow faster than the economy thereafter.

FIGURE 1. Publicly Held Federal Debt as a Percentage of GDP, 2010–2080



Source: Peterson-Pew Commission baseline.

Absent a credible plan and policy changes to alter the budget's course, the nation runs the risk that global credit markets will turn against the United States, leading to higher interest rates, poor economic growth, high levels of inflation, or all three. The growing debt burden will also lead to rising government interest payments, which will either squeeze out other spending or require higher revenues, or both, and will certainly leave no room for tax cuts. And it will reduce the nation's fiscal flexibility to respond to any future crises. In the longer term, the soaring debt will pass an unbearable burden to future generations, reducing their ability to chart their own budget course.

The country must confront a number of difficult choices regarding federal spending and tax policies to change the situation and put the economy back on a track of sustainable growth. The Peterson-Pew Commission on Budget Reform believes a new budget framework is needed to help guide the process, help it stay on track, and make the choices and tradeoffs more transparent to both policymakers and the public.

In our first report, *Red Ink Rising*, the Peterson-Pew Commission called on policymakers to stabilize the national debt so that it would no longer grow faster than the economy, recommending a six-step plan:

Step 1: Commit immediately to stabilize the debt at 60 percent of GDP.

Step 2: Develop a specific and credible debt stabilization package as quickly as possible.

Step 3: Begin to phase in policy changes in 2012.

Step 4: Review progress annually and implement an enforcement regime to stay on track.

Step 5: Stabilize the debt by 2018.

Step 6: Continue to reduce the debt as a share of the economy over the longer term.

This second report, *Getting Back in the Black*, provides a detailed budget framework to improve the nation's fiscal situation, by focusing on:

Targets: adopting (1) a statutory medium-term debt target, (2) a multi-year budget plan with annual fiscal targets, and (3) a longer-term fiscal target;

Triggers: strengthening the budget process to include budget caps, a strengthened pay-as-you-go (PAYGO) requirement, and automatic triggers to put and keep the budget on a sustainable path; and

Transparency: improving the timeliness, completeness, and transparency of information used in the budget process to better hold officials accountable, and clearly show tradeoffs in budget decisions.

BOX 1. Peterson-Pew Commission Baseline

The Peterson-Pew Commission created a realistic scenario to illustrate the path of likely policies and the magnitude of the challenges facing the United States. It starts with the standard Congressional Budget Office current-law baseline of August 2010 and then incorporates the effects of several tax and spending policies likely to be enacted. The table below compares the CBO baseline to the more realistic budget assumptions in the Commission's baseline over the medium term. In particular, the Commission's baseline assumes:

- the renewal of the 2001 and 2003 tax cuts, set to expire in 2010, for families making less than $250,000 a year and individuals making less than $200,000;
- a freeze in the estate tax at its 2009 levels, rather than its elimination in 2010, and then a return to pre-2001 levels in 2011 and thereafter;
- continued annual "patches" to the alternative minimum tax (AMT), indexing it to inflation, to limit the tax's impact on middle-income earners;
- a permanent freeze on payment rates to Medicare physicians;
- a gradual decline in spending on the wars in Iraq and Afghanistan, reflecting troop levels that fall to 60,000 by 2015, with any additional deployments fully offset in the budget; and
- a 1-year freeze on discretionary spending and then a return to growth at the rate of the overall economy—rather than of inflation—thereafter.

CBO Current-Law and Peterson-Pew Commission's Baselines, 2010-2018

CURRENT-LAW BASELINE

	2010	2011	2012	2013	2014	2015	2016	2017	2018
PERCENTAGE OF GDP									
Debt	62	66	68	68	67	67	68	68	68
Deficit	9.1	7.0	4.2	3.1	2.5	2.7	3.0	2.8	2.6
BILLIONS OF DOLLARS									
Debt	9,030	10,010	10,790	11,420	11,950	12,540	13,210	13,890	14,550
Deficit	1,340	1,070	670	530	440	510	590	580	560

COMMISSION'S BASELINE

	2010	2011	2012	2013	2014	2015	2016	2017	2018
PERCENTAGE OF GDP									
Debt	62	67	71	72	73	75	77	80	82
Deficit	9.1	8.0	5.8	4.9	4.4	4.8	5.3	5.4	5.4
BILLIONS OF DOLLARS									
Debt	9,030	10,160	11,190	12,110	12,980	13,960	15,070	16,260	17,520
Deficit	1,340	1,220	910	820	780	900	1,030	1,100	1,160

Source: Congressional Budget Office data and Peterson-Pew Commission baseline projections.

A Failed Budget Process

A budget process can only be judged by its results. The current process has allowed the federal government to commit to spending far more than the revenues it will collect. The budget is deep in the red, and getting it back into the black cannot be accomplished without major actions. Although the heart of the problem is the lack of political will to make responsible policy choices, the broken process contributes significantly to the nation's dangerous fiscal situation.

Today, budgets are created annually, without any kind of fiscal target guiding the process. There is no single identifiable "budget," and the President and congressional committees operate on separate tracks with no shared objective: the President makes a proposal; and the House and Senate Budget Committees may, or may not, develop their own budget resolutions, which, however, lack the force of law. Increasingly, there is no comprehensive action on a budget at all: rather, the government operates on a series of short-term appropriations or continuing resolutions, followed by huge omnibus spending bills, with occasional piecemeal enactment of changes in other spending or tax laws. In practice, the bulk of the government's spending and revenue occurs on autopilot, without annual review or any constraint on growth.

The current budget framework is too short-sighted and tends to focus primarily on the upcoming year. The result is that lawmakers routinely continue programs that could not withstand rigorous evaluation of their costs and benefits. The short-term appeal of the government's spending more than the people are willing to pay has contributed to deficit spending—even during periods of economic growth, when surpluses should be the norm. Erosion of the commitment to balanced budgets has produced an environment in which it has become acceptable to borrow in order to spend more. While borrowing is not always bad—it can be useful in a recession—sustained periods of borrowing damage the economy and eventually lower the nation's living standards.

Current unsustainable policies result in large part from a process that does not require policymakers to lay out a fiscal plan with feasible limits or to consider the long-term implications of their decisions.

The way back to black is filled with difficult tradeoffs. The United States cannot rely on simply raising taxes to pay for all the commitments it has made, not only because the gap between income and spending is so big that tax increases that large would clearly hurt the economy, but also because the current tax system is inefficient and a drag on growth. The nation's tax and spending policies have to change.

Reforms to the budget process will be critical to facilitating those changes and may well prove to be the necessary first step. In order for any policy changes to be credible and lasting, the President and Congress will have to embark on a more collaborative process with shared fiscal objectives. Specific budgetary goals will have to be laid out—for both the medium and long term. Multi-year budgets will have to be put in place. Stronger enforcement mechanisms will be needed to keep the budget on track. And the long-term effects and tradeoffs within the budget will have to be made more transparent to both policymakers and the public.

Charting a New Path Through Targets, Triggers, and Transparency

The Peterson-Pew Commission on Budget Reform believes an overhaul of the budget process is in order. The framework we propose would not replace the procedures and institutions established as part of the Congressional Budget and Impoundment Control Act of 1974 (see Box 2) but, rather, strengthen them by putting a new emphasis on the medium and long terms. Our goals are to make budgeting more far-sighted and disciplined; produce fiscally sustainable results; and improve the transparency of basic budget information. Specifically, our approach would:

- require statutory fiscal targets to guide budget decisions;
- enact multi-year budget plans;
- adopt an enforcement regime to keep policies on track over both the medium and long terms;
- limit the drivers of the long-term budget imbalances through spending and tax expenditure[1] constraints; and
- increase the transparency of budget decisions and accountability for their results.

We acknowledge that process improvements can only go so far. They will not work without a serious commitment to restoring a sustainable balance between revenues and spending. Ultimately, it will be the policy choices and economic performance that determine the fiscal health of the country. But improvements to the process can be the first step toward more meaningful reforms. They can give lawmakers a reasonable place to begin and a framework to sustain the process, and a more level playing field with which to assess the budget tradeoffs.

BOX 2. Current Architecture: The 1974 Budget Act

For most of U.S. history, no single entity has been responsible for developing a comprehensive plan encompassing the government's spending and revenues. Only in the last 100 years has the President formally transmitted a comprehensive budget proposal to Congress for consideration.

The 1974 Budget Act established a new set of congressional procedures, with a prescribed schedule. The act created the House and Senate Budget Committees, the budget resolution and budget reconciliation processes, the Congressional Budget Office, and most other major elements of today's process. With its enactment, Congress acquired an institutional structure that could more nearly match the President's ability to produce a coordinated and comprehensive annual budget. For the first time, the law required the adoption of an overall budget plan or resolution under which the House and Senate would make subsequent decisions subject to specified spending ceilings.

The 1974 Budget Act contains elements of a sound budget process. The procedures and calendar established in the act provide a solid foundation for the refinements now needed. The act's reconciliation provisions and ceilings on discretionary spending have provided useful discipline, but the potential of the 1974 law to improve congressional budgeting remains largely unfulfilled.

1 Tax expenditures are provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability. (Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government*, Fiscal Year 2011.)

The framework we recommend focuses on both medium- and long-term budget challenges. Prior to the recent economic crisis, these challenges—driven primarily by the aging of the population and growing costs of health care—were the largest threats to the budget. Now, as the debt has increased dramatically due to the economic downturn, the need to make changes more quickly (while also being cognizant of the need not to choke off a budding recovery) is more pressing. Nevertheless, the long-term threats remain just as great.

In *Red Ink Rising* we emphasized the importance of immediately putting in place a credible medium-term plan to bring the debt back down to 60 percent of GDP while gradually phasing in the policy changes as the economy strengthens. In this report we expand that framework and add details of how a longer-term goal to bring the debt closer to historical levels would be established and implemented.

Given the need for comprehensive action to put the budget on a sustainable path, the Commission urges Congress and the President to adopt a Sustainable Debt Act (SDA) and use this new framework to the extent possible to govern the development of the fiscal 2012 budget. The major elements of the Commission's proposal are summarized in Box 3; Box 4 summarizes the experience with budget enforcement laws enacted since 1974.

BOX 3. The Sustainable Debt Act

The Commission proposes a new Sustainable Debt Act, with elements that would address both the medium and long terms.

Medium Term

- The President and Congress agree to a statutory medium-term debt target and corresponding annual fiscal targets.
- The President submits and Congress adopts a multi-year budget plan designed to meet the medium-term target.
- New enforcement measures ensure the budget targets are met.
- If legislation fails to meet the specified targets, an automatic budget trigger is used to direct the budget back on track.

Long Term

- Once the initial debt target is achieved, Congress and the President shift forward the medium-term frameworks by adopting a new debt target, to bring the debt down further over a set period of time.
- Once a long-term policy plan is adopted, budget limits with automatic triggers are attached to the drivers of fiscal imbalances: health care, Social Security, and tax expenditures.

BOX 4. **Past Budget Enforcement Laws**

Two major budget enforcement statutes passed since adoption of the 1974 Act were used for some time to enforce prior fiscal policy agreements.

The Balanced Budget and Emergency Deficit Control Act of 1985

Also known after its authors—Senators Phil Gramm (R-TX), Warren Rudman (R-NH), and Ernest Hollings (D-SC), as the Gramm-Rudman-Hollings (G-R-H) Act—this law was designed to ensure action to cut the deficit to specific levels until the budget was balanced. If the deficit exceeded the target for any year, the law required the President to cut spending using a specified mechanism that covered nearly all programs to meet the target. The legislation also made changes to the 1974 Budget Act, including requiring the budget resolution to provide specific allocations to each congressional committee. It established several points of order to enforce budget limits and increased the number of votes required to waive points of order in the Senate from a simple majority to three-fifths. The law established maximum deficit amounts for the fiscal years from 1985 to 1990. If the deficit exceeded the limits in those years, the President was required to issue a sequester order that cut nonexempt spending to meet the target. The legislation also made several additional changes to budget law, including reducing the number of budget resolutions from two to one annually.

The deficit in 1986 was $221 billion; in 1989 it was $153 billion. However, there was great debate over whether the constraints implemented by Gramm-Rudman-Hollings were responsible for the decrease. Critics argued that budget gimmicks inflated the deficit decrease and made the law appear to be more effective than it was.

The Budget Enforcement Act of 1990

In 1990 Congress attempted to control spending through caps on discretionary spending and by ensuring that revenue was not cut or mandatory spending increased without offsetting changes. The Budget Enforcement Act (BEA), enacted following a celebrated budget summit at Andrews Air Force Base called by President Bush and attended by administration officials and congressional leaders, substantially changed the mechanisms to move toward a balanced budget: instead of statutory budget targets, the BEA attempted to produce lower deficits and eventually a balanced budget by controlling spending, including new tax expenditures.

The mechanisms for enforcement included spending caps on discretionary programs (those funded through annual appropriations) and a requirement that mandatory spending increases or tax cuts be offset. This became known as the pay-as-you-go (PAYGO) rule. Any violation of the PAYGO rule was supposed to lead to a sequester, (i.e., automatic reduction) of mandatory spending, although many programs, including Social Security, were exempt from sequester. And in the absence of sufficient PAYGO offsets, a statutorily specified list of mandatory spending programs would face cuts. If the discretionary caps were exceeded, an across-the-board sequester of appropriated funding was required to eliminate any excess.

The caps and PAYGO requirements of the BEA of 1990 were in effect from fiscal 1991 through fiscal 1995; the terms were extended (with some modifications) twice: first through 1998 (in 1993) and then through fiscal 2002 (in 1997). Many of its provisions were effectively waived after surpluses began to appear in the late 1990s. The law also incorporated a version of what is known as the Byrd Rule, after its author the late Senator Robert C. Byrd (D-WV). It required that provisions of a budget reconciliation bill be germane. i.e., have budget effects. The Congressional Budget Office estimated at the time that over a 5-year period, the reconciliation process under the BEA would reduce the deficit by $482 billion.

Source: Information from Congressional Budget Office, 2006.

STEP 1:
Adopt a Medium-Term Debt Goal and Annual Fiscal Targets

Currently, there is no agreed-on fiscal objective for the nation. Accordingly, there are few constraints on the process, and the federal government frequently spends more than can be financed from expected revenues. The result is unsustainable promises. For a new budget regime to be fiscally responsible, it must require that budgets are consistent with reasonable statutory fiscal targets.

The Peterson-Pew Commission previously recommended a medium-term target of stabilizing the publicly held debt at 60 percent of GDP by 2018.[2] Sixty percent has become a recognized international standard. We believe this goal is aggressive enough to reassure credit markets and is both economically and politically manageable. Although we have recommended the 60 percent target, the new regime presented here does not depend on that specific goal. We do believe, however, that it is critical that debt levels be returned to pre-crisis levels rather than being stabilized at the higher levels that have resulted from the economic downturn.

COMMISSION RECOMMENDATION:
Include in the Sustainable Debt Act a medium-term fiscal target to stabilize the publicly held debt.

The President and Congress should enact a Sustainable Debt Act that would include the initial (medium-term) debt stabilization target and require the President and Congress to develop and enact multi-year budget plans to meet it. The SDA would set a target for debt held by the public as a share of the economy by a specific year. While the Peterson-Pew Commission has recommended stabilizing the debt at 60 percent of GDP by 2018 in the past, the new framework would work with any fiscal target.

COMMISSION RECOMMENDATION:
Include in the Sustainable Debt Act annual debt targets consistent with the medium-term debt target.

Along with the initial debt target, the SDA would specify companion annual debt targets to set a reasonable path to achieve the medium-term fiscal target. The annual targets would be the starting point for identifying annual and multi-year budget savings required to keep on the path to the medium-term debt target.

At the start of the congressional process, the House and Senate Budget Committees would estimate the savings relative to that year's baseline needed to reach the annual debt target, and use the required savings estimates as the basis for allocating spending and revenues to other committees. The baseline would be updated each year for enacted legislation and for revised economic and technical factors, and the required annual savings targets specified in the budget resolution would be adjusted to reflect the new base.

It is very important that the annual targets be crafted to avoid front-loading the savings in a way that could destabilize the economic recovery. At the same time, the annual targets also must not so back-load the savings that they lack credibility. Table 1 and Figure 2 illustrate annual targets that would meet the medium-term debt target. As shown in Table 1, the savings amounts needed to reach a 2018 debt target of 60 percent are much smaller when measured against a current-law baseline that assumes, among other things, expiration of the 2001 and 2003 tax cuts.

It is also critical that the fiscal targets in the new SDA be flexible enough to accommodate changes in economic conditions. For example, the requirements to meet the annual target could be waived when there is a marked deterioration in the economy, as signaled by two consecutive quarters of negative real growth or another similar measure. In the future, Congress and the President could also revisit and update the annual targets because of unanticipated changes in economic and other technical factors. Also, improved economic conditions would offer an opportunity to reduce debt at a much faster rate, as has occurred in much of the nation's past history when economic growth accelerated.

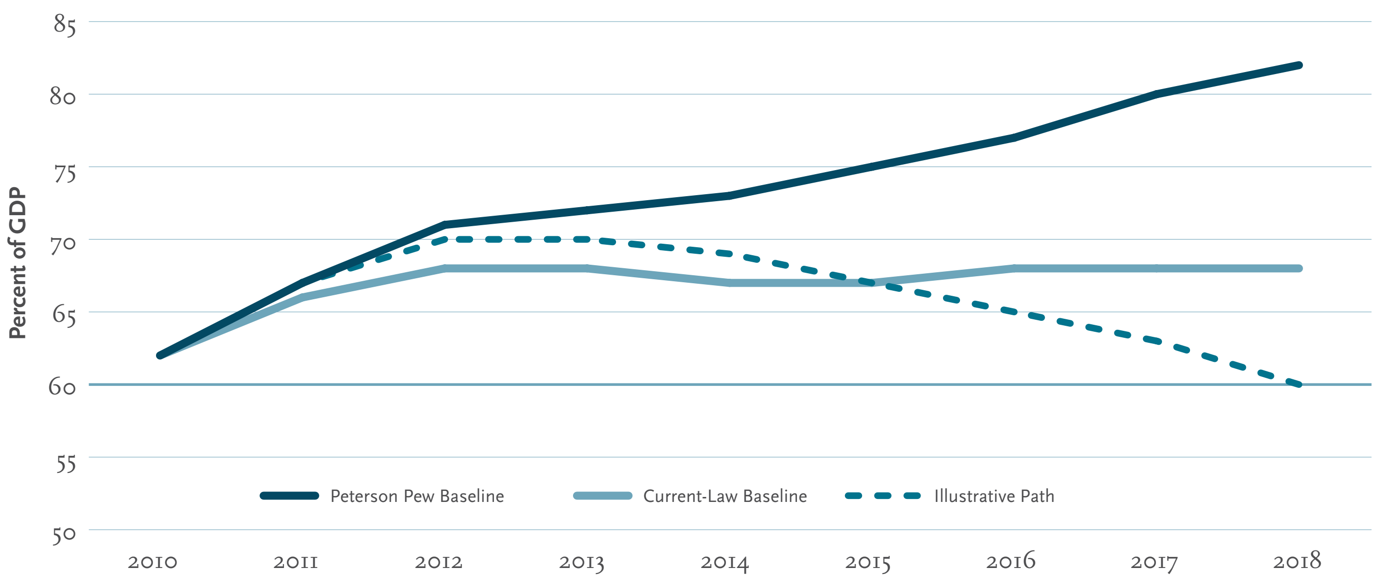
2 The debt held by the public is the total of federal debt held by individuals, corporations, and foreign and state and local governments. It measures the direct current draw on private savings through federal borrowing in the credit markets. It does not include intragovernmental debt held in government trust funds.

TABLE 1. Illustrative Annual Debt Target and Annual Budget Savings to Reach Medium-Term Debt Target

	DEBT				ANNUAL TARGET		ANNUAL SAVINGS	
	CURRENT-LAW BASELINE		PETERSON-PEW COMMISSION BASELINE		ILLUSTRATIVE TARGETS		FROM CURRENT LAW	FROM PETERSON-PEW
Fiscal Year	Percent of GDP	Trillions	Percent of GDP	Trillions	Percent of GDP	Trillions	Billions	Billions
2010	62	9.0	62	9.0	62	9.0		
2011	66	10.0	67	10.2	67	10.2		
2012	68	10.8	71	11.2	70	11.1	-300	100
2013	68	11.4	72	12.1	70	11.7	-100	200
2014	67	12.0	73	13.0	69	12.2	100	400
2015	67	12.5	75	14.0	67	12.6	200	700
2016	68	13.2	77	15.1	65	12.7	500	900
2017	68	13.9	80	16.3	63	12.8	600	1,100
2018	68	14.5	82	17.5	60	12.8	700	1,300

Source: Congressional Budget Office data and Peterson-Pew Commission baseline projections.

FIGURE 2. Illustrative Path to Debt Target



Source: Congressional Budget Office data and Peterson-Pew Commission baseline projections.

Step 2: Develop a Comprehensive Multi-year Budget Plan to Achieve the Targets

Once the President and Congress have endorsed and codified the budget targets, the next step would be to put in place the specific policies to achieve them.

COMMISSION RECOMMENDATION:

Require the President to submit and the Congress to enact multi-year budgets that meet prescribed debt targets.

The Sustainable Debt Act would set new procedural requirements for both the President and Congress, intended to promote the adoption of budgets to stabilize the public debt. The submitted and enacted budgets would include multi-year savings proposals, backed by specific policies and intended to meet the medium-term target.

In the new framework, after the President and Congress agreed to a medium-term debt goal accompanied by statutory annual debt targets, the President would be required to submit a budget whose policies are consistent with both the annual debt targets and medium-term fiscal goal. Although this requirement would have no specific enforcement mechanism attached to it, the public's expectations that the SDA would not be violated would strongly encourage the administration to comply. To ensure that Congress enacted savings sufficient to meet the targets, the SDA would establish enforcement measures (discussed below).

COMMISSION RECOMMENDATION:

Shift the focus of budgeting to a multi-year budget framework where Congress adopts multi-year budgets that remain in place unless or until further adjustments are required to stay on the path to the debt targets in the Sustainable Debt Act.

Every February the President sends a budget proposal to Congress that lays out the administration's fiscal goals, fiscal path, and policy priorities; Congress follows its own procedures; and, eventually—almost always after the date required—a compromise set of bills for the nation's spending and revenue are passed. But without an agreed-on medium-term goal and annual debt targets, neither the President nor Congress has any incentive to be fiscally responsible.

We recommend that, instead of the typical practice of passing a budget resolution that is focused only on the next fiscal year, Congress adopt a resolution for a multi-year budget plan that would remain in place unless or until further adjustments were required to meet the debt targets in the Sustainable Debt Act.

The multi-year budget would include specific policies that, if enacted and sustained, would meet the medium-term fiscal target and additional policy changes that would reduce long-term debt growth.

COMMISSION RECOMMENDATION:

Strengthen the membership of the House and Senate Budget Committees by including House and Senate leaders and the chairs and ranking members of both the appropriations and revenue committees and other major authorizing committees.

The congressional budget process would be strengthened. The House and Senate Budget Committees should be the instruments for setting major spending and revenue limits and meeting fiscal goals. Thus, their membership should include House and Senate leaders and the chairs and ranking members of both the appropriations and revenue committees and other key authorizing committees. The Budget Committees' role in shaping the budget would be enhanced as described below.

COMMISSION RECOMMENDATION:

Adopt a budget resolution with savings required to meet the annual budget target in the Sustainable Debt Act.

The strengthened Budget Committees would work together to set budget priorities and provide multi-year allocations to other committees for both spending and revenues—including tax expenditures—consistent with fiscal targets. These decisions would be embodied in the annual budget resolution, instructing other committees on how to meet the annual and medium-term targets.

Under the Commission's proposal, the annual budget resolution and reconciliation procedures would become the leadership's primary means of coordinating and controlling the budgetary actions of congressional committees. The Budget Committees would set binding allocations for the authorizing committees in order to prompt savings in mandatory spending and revenues, including tax expenditures. If the Budget Committees did not give the authorizing committees specific directions, the committees would have flexibility to adopt the policy changes needed to achieve their allocations.

If a committee did not propose legislative changes sufficient to meet its target, the House and Senate leaders, acting through the Budget Committees, would use budget reconciliation procedures to ensure that enacted legislation was consistent with fiscal targets. Their adjustments could also reflect any new information and circumstances that had arisen during the annual process, which might prompt adjustments to the allocations and the policy guidance of the budget resolution.

Box 5 summarizes how the steps in the Commission's proposed new budget process would work for fiscal 2012 and 2013.

BOX 5. Budget Process under the Proposed Sustainable Debt Act

Winter 2011. Congress and the President enact legislation that includes medium-term and annual debt targets and a trigger mechanism to enforce the targets in the Sustainable Debt Act.

Spring/Summer 2011. Congress agrees on a multi-year budget resolution that includes multi-year tax and spending policies that comply with the new fiscal targets, PAYGO requirements on mandatory spending and revenues, and multi-year caps on discretionary spending. Congress approves authorizing and appropriations legislation to meet the targets.

Fall 2011. The Office of Management Budget (OMB) scores the policies enacted by Congress. If OMB finds that the policies fail to meet the fiscal 2012 target, Congress would have the opportunity to enact additional legislation to meet them. If Congress' final budget policies do not meet the targets, the President could use new rescission authority to meet the targets. If the President did not do so or Congress rejected the President's proposals, automatic triggers would be activated to adjust spending and revenues.

Late November 2011. The President makes a formal report assessing whether enacted legislation has met all statutory debt targets.

January 2012. CBO releases a new baseline based on the budget adopted the prior year.

February 2012. The President submits his fiscal 2013 budget, showing a multi-year plan to meet the statutory debt targets.

Spring/Summer 2012. Congress may pass an updated budget that includes multi-year policies to comply with the fiscal targets. If no new budget is passed, the prior year's budget remains in effect. The process starts over.

STEP 3:
Establish a Strong and Comprehensive Enforcement Process

The Commission's proposed new budget procedures may be helpful but insufficient to keep the nation's budget on a prescribed path. Political leaders may find it too tempting and convenient to evade or override statutory targets or alter the policies they have adopted to meet them. Consequently, enforcement mechanisms will be useful to help ensure that such evasion does not occur. As with all budget rules, enforcement mechanisms can always be broken, but they can be another layer in the process to keep the budget on track.

COMMISSION RECOMMENDATION:
Establish a medium-term trigger that would require automatic adjustments if budget legislation fails to meet the annual debt target.

To provide additional discipline, the Commission recommends a debt-based enforcement mechanism, or "debt trigger." In the early fall, OMB would score all enacted legislation and determine whether the policies were on track to meet the spending and revenue targets the Budget Committees had determined would be necessary to achieve that year's annual debt target.

If the policy targets were missed, Congress could pass additional legislation in an attempt to meet the target, including the President's proposed rescissions under new authority (see recommendation below). OMB would again score all enacted legislation against the target: if the budget path were determined to be inconsistent with the target, the trigger would be activated. The Commission believes the debt trigger should be punitive enough to motivate lawmakers to avoid it, but realistic enough to be accepted as a last resort if the policies adopted fall short of statutory targets. Our suggested trigger would apply equally to spending and revenues.

Past automatic triggers have failed in part because so many programs were exempt from the trigger and it was so easy to bypass the restrictions. The Commission recommends that its proposed triggers apply to the broadest base possible, including all discretionary and mandatory programs and all taxes. For revenues, the Commission proposes a broad-based surtax; for spending, all programs—both mandatory and discretionary—would have across the board reductions. The debt trigger would be 50 percent tax increases and 50 percent spending cuts, with credit given for policies enacted that year on either side of the budget. A broad base would be more effective in keeping the plan on track because it would raise the political consequences for policymakers of failing to meet targets. It would thereby create incentives for Congress and the President to craft their own fiscal policies, rather than relying on formulaic reductions to meet the debt targets.

To make the trigger mechanism politically sustainable, we suggest limiting the automatic adjustment so that in any one year it would not exceed an amount equal to 1 percent of GDP. So, for example, in a year when GDP is estimated at $15 trillion, automatic adjustments could not exceed $150 billion. Experiences with the Gramm-Rudman-Hollings Act and other formulaic triggers suggest that when automatic reductions become too dramatic, targets and triggers may be abandoned. However, there has also been some successful recent experience with triggers; see Box 6.

BOX 6. A History of Budget Triggers in the US

Balanced Budget and Emergency Deficit Control Act of 1985 (G-R-H) The Act set a series of fixed deficit targets. Included in the original legislation was a process—sequestration—to enforce the targets. Under sequestration procedures, spending cuts were triggered if the estimated deficit for that fiscal year would exceed the G-R-H target for that fiscal year. Originally, the law gave the Comptroller General the authority to trigger a sequestration, but the Supreme Court overturned that portion of G-R-H; as a result, that authority was provided to OMB. In the five years of G-R-H regime, two sequesters were required, one of which was reduced by legislation and the other overridden by a subsequent budget agreement.

Budget Enforcement Act of 1990 The BEA replaced deficit targets with statutory limits on discretionary spending and a pay-as-you-go (PAYGO) requirement for mandatory spending programs and revenues. Sequestration procedures were again included to enforce the discretionary caps and the PAYGO requirements. The act was extended in 1993 and in 1997. Under the BEA, sequestration was triggered three times: twice for discretionary spending (one of which was overturned by law), and once for violation of the PAYGO process, which was also overturned by law.

Entitlement Caps During the congressional debates on the Omnibus Budget Reconciliation Act of 1993, the House considered setting triggers that would be activated if entitlement spending exceeded the targets established in the budget. However, the final bill did not include the language. In response, President Clinton issued Executive Order No. 12857 that set targets for direct spending for fiscal 1994 through fiscal 1997. If the entitlement spending in any given year threatened to exceed the caps, the order required the President to include in his annual budget a proposal to reduce the spending or to suggest additional revenue. The Clinton Administration had the good fortune of avoiding difficult proposal for spending cuts or revenue increases because the affected entitlement program outlays came in under the estimates.

Medicare Solvency In the 2003 Medicare Modernization Act (the prescription drug bill), Congress imposed a Medicare solvency trigger designed to address long-term Medicare sustainability. The law required that the Medicare trustees issue a warning if two consecutive trustee reports project that general revenue will be needed to fund more than 45 percent of Medicare outlays. After the trustees issue such a warning, the law requires the President to submit a legislative proposal to reduce the general fund's contribution to Medicare outlays to 45 percent or less. In 2007, the Social Security and Medicare Trustees, for the second year in a row, reported that general revenue would fund more than 45 percent of Medicare outlays. President Bush did not respond to the warning in his fiscal 2009 budget (February 2008) with any proposed specific Medicare policy changes. Instead, he proposed an automatic trigger if Congress and the President failed to agree on Medicare reforms. That trigger would have set up annual and increasing automatic percentage reduction to payments to Medicare providers. However, not only did Congress not take action on the President's proposals, but it also eliminated the rule requiring it to consider the proposals to achieve Medicare solvency on an expedited basis. In its fiscal 2010 budget, the Obama Administration quietly disputed congressional authority to mandate a presidential submission of a legislative proposal. In a nod to the law's original underlying intent, the President's budget argued that its other proposed Medicare reforms and cost savers met the spirit if not the letter of the law.

(continued on following page)

(continued from previous page)

Pay-As-You-Go Act of 2010 This act contained a trigger mechanism similar to the PAYGO trigger in the 1990 BEA. However, because the applicability of the programs to which the enforcement mechanism is to apply is drawn to exclude all programs administered by the Department of Veterans Affairs, income tax credits, low-rent public housing loans and expenses, and more than 100 other programs, the act's effectiveness in promoting fiscal restraint is limited.

COMMISSION RECOMMENDATION:

Reestablish discretionary spending caps along with a strengthened pay-as-you-go (PAYGO) requirement to enforce the multi-year budget that is adopted.

As part of the new multi-year budget, the Commission recommends enactment of a strongly enforced statutory PAYGO process and the restoration of caps on discretionary spending comparable to those in the 1990 Budget Enforcement Act (BEA). PAYGO requires that the cost for any new mandatory spending programs or new tax provisions be offset with reductions in other mandatory spending or increased revenue. Until now, PAYGO scorecards have been limited to budget effects of policy changes over an initial 5- or 10-year period.

The PAYGO act signed into law by President Obama reinstated the original PAYGO rule from the 1990 BEA with a number of changes. It greatly expands the mandatory programs and activities that are exempt from reduction under any sequestration. The original list exempted fewer than a dozen programs or activities; the new act exempted more than 100 programs and activities, including such major programs as Medicaid and the Children's Health Insurance Fund. Also, the 2010 law does not require offsets (i.e., tax increases or spending reductions) for bills that increase the deficit so long as the legislation falls under one of four specified categories: Medicare physicians' payments, the estate and gift tax, the alternative minimum tax, and certain "middle-class" tax cuts. The current form of PAYGO is weak because it includes so many loopholes for large tax and spending items, which permit trillions of dollars in borrowing over the next decade.

A new statutory PAYGO should include a sequestration process, which would impose automatic cuts in certain mandatory spending programs and automatic tax increases if Congress and the President did not enact proposals with offsets for any spending increases or revenue losses as a result of new legislation or major regulatory actions.

Even PAYGO without the loopholes would not *improve* the fiscal picture unless broader budget reforms were put in place; it would merely help to keep the situation from getting worse. But once a plan to achieve a reasonable fiscal goal is in place, PAYGO could help keep it on track by ensuring that any actions that worsen the multi-year outlook are at least offset by actions that produce savings.

Spending caps would be set at the levels agreed to in the multi-year budget, consistent with the statutory targets. For example, the multi-year plan to reach the medium-term target might include a freeze on discretionary spending, with spending caps then set at that level. Caps should also be designed to limit spending on tax expenditures at the levels set in the budget. Allocations consistent with caps would be made through the budget resolution and adopted in reconciliation or other legislation. The caps would be enforced by points of order raised against actions inconsistent with the resolution and when necessary by the automatic trigger mechanism described above. Caps should also be designed to limit spending on tax expenditures at the levels set in the budget.

COMMISSION RECOMMENDATION:

Provide the President with increased rescission authority.

If the annual target were missed at that stage, the President could use increased rescission authority to help achieve the target; see Box 7. This authority would allow the President to specify additional spending adjustments, subject to congressional acceptance, to meet or come closer to the annual target. Giving the President this additional tool would increase his accountability for helping meet the target.

BOX 7. Enhanced Rescission Authority

For the nearly 200 years from 1789 to 1974, Presidents exercised the authority to permanently impound—i.e., not spend—funds appropriated by Congress, and during that time every President used that authority. The 1974 Budget Act explicitly repealed that presidential authority and replaced it with presidential authority to withhold funding proposed for rescission for no more than 45 days while Congress considered the President's proposals. Because the 1974 Budget Act did not require Congress to vote on the President's proposed rescissions, the usual outcome was simply that after 45 days the rescissions were not implemented, and this provision had little effect on deficits.

As part of their deficit reduction efforts in the 1990s, Congress and the President worked together in enacting the Line Item Veto Act (LIVA), which provided that a President's proposed rescission would take effect unless Congress voted to overturn it. Although the LIVA probably would have reduced spending, it was overturned on constitutional grounds by the Supreme Court shortly after it was enacted.

In 2010 President Obama proposed a new rescission plan that may pass a constitutional test. The process would require Congress to take an up-or-down vote on any rescission proposals for which the President requests expedited action. Because the President's proposed authority would not permit the rescinding of funding without congressional approval, Mr. Obama believes his plan to be constitutional. The Commission supports the President's proposal as a way to assist in meeting the statutory debt targets.

STEP 4:
Enact Long-Term Reforms

Although it would be a very large step in the right direction, simply meeting the initial debt goal would not do enough to bring about a sustainable fiscal policy for the nation in the long term.

COMMISSION RECOMMENDATION:

After the medium-term target is achieved, Congress and the President set new targets for the debt, lowering it gradually relative to GDP over each successive decade to a safer level.

Because large policy adjustments will be required to slow the projected growth of major programs, keeping the debt from growing in the long term will not be easy even if a medium-term goal is reached. Maintaining fiscal restraint will require the President and Congress to agree on major reforms to be phased in over time. It would also be helpful to adopt policies which would contribute to a strong and growing economy—such as fundamental tax reform, improved capital and labor market incentives, and protection of productive investment spending; see Box 8. The nation cannot grow its way out of the current fiscal situation, but strong growth will make tackling the problems much more manageable.

Reducing the debt to meet the medium-term goal will still leave debt at a historically high level; see Figure 3. Shifting the framework forward with updated targets and triggers would allow the President and Congress to routinely update the specifics of the framework to reflect changes in the fiscal environment and economy, while keeping a disciplining mechanism in place at all times.

Both medium-term and longer-term targets are needed. The medium-term target would force early savings to avoid letting the debt reach unsustainable and increasingly dangerous levels and would show markets that the U.S. is capable of making tough choices. The early savings also would keep interest payments on the debt manageable and help preserve other budget priorities as longer-term savings provisions take effect.

BOX 8. **Policy Choices and Long-Term Growth**

Not all policy changes are equal. Although a strong and growing economy is a clear requirement for any plan to produce a sustainable fiscal future, it will not be enough by itself to bring the debt to a sustainable level. Pro-growth policies—such as fundamental tax reform, and shifting the budget from one that is consumption-oriented to one that is investment-oriented, should be given special consideration when crafting a plan.

In the absence of smart policy, the United States may never see a balanced, strong, and growing economy. Given that some tax increases and spending cuts can depress growth and thereby threaten the long-term sustainability of any fiscal plan, policymakers should try to adopt policies that are growth friendly or pair fiscal consolidation with structural reforms that will boost solid growth over time.

The U.S. tax system has become not only an inefficient revenue collector, but also a major source of distorted incentives that lead to less productive uses of capital. Public investments in education, improved health, research, and infrastructure—if properly targeted—can be part of a comprehensive plan to stabilize the federal government's debt and improve the nation's long-term fiscal outlook.

Any package should be weighted toward reforms of the most problematic areas of the budget, including low- priority and ineffective programs. A recent report from the Organisation for Economic Co-operation and Development (OECD), which simulated the effects of combining fiscal restraint with such structural reforms, estimated that they would improve the U.S. growth rate by 0.2 percent of GDP annually after 2020, and if combined with structural reforms in the nation's major trade partners, including China, raise global economic output and improve trade balances.* Fiscal restraint puts priority on directing resources to their most productive uses, defined not only by the priority of the public goals they are directed toward, but also by the whether the funding required to achieve them produces desired results at reasonable costs.

* OECD, 2010, p. 6.

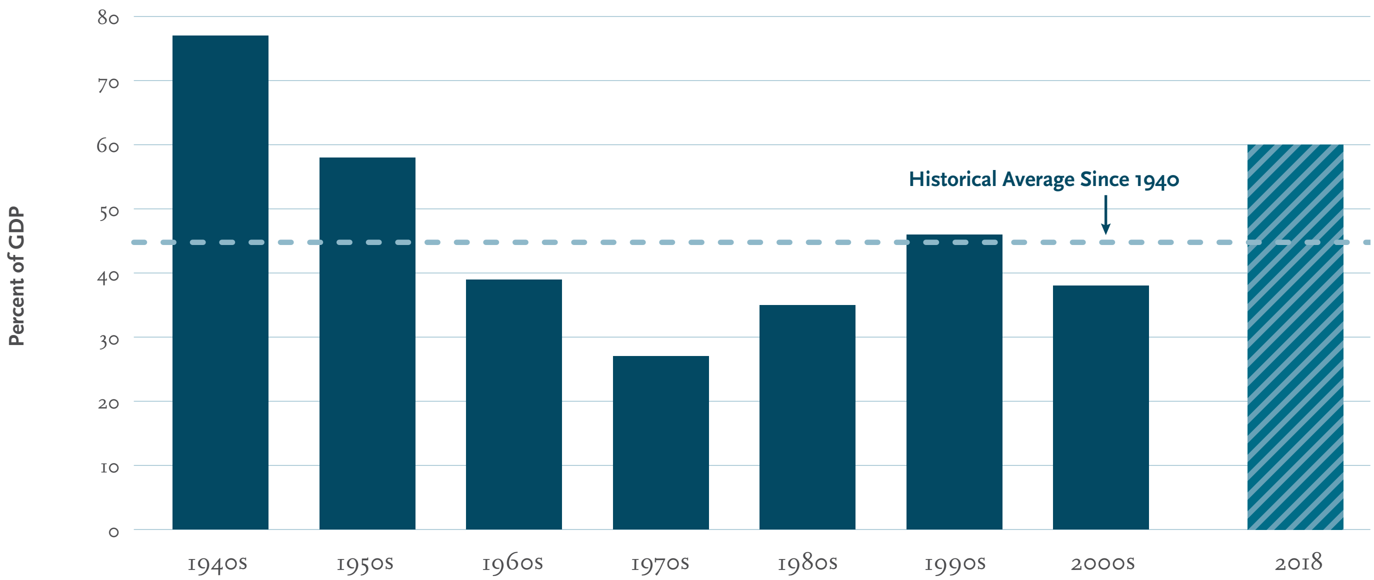
Longer-term targets are equally needed to ensure that policymakers enact policies soon that would, over a long period, slow the growth of those components of the budget that are driving the longer-term structural budget shortfall. Without reforms to the drivers of the long-term mismatch between spending commitments and projected revenues, the debt would again start to rise after 2018. Moreover, merely sustaining the debt at the 2018 target would leave it dangerously high. The goal, therefore, should be to bring it down to a safer level by balancing revenues and spending, while allowing flexibility to adjust to economic cycles and to emergencies.

COMMISSION RECOMMENDATION:

Adopt an aspirational goal of maintaining budget balance over the business cycle.

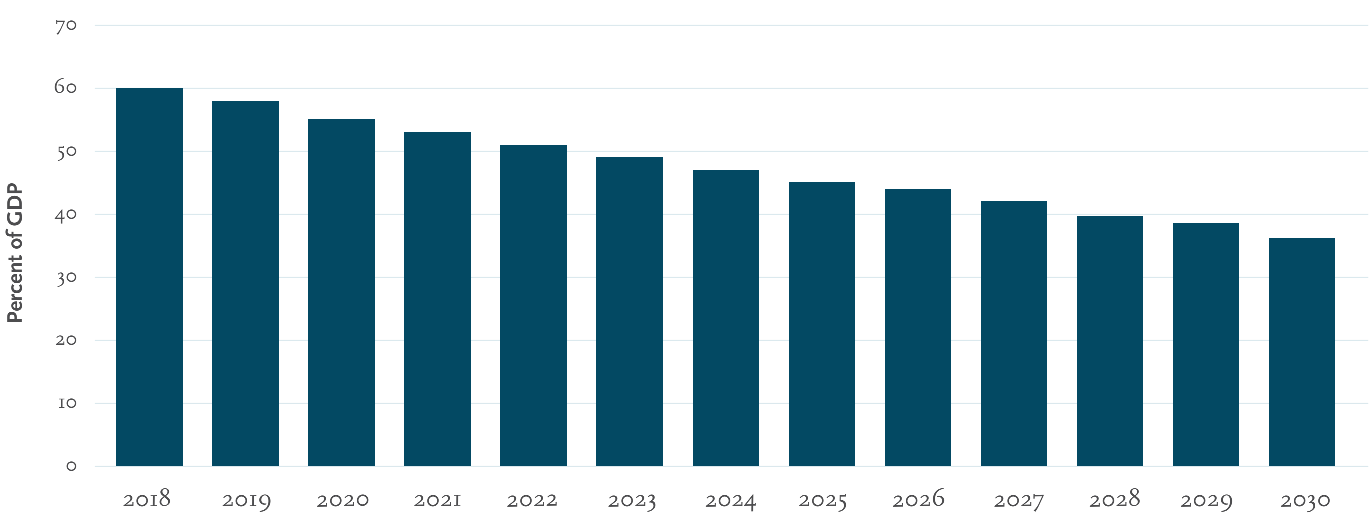
One way to gradually continue to bring the debt down is for the President and Congress to adopt an aspirational goal of aiming to balance the budget on average over an estimated business cycle. The President might be required to submit a budget annually that met this test. If the U.S. maintained a budget that balanced over the business cycle after fiscal 2018, the ratio of debt to GDP would continue to decline as the economy grew. For example, if budgets on average were close to being in balance and debt therefore did not increase while the economy grew, we estimate that the ratio would fall to about 40 percent by 2028, which is close to the level prior to the 2008–2010 financial crisis and recession. Figure 4 shows the effect of balanced budgets on the debt if the economy grows as expected.

FIGURE 3. Average Publicly Held Federal Debt by Decade Compared to 2018 Target



Source: Office of Management and Budget and Peterson-Pew Commission target.

FIGURE 4. How Publicly Held Debt Would Decline as Percentage of GDP if Budgets Were Balanced after 2018



Source: Congressional Budget Office data and Peterson-Pew Commission projections.

COMMISSION RECOMMENDATION:

Adopt policy changes to deal with the longer-term drivers of the debt.

The most important part of maintaining long-term sustainability will be reforming the drivers of budgetary imbalances: healthcare, Social Security, and tax expenditures. Without significant changes to those budget components, the overall imbalance between revenues and expenditures will grow—even if the medium-term debt stabilization target is met.

While it would be desirable to tackle these longer-term problems in a large multi-year budget package passed in the next year or two, along with the changes to meet the medium-term target, in all likelihood, a separate and additional package of policy changes will be needed to solve the nation's longer-term fiscal problem. The sooner such actions are undertaken the better it will be, since policymakers will want to phase in new policies gradually.

To deal with the long-term challenges, in addition to shifting the medium-term framework forward by setting new medium-term targets after 2018 and trigger mechanisms appropriate for that fiscal environment, we suggest making changes that affect the budgets of the programs that are contributing most to the long-term projected rise in the debt.

Structural longer-term policy reforms are necessary to bring the debt down to more reasonable and sustainable levels over time. We suggest additional measures to help keep the critical areas of the budget from expanding beyond the nation's fiscal means. Box 9 projects the long-term growth of spending and revenues under likely policies.

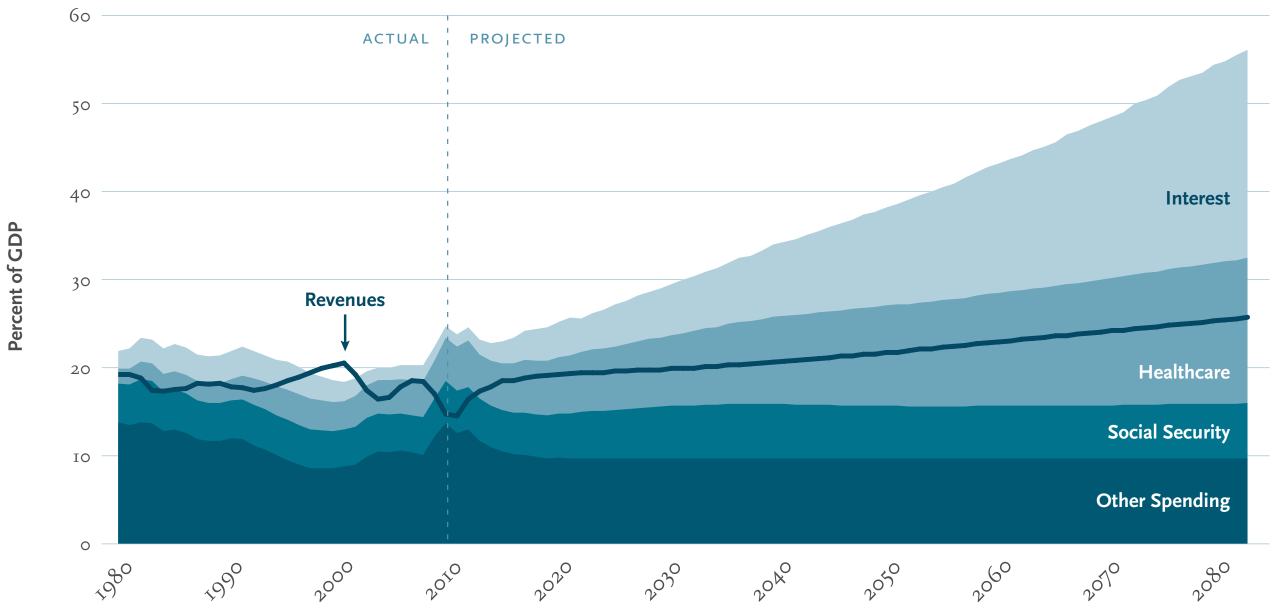
COMMISSION RECOMMENDATION:

Require automatic adjustments to the drivers of the debt if, after long-term policy plans are in place, the policies grow faster than they were projected to when plans were set.

Once long-term policy plans are in place, budgetary triggers should be attached to the reformed programs to cap their growth at the budgeted amounts. These budget caps would apply to the budget components that are drivers of rising debt at the time—presumably including health care, Social Security, and tax expenditures. The associated triggers would not be used to *force* action, as they would be in the medium-term framework under the proposed Sustainable Debt Act. Instead, they would be used to *enforce* the policy decisions made by lawmakers, thereby playing the role of keeping those areas of the budget within their budgeted amounts. Policies could always be altered—though that should occur only in a manner consistent with the PAYGO statute, but the programs—either on the spending or tax side of the budget—would not be permitted to grow automatically beyond their capped levels.

Long-term triggers can be designed in a number of ways. One set of choices is how to adjust the three major drivers of long-term debt growth. For Social Security, for example, automatic adjustments might be made to both benefits and payroll taxes. For health spending, the new Independent Payment Advisory Board (IPAB) could propose a package of adjustments that would require a congressional vote; prescribed automatic adjustments would go into effect only if the proposed package were defeated. For tax expenditures, a cap might be imposed on the total revenue loss from all provisions and then pro rata adjustments would be made to the value of selected tax expenditures to stay within the cap.

BOX 9. Spending and Revenues, Actual and Projected, 1980–2080



NOTES: These projections are based on the assumptions described in Box 1. The solid line is revenue as a percentage of GDP.
Source: Congressional Budget Office data and Peterson-Pew baseline projections.

The U.S. debt is projected to explode over the long term. In fiscal 2010 it reached 62 percent of the GDP, a new postwar high. Under basic assumptions about continued spending and revenues, without major reforms, the debt would rise to about 89 percent of GDP in 2020, more than 182 percent by 2040, and to 488 percent by 2080. No economy can sustain debt levels of such magnitude without crippling effects.

The growth in debt to these unprecedented levels is being driven by federal health care spending, insufficient revenue to pay for the projected spending, and interest payments on the accumulating debt. Despite some of the cost-saving measures enacted in the health reform legislation in 2010, health care spending will continue to grow faster than the economy, because of both general increases in health care costs and the aging of the population. By 2040 federal health care spending will have more than doubled—from 5 percent of GDP in 2010 to over 10 percent, and by 2080 it is projected to reach over 16 percent. Social Security payments will also put more pressure on the nation's resources, rising from under 5 percent of GDP today to about 6 percent by 2040 and staying at about that level until 2080. But as the graph shows, the biggest increase by far in federal spending will come from servicing the nation's debt. Today, debt service costs are just over 1 percent of GDP, but by 2040 that number will grow to nearly 9 percent, and to an extraordinary level of almost 24 percent of GDP by 2080.

The growing gap between spending and revenue projections will increase the yearly borrowing needs of the federal government, continuing to push debt to new highs. Upward growth in debt will eventually cause interest payments to surpass the size of all other programs in the budget, adding further pressure to run deficits and creating a vicious debt cycle.

The experience of some other countries with systems of fiscal rules such as we recommend shows that they can help leaders sustain policy agreements consistent with long-term stability, provided they take into account the uncertainties inherent in constructing budgets and are therefore not unrealistic or too rigid; see Box 10. For example, work by the economic and fiscal affairs department of the European Commission suggests that the effectiveness of a fiscal rule depends on its statutory basis, who is in charge of monitoring and enforcing adherence to the rule, and what mechanisms are used to enforce the rule.[3]

BOX 10. Using Fiscal Rules Effectively: International Examples

Nations facing problems similar to those now afflicting the United States have developed budget systems that helped them achieve fiscal stability and long-term sustainability. The experiences of three of these countries—the Netherlands, Sweden, and Switzerland—have some common elements that are consistent with a recent statement by Federal Reserve Chair Ben Bernanke, who suggested that fiscal rules ought to be transparent, sufficiently ambitious, focused on variables that policymakers can control directly, and supported by public understanding and political consensus.*

A budget formulation system adopted in 1993 by the Dutch government that focused on expenditures and used cautious economic assumptions to create more fiscal stability illustrates the Bernanke principles. In coalition agreements between different political parties, separate caps on expenditures were established for each of the three sectors of the Dutch budget: "core" budget; health care; and social security and labor market. The coalition agreements also incorporated the multi-year expenditure projections of each ministry as the basis for subcaps within the core budget sector. Caps are set in real terms, which serve to prevent the coalition agreements from having to be reopened during a government's term of office. Transfers are permitted between sectors and between subcaps established within the core budget sector, but surpluses in any one area can be used only to fund existing policies that are experiencing higher costs than projected. The consent of the entire cabinet is required to finance new proposals. If the budget situation turns out more favorably than anticipated, then some of the extra revenues can be used to cut taxes, depending on the size of the remaining deficit.

Other aspects of the Dutch system are also relevant to Bernanke's principles. Specifically, the Dutch anti-cyclical policy in the 1950s taught them how not to react to cyclical effects. Changes in the economy are very difficult to predict, and the political decision making and implementation of policy proposals are time consuming and often result in badly timed interventions. Instead of cyclically adjusted fiscal targets, the Dutch found that a multi-year fixed real expenditure framework was easier to understand and enforce: thus, they concluded that it was unnecessary to develop elaborate mechanisms to respond to periodic adjustments in economic forecasts. Their multi-year fixed real expenditure framework was much more transparent than cyclically adjusted targets, promoted stability and predictability in the budget process, and focused on variables that policymakers could directly control.**

(continued on following page)

3 See European Commission, Economic and Fiscal Affairs, 2009.

(continued from previous page)

Reflecting Bernanke's four requirements for fiscal rules, Sweden provides an example of how expenditure rules have led to improved budget outcomes through a transparent process that focuses on spending ceilings. After a recession and a severe fiscal crisis in the early 1990s, nominal expenditure ceilings were introduced in 1997. These ceilings were accompanied by a top-down budget process and a surplus target for the general government sector of 2 percent of GDP (later changed to 1 percent) over the business cycle. In 2000, a balanced budget requirement was introduced for local governments. Annual nominal expenditure ceilings are set 3 years in advance as part of the budget process and are considered binding. The ceilings apply to central government primary expenditures, including transfers and grants to local governments, plus expenditures by the old-age pension system that is outside the central government budget. Each year, as part of a rolling budget framework, an additional ceiling is applied to expenditures 3 years out. The ceilings for these years could in principle be altered, but this has not happened. The ceilings are set with a margin over projected expenditures to allow for some policy flexibility and, more importantly, for increases in cyclical spending during an economic downturn. Any attempt by parliament to change a proposed budget has to be presented in the form of a complete package that respects the previously determined expenditure ceilings.

The experience of Switzerland also reflects the Bernanke principles. A public consensus supported Switzerland's decision to amend its constitution in 2003 by adding a "debt brake"—a budget requirement that limits annual federal government spending. This limit is equal to the level of projected revenues for that year, adjusted for economic factors by using a ratio of the level of the historical trend for real GDP to expected real GDP. If the estimates of trend and expected GDP are accurate, the government may run deficits in times of economic downturn but is forced to operate at a surplus when the economy improves. A notional account keeps track of any short-term cumulative gap between actual spending and the levels required by the constitutional provision; the account acts as a memory device and serves as the basis for compensating adjustments to spending in subsequent years, as needed, to meet the requirement. The same national consensus has so far sustained the Swiss fiscal rule through good and bad times.

* See Bernanke (2010) and IMF (2009) for discussion of the factors leading to successful use of fiscal rules. The descriptions of the Dutch and Swedish systems are largely taken from Anderson and Minarik (2006).

** See Adema, 2010.

Accountability and Transparency Through Better Use of Budget Concepts

The procedural reforms we recommend would be a major step toward stabilizing the debt, but they are not sufficient. To insure accountability by elected officials, major changes must be made to the way the budget is presented to the public. Currently, it is presented in ways that essentially do not hold the President and Congress accountable for long-term imbalances and lack of sustainability. While short-term imbalances can be expected during economic downturns, the President and Congress should have stronger incentives to adopt and maintain policies that will correct long-term budget imbalances. The budget documents now produced both in the executive and legislative branches obscure how much is allocated among different functions and programs and how changes in priorities are set over time through the budget.

The recommended changes will require that budgets make better use of well-established budget concepts to highlight the long-term costs of both existing and new policies and promote comparisons among competing priorities. Some of the changes in budget practices that the Commission believes will provide greater public accountability, improved oversight, and better information for making sustainable budget choices include: explicit focus on the long term; more comprehensive and timely recognition of costs in the budget; and greater attention to the performance of programs and policies.

Transparency and Presentation

Budgets should provide relevant and timely information to help lawmakers make better decisions and give the public a clear picture of how the nation's resources are being used. The inability of decision makers and the public to obtain and interpret budget information contributes to fiscal imbalances, wastes scarce resources, and threatens participatory democracy. Although a complex budget reflects the complexity of the world, its current impenetrability is unnecessary given the ready availability of modern information technologies.

First and foremost, elected officials should be held accountable through various budget presentations for all changes that are taking place under the budgets they propose, adopt, and allow to continue. These changes include those that they legislate, as well as those that reflect promises made by past Congresses but for which no funds have been allocated. That is, the budget should give a clear picture of the overall path of growth or decline *from current levels* in specific program areas, whether or not they were first adopted by the current or by past Congresses and Presidents. For some purposes, it will still be useful to separate out budgetary consequences of new laws from the total changes achieved under each budget, but the public should first be shown—as they were for most of the nation's history—what is growing and what is being cut relative to current levels of spending and taxation.

A central element in budgeting is the "baseline"—a projection of revenues and outlays under the assumption that current laws and policies are unchanged. Baselines are usually the starting point for developing a budget because they show the current and future consequences of past decisions. Over time, they have also become important as a base for estimating the budget effects of policy changes.

In the ideal, budgeting would proceed from a zero base, with every dollar of expenditure and tax reexamined each year to determine its worth relative to every other dollar of expenditure. In reality, however, most budgeting has been incremental—that is, focused on changes in spending and taxes from what they have been in the past. Before the advent of extraordinary growth in permanent spending through "mandatory" programs or entitlements, as well as tax subsidies (tax expenditures), these incremental changes were largely presented as changes from past levels. The defense budget would increase by some amount and the housing budget by another and the public would view those changes as reflecting changes in priorities set by each Congress. Thus, during the first 130 years of the country's existence, the previous year's levels of revenues and outlays often were used as the reference baseline.

Today, it is generally agreed that a baseline constructed using a strict interpretation of current law is most often appropriate for measuring the budget cost of changes in law. However, the Commission recognizes the value of other projections of revenues and outlays, such as its own, because they offer a more realistic projection of congressional actions and therefore the magnitude of the long-term fiscal imbalance.

As discussed below, the best starting point for developing next year's budget may be neither a projection nor a baseline, but, rather, the levels of spending and revenues in the current year. Use of either current law or current policy as the base against which to measure changes has the effect of walling off changes in mandatory spending and revenues that were allowed to take place by elected officials as if they had no responsibility for them. As a result, ever-growing shares of the budget appear to be on autopilot, off limits to the interventions of policymakers.

COMMISSION RECOMMENDATION:

Begin budget presentations with a display of proposed changes from current year levels, accompanied by an explanation of the causes of those changes.

Among the many consequences of the current way of reporting "change" or "incremental" budgeting only from a baseline of current law is that the public is given confusing reports on what are "cuts" and what are "increases." For instance, the child credit is not indexed for inflation, so spending on it is scheduled to decline over time. However, if Congress offset only part of this decline, it would be reported by budget offices, as well in most press accounts, as an increase. Alternatively, if Congress cut the estimated growth rate of Medicare from 6 percent to 5 percent in a world of 2 percent inflation, that spending would still grow in real terms by 3 percent, but the budget offices would report the change as a "cut." Thus, budget documents—and, following from them, news reports—often end up reporting cuts (in real spending) as increases (from current law) and increases (in real spending) as cuts (from current law).

The Commission recommends the use of current levels to highlight the rate at which components of the budget are expected to change from year to year under current law and proposed changes in law. The Commission does not propose abandoning calculations of current law changes for certain legislative purposes. But these changes should be reported as a subset of the total change in spending or taxation in each program area. In this way, the budget would give renewed emphasis to the total changes in the budget, not only those that result from legislation enacted in a given year.

Put another way, budget documents must begin to report in a way that holds elected officials accountable for changes that take place as a function of all laws, not just those that are newly enacted. If policymakers chose to permit spending or revenues to continue to change as mandated by existing laws, documents that show those changes from current levels would enable the public to hold them accountable for those choices.

Table 2 illustrates how current levels can be used to highlight the sources of change in outlays from the preceding year. Under the Commission's proposal, this type of table would be expanded to show changes over 5- and 10-year periods, as well, under a President's budget proposals and as a result of congressional actions or inactions during the year.

COMMISSION RECOMMENDATION:

Require the President to report to Congress at the end of each fiscal year the effects of enacted budget legislation and related actions on progress toward the medium-term debt targets and reducing the longer-term fiscal imbalance.

Presidents are far more likely to take responsibility for the long-term condition of the government if the public holds them accountable. One way to create a closer association between the President and the fiscal future is to require Presidents to address this topic in a highly visible forum. Such a presentation would make it more difficult for a President to shift responsibility for a sustainable budget to future Presidents. An annual statement to a joint session of Congress at the conclusion of a budget year, for example, would focus public attention on the performance of the President and Congress in reaching their agreed-on and set fiscal goals and targets. It could also be a public starting point for developing the next fiscal year's budget.

TABLE 2. Example of Change in Outlays from Current Levels ($ billions)

		2009	2010 (estimated)	Change: 2009–2010
OUTLAYS	DISCRETIONARY			
	Defense	782	855	73
	Nondefense	437	553	116
	Subtotal	**1,219**	**1,408**	**189**
	MANDATORY			
	Social Security	678	715	37
	Medicare	425	451	26
	Medicaid	251	275	24
	TARP (Troubled Asset Relief Program)	151	-73	-224
	Health reform		6	6
	Other mandatory	607	749	142
	Subtotal	**2,112**	**2,123**	**11**
	Net interest	187	188	1
	TOTAL OUTLAYS	3,518	3,721	203
	TOTAL RECEIPTS	2,105	2,165	60
	Deficit	-1,413	-1,556	-143
	Debt held by the public	7,545	9,298	1,753
	*Addendum: Total tax expenditures**	*1,152*	*1,198*	*73*

* Tax expenditures are revenue losses that otherwise would have been collected through corporate and individual income taxes. Tax expenditure totals do not adjust for interactive effects between and among provisions.

Source: Unpublished analysis by Eugene Steuerle and Stephanie Rennane, The Urban Institute, 2010. Based on The Budget of the U.S. Government, Fiscal Year 2011, Office of Management and Budget; and data from the Urban-Brookings Tax Policy Center.

Long Term Budgeting and Accountability

Red Ink Rising, the Commission's first report, addressed the central failing of current budget practice: neglect of the long-term limit on government resources. As a result, the President's budget and the congressional budget resolution largely ignore the long-term outlook.

Both the President and Congress should highlight the long-term outlook through improved reporting in budget documents and additional reports to the public on formal exposures and threats to the budget. Such regular public reporting on the sustainability of the budget and its long-term direction would increase elected officials' accountability for addressing the task of a sustainable budget.

COMMISSION RECOMMENDATION:

Include in both the President's budget and the Congressional Budget Office's analyses of the budget prominent displays of the long-term projections, progress toward meeting the statutory fiscal goals, and evidence on whether proposed budgets can be sustained indefinitely.

To provide greater accountability and to develop wider public understanding of the long-term fiscal outlook, the budget should highlight the expected fiscal implications of current policies, including the accrued cost of commitments and exposures that will, under current law, add to future deficits and debt. Right now such analyses are produced regularly by OMB and CBO, but receive little attention. CBO's analysis is not integrated with its scoring of the budget resolution and budget-related legislation.

In 2010, the Federal Accounting Standards Advisory Board (FASAB) began phasing in a new financial reporting standard to enhance the transparency of the government's financial imbalance over the long term. The new required statement of fiscal sustainability, according to FASAB, will help the public "understand better the extent to which future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due." Similar data, usually referred to as measures of the fiscal gap, should be *prominently* displayed and interpreted in the federal budget.

COMMISSION RECOMMENDATION:
Require that the Office of Management and Budget prepare and publish an analysis of fiscal exposures in each year's budget.

The public debt does not measure the gap between likely future commitments under current law and the revenues projected to finance them. That long-term gap, and its year-to-year change, can be estimated from information in the annual financial statements of the U.S. government and other public sources, but it needs to receive greater prominence in the budget.

A short "Citizen's Guide to the Nation's Long-Term Fiscal Future," written in plain English, should be submitted with each budget. The report would provide information on each major program or functional grouping of programs, including a present-value estimate of the cost of each long-term exposure, and explain changes from the previous year. It also would describe how the President's proposals relate to the long-term fiscal health of the nation, how the long-term outlook has changed, and the sources of change—legislative, technical, economic—from the previous year's outlook.

Improving Cost Measurement and Recognition

Current practice has moved away from the sound budget concepts of up-front recognition of costs and comprehensive measurement of resource use. Instead, current practice encourages deferring recognition of costs until after they have been incurred and measures some important costs too narrowly or not at all. Thus, budgets systematically understate current resource use and overstate uncommitted future resources. Four key budget components that are now not appropriately recognized or measured are the costs of emergencies; retirement, pension, and long-term insurance programs; programs that provide financial guarantees and loans or that hold risky assets; and subsidies to government-sponsored enterprises.

COMMISSION RECOMMENDATION:
Change the process of budgeting for emergencies, annually outlaying to an emergency reserve amounts sufficient to pay the expected average annual cost of emergencies, with strict rules governing the use of the emergency reserve.

Current budget practices recognize the costs of natural disasters and economic and defense emergencies only when adverse events occur. The usual justification for this delayed recognition of the cost of current policy is that no one knows when such events will happen or how severe they will be. The claim is obviously true, but it does not address the public harm that results from the current practice. First, there is no uncertainty about *whether* such events will occur. They will, of course, and preparations for them in order to mitigate losses can only be taken prior to their occurrence. Pretending year after year to be surprised by "unexpected" adversity is an exercise in self-delusion that increases costs. Second, ignoring large uncertain future reductions in income causes both lawmakers and the public to over-consume and under save during good times.[4] As a result, the forced reduction in consumption after an "emergency" is greater than it would be if the government's financial plan took such occurrences into account.

COMMISSION RECOMMENDATION:
Account on an accrual basis for retirement, pension, and long-term insurance programs so that collections of contributions and fees and expected outlays are recognized in the budget when the government commits to making deferred and contingent payments.

4 For a discussion, see Phaup and Kirschner, 2010.

Recognizing the costs of pensions, other post-employment benefits, insurance, and similar guarantees in the budget when they accrue would more closely match the budget's recognition of costs with the point of budgetary control. It would thereby increase opportunities to control those costs before they have to be paid. It would also avoid treating employee contributions, insurance premiums, and other committed fees as general fund resources that are available for spending on other purposes.

Shifting from cash to accrual recording of retirement benefits and insurance would not increase total costs. It would simply move the recognition of future cash outflows forward in time. That is, with accrual accounting, outlays are recognized when obligations are incurred rather than when they are paid.

The federal budget has used an accrual basis of accounting for direct loans and loan guarantees since fiscal 1992. The budget currently accounts for about $1 trillion of direct federal loans and $2 trillion in loan guarantees on an accrual basis. Interest on the entire public debt is also accrued in the budget as earned, rather than when paid. Technical challenges in estimating accruing costs are similar to those faced when estimating costs for credit programs. The Commission recommends this approach only for federal retirement benefits and long-term insurance. We explicitly exclude social insurance programs from this proposal, in part because not all of their commitments are legal obligations under current law and court interpretations. Other reasons include technical issues in estimating their size and the difficulty of treating promises of future benefits as a liability when reserves have not been set aside to meet that liability.

COMMISSION RECOMMENDATION:

Use fair-value accounting in the budget when estimating the costs and obligations of federal programs that extend financial guarantees and loans or that hold risky assets.

Two decades of experience with accrual treatment of federal credit has demonstrated that current valuation rules understate the subsidies that government provides through direct and guaranteed loans and other activities that shift risk to taxpayers.[5] To correct this understatement, the budget should use fair-market values in calculating costs for financial guarantees, insurance, direct loans, loan guarantees, and programs that invest in risky financial assets. Fair-value accounting would make clear that the federal government cannot invest in risky assets more cheaply nor earn a higher rate of return than do private firms or individuals. Ultimately, taxpayers bear all the costs of investing, and this fact should be explicitly reflected in the budget.

Accounting for financial guarantees, insurance, direct loans, and loan guarantees on an accrual basis is the first step in measuring the cost of these activities in a timely manner. But the cost measure must also include risk. Without that component, the budget understates the cost of these programs.

COMMISSION RECOMMENDATION:

For government-sponsored enterprises (GSEs) and other financial institutions that receive subsidies from implied guarantees, explicitly show in the budget the cost of those guarantees.

The budget does not recognize the cost of government guarantees that fall short of explicit full faith and credit backing by the federal government. That exclusion includes artfully implied guarantees that have been extended to enterprises that are privately owned but have implicit government guarantees, government-sponsored enterprises (GSEs). Current GSEs include the Federal Home Loan Banks and Farmer Mac. The costs of subsidizing the borrowing of GSEs are not currently included in budget totals. Fannie Mae and Freddie Mac are painful reminders of the consequences of this omission. No costs were recognized for the government's backing prior to their collapse and government takeover in September 2008. The budget also fails to account for the support likely to be provided to the largest financial institutions that are regarded as "too big to [be permitted to] fail."

These exclusions from budget coverage understate the government's commitment of scarce resources and encourage policymakers to use those "free" instruments of policy. However, when a crisis occurs, the implied guarantees

5 For discussion, see Lucas and Phaup, 2010, 2008; U.S. Congressional Budget Office, 2010b.

become explicit costs that the government has little choice but to pay.

One consequence of treating implied guarantees as though they were explicit is that it would probably end the use of implied guarantees as an instrument of policy, because explicit guarantees would cost no more than less valuable implied ones. This shift to explicit guarantees would be consistent with greater transparency and accountability in the use of federal resources.

It should be noted that if the recommended changes in the way costs are estimated and incorporated in the budget had been made previously, the current-law baseline would now show larger deficits. That information would represent a more comprehensive and timely measure of the federal deficit under current law.

A New Focus on Tax Expenditures

The largest single omission of fiscal resources from the budget is the exclusion of tax expenditures, or spending through the tax code. Tax expenditures include exclusions, deductions, credits, and deferrals that reduce taxes owed for some but not all taxpayers in the same economic circumstances. Tax expenditures have grown in recent years to rival discretionary spending in magnitude: they now total about $1 trillion a year. The Commission recognizes that there are legitimate technical arguments about how to measure tax expenditures, including whether to start from a consumption or income tax base, and acknowledges the inexactness of their cost estimates. Nevertheless, we believe these can be dealt with in a way that does not pose a serious barrier to including them in the budget displays and considering them as part of expenditures in the budget process.

COMMISSION RECOMMENDATION:

Change the budgetary treatment and presentation of tax expenditures to make them equivalent to other entitlements and to facilitate tradeoffs between the delivery of benefits through the tax code and spending.

More specifically, the Commission recommends that the President and Congress:

- *Display tax expenditures and spending programs together in the budget so that resources allocated to one purpose by alternative means can be compared with total amounts allocated to other uses.*
- *Include tax expenditures in the budget resolution allocations and in reconciliation instructions to committees of jurisdiction.*
- *Require the executive branch and CBO to provide information and analysis on the use, incidence, and efficiency of every major tax expenditure (preference) in comparison with alternative policy instruments.*

The salient aspect of tax expenditures for budget reform is that they are currently almost invisible in the budget, although, through them, the government delivers virtually identical benefits as by writing checks. Tradeoffs between spending programs and tax expenditures are rare, in part because taxes and spending are for the most part under the jurisdiction of separate congressional committees. Despite their spending equivalence, tax expenditures appear to have no budget cost because they are included in the budget only as unidentified uncollected revenues. Because of their near invisibility, they are subject to even less competition from other uses of resources than is mandatory spending. Furthermore, once enacted, the benefits they convey can grow year after year with little if any oversight or evaluation.

Tax expenditures are reported by both the Joint Committee on Taxation in a special study each year and by the U.S. Treasury as a special appendix to the President's annual budget proposals. However, their visibility, use, and effectiveness would be improved by showing the estimated revenue loss, both by provision and by policy objective, alongside similar cash grant and credit assistance programs and by assessing their contributions to those objectives. To ensure that they are fully recognized in making budget choices, tax expenditures would be included in the allocations of the House and Senate Budget Committees to other committees through the budget resolution and in reconciliation instructions to meet fiscal targets.

Table 3 illustrates how tax expenditures might be reported alongside their equivalent cash outlays by functional categories. Displaying tax expenditures more prominently and alongside equivalent expenditures would give policymakers and the public a more complete statement of budget support for each policy objective. It would also show the magnitude of budget resources that derive from both direct spending and tax expenditures. In formal budget documents, this type of table would be expanded to show 5- and 10-year projections.

Performance and Oversight

In recent years the federal government has expanded efforts to measure and report on its own performance. The Government Performance and Results Act of 1993 (GPRA) required agencies to prepare plans and reports on performance of all major programs. The Program Assessment Rating Tool (PART) required agencies to assess their major programs using common criteria. The Obama administration has continued to emphasize program evaluation and performance reviews. These reforms have institutionalized a focus on performance in executive budget formulation. They have also yielded an outpouring of information on the results of government programs. But, to date, Congress has made little use of this information. With the growing volume of potentially useful performance information, the task now is to organize this information in an accessible form so that it might be used in policy and budget decisions.

TABLE 3. Fiscal 2010 Outlays and Tax Expenditures by Function ($ billions)

Function	Outlays	Tax Expenditures*	Total
National defense	719	13	732
International affairs	51	46	97
General science, space, and technology	33	9	42
Energy	19	13	32
Natural resources and environment	47	2	49
Agriculture	27	1	28
Commerce and housing	-25	362	337
Transportation	106	4	110
Community and regional development	28	3	31
Education, training, employment, and social services	143	189	332
Health	372	185	557
Medicare	457	n/a	457
Income security	686	199	885
Social Security	721	32	753
Veterans benefits and services	125	5	130
Administration of justice	55	n/a	55
General government	29	n/a	29
Net interest	188	n/a	188
Undistributed offsetting receipts	-61	n/a	-61
Interest	n/a	1	1
General-purpose fiscal assistance	n/a	53	53
Aid to state and local governments	n/a	81	81
Total	**3,721**	**1,198**	**4,919**

Addendum: Total discretionary outlays for 2010 are estimated by OMB to be $1.4 trillion.

* Tax expenditures are revenue losses that otherwise would have been collected through corporate and individual income taxes. Tax expenditure totals do not adjust for interactive effects between and among provisions.
SOURCE: U.S. Office of Management and Budget, *Historical Tables and Analytical Perspectives, Budget of the U.S. Government*, Fiscal year 2011.

COMMISSION RECOMMENDATION:
Use budget missions or objectives as the core organizing device for the President's budget.

Budgets are not currently organized in a way that helps policymakers and the public relate costs to results. Spending for a single purpose can be scattered across many programs and spending and taxing categories involving a multitude of agencies and congressional committees. In addition, support for many purposes can be found in tax provisions that function like spending programs. As a consequence, no policymaker or constituent has reasonable access to a comprehensive measure of budget resources organized by policy objectives. For example, nearly one-half of FY 2009 budget authority for homeland security was provided to agencies outside the Department of Homeland Security.

The budget contains the kernel of an organizing structure that could guide a more comprehensive, goal-oriented resource allocation and assessment process. Congress uses budget functions to set its budget priorities and as the basis for budget resolution allocations to authorizing and appropriations committees. Functional classifications give some idea of how resources are allocated to major government missions and cut across both agency and congressional committee jurisdictions. However, budget functions and subfunctions are very rough proxies for broad missions of the government. A reorganization of the budget accounts by mission or objective, accompanied by analyses of how to improve the achievement of each mission, would focus congressional attention and accountability more on the results achieved with federal dollars and less on the inputs used.

COMMISSION RECOMMENDATION:
Charge the Government Accountability Office with reviewing and assessing the effectiveness of selected groups of programs and policy instruments against their policy goals and reporting regularly to the budget committees on opportunities to reallocate resources to more efficient and higher-return uses.

The Budget Committees would select several major missions to review each year. In concert with other committees, they would undertake a rigorous reexamination of those policy areas through hearings and other studies. To support this process, the Budget Committees would request that the Government Accountability Office review and assess the effectiveness of selected groups of programs and policy instruments against their contribution to major federal policy goals.

These reviews can be expected to produce legislation to shift resources to more effective uses. In each subsequent year, the Budget Committees would work with the other committees to develop a performance-based reconciliation bill drawing on the results of oversight and review of the budget functions selected that year.

COMMISSION RECOMMENDATION:
Devise a system of national indicators to be used in conjunction with the President's budget to place budget decisions in a broad performance context.

The federal budget needs to place federal budgetary decisions in the context of state and community initiatives—including private initiatives—that contribute to broader policy outcomes. One way this can be done is by encouraging the development and use of a series of national indicators.

A set of key indicators—including measures of national and personal security, health, environmental quality, economic opportunity, community development, governance, and national economic growth—would allow policymakers and the public to judge the state of the nation and its direction. Other nations have already developed and are using these metrics as indicators of government performance and guides to policy change. The National Academy of Sciences and others have begun work on such a system for the United States.

Once a set of indicators has been developed, the next step is to consider how to tie budget deliberations to such broad measures by establishing the specific contributions that government programs and finances make to broad national indicators. Although complex, such linkages are essential if the budget is to be used strategically as the nation's primary method of steering the nation toward major national goals.[6]

6 For a discussion, see, especially, Walker, 2009; U.S. Government Accountability Office, 2003.

Conclusion

The reforms recommended in this report constitute a new framework for policymaking, designed to support informed decisions that will put the federal budget back on track. These reforms are based on a return to the traditional American fiscal view that borrowing should be limited and that budgets should be balanced, except in wartime and major recessions.

The Commission has concluded that a stable and widely supported set of fiscal rules, targets, and new procedures are needed to stabilize—and, over time, lower—a dangerously high national debt burden. Changes in the ways in which budget concepts are applied and information is organized could help policymakers adhere to those rules, targets, and new procedures after they are established.

We have left many related issues unaddressed. For example, the federal government must take special account of the contribution of state and local governments to the nation's well being. Our federal system of government has historically assigned primary responsibility for such domestic policy areas as health, welfare, police, and infrastructure to the nonfederal levels of government. Recent decades, however, have seen growth of the federal role in influencing domestic policy outputs at the state and local level through the carrot of grants and the stick of mandates. Accordingly, the spending and revenues of different levels of government have become increasingly intertwined. Moreover, the federal government increasingly depends on state and local governments to implement nearly every major domestic policy initiative taken at the national level since the New Deal. For example, state and local governments will be responsible for the health care of more Americans than the federal Medicare program as a result of the expansions of Medicaid and new health insurance exchanges to be established under the 2010 health reform legislation.

It may be tempting for lawmakers to shift costs to state and local governments in the face of a national fiscal retrenchment, but such a step would exact a steep price for the U.S. system of shared governance. It would risk eroding the state and local fiscal capacity and adaptability that are strengths of a healthy national system. The best prospect for resolving national fiscal imbalance is coordinated action *across* the levels of government in the federal system. Because most public problems spill over their nominal boundaries, the most effective way to address them is through shared governance and financing.

Although the focus of this report is on the budget process, the Commission recognizes that much of the unfinished work involves broader political reform. Declining public support for governing institutions—including the executive branch and Congress—reflects broad disillusionment with the nation's ability to grapple with its largest needs, including fiscal instability. The Commission is not recommending any broader institutional reforms, but some—the structure of congressional committees and redistricting are two obvious ones—are needed to help the political system function in a manner that produces more fiscally sustainable outcomes. It is also necessary to restore the public's confidence in their political governance systems; until more people are convinced that their political leaders can set aside perceived short-term partisan advantage to address the long-term national interest, they will not be convinced to set aside their own near-term interests to support policy changes to stabilize the debt. When a majority of Americans are convinced that political leaders will deliver on their promises, the budget reforms we recommend can be effective.

Bibliography

Adema, Maaike. "Budgeting Under Expenditure Rules in the Netherlands." *Ministry of Finance, the Netherlands*. 2010.

Alesina, Alberto, and Roberto Perotti. "Fiscal adjustment in OECD countries: Composition and Macroeconomic Effects." *National Bureau of Economic Research*. Working Paper 5730. August 1996.

Anderson, Barry, and Joseph J. Minarik. "Design Choices for Fiscal Policy Rules." *OECD Journal on Budgeting*. 5, no. 4. 2006: 159–208.

Anderson, Barry, and James Sheppard. "Fiscal Futures, Institutional Budget Reforms, and Their Effects: What Can Be Learned?" *OECD Journal on Budgeting*. 9, no. 3. April 2010: 1–111.

Barker, Felicity C., Robert A. Buckle and Robert W. St Clair. "Roles of Fiscal Policy in New Zealand." *New Zealand Treasury*. June 2008.

Bernanke, Ben S. "Fiscal Sustainability and Fiscal Rules." *Speech to Rhode Island Public Expenditure Council*. Oct. 4, 2010.

Bertola, Giuseppe and Allan Drazen. "Trigger Points and Budget Cuts: Explaining the Effects of Fiscal Austerity." American Economic Association, in *American Economic Review*. 1993. Quoted in Alberto Alesina and Roberto Perotti, "Fiscal Adjustments in OECD Countries—Composition and Macroeconomic Effects." *International Monetary Fund Working Paper*. WP/96/70, p.4.

Blondal, Jon R. "Issues in Accrual Budgeting." *OECD Journal on Budgeting*. 4, no.1. October 2004: 103–119.

Bodie, Zvi. "What the PBGC Can Learn from the FSLIC." *Journal of Financial Services Research*. 1996: 1, 10, 83-100.

Boije, Robert, Albin Kainelainen, and Jonas Norlin. "The significance of maintaining surpluses when times are good: the success of the Swedish MTBF." *Swedish Ministry of Finance*. 2010.

The Brookings Institution and The Heritage Foundation. "Taking Back our Fiscal Future." April 2008.

Burman, Leonard, Eric Toder, and Christopher Geissler. "How Big Are Total Individual Tax Expenditures and Who Benefits from Them?" *Tax Policy Center*. December 2008.

Center on Budget and Policy Priorities. "The Right Target: Stabilize the Debt." January 12, 2010.

Committee for a Responsible Federal Budget
"Let's Get Specific: Tax Expenditures." October 14, 2010

"Let's Get Specific: Health Care." September 30, 2010

"Let's Get Specific: Social Security." September 30, 2010

"A Preventable Crisis: Exploring Fiscal Crisis Scenarios for the United States." April 21, 2010

"Fiscal Turnarounds: International Success Stories." February 22, 2010

"Controlling Discretionary Spending." December 17, 2009

"Deficit Reduction: Lessons From Around the World." September 2009.

"Time to Develop a Fiscal Recovery Plan." July 9, 2009.

"Good Deficit / Bad Deficit." April 2009.

"Federal Budget Process: Recommendations for Reform." March 2000.

Congressional Research Service.
"The Statutory Pay-As-You-Go Act of 2010: Summary and Legislative History." April 2010.

"The Debt Limit: History and Recent Increases, Summary." January 2010.

"Savings in Mandatory Outlays in Selected Reconciliation Acts." December 29, 2006.

"Supplemental Appropriations: Trends and Budgetary Impacts Since 1981." January 2009.

"Introduction to the Federal Budget Process." March 7, 2008.

Davis, Carl. "Judging Tax Expenditures." *Tax Notes*. November 9, 2009: 677.

European Commission.

"Analysis: Numerical fiscal rules in the EU Member States in 2008." Part II of the Report. *Public finances in EMU*. 2009.

"National numerical fiscal rules and institutions for sound public finances." Part III of the Report. *Public Finances in EMU*. 2006.

Feldman, Ronald. "How Weak Recognition and Measurement in the Federal Budget Encouraged Costly Policy: The Case of Supervisory Goodwill." *Public Budgeting & Finance*. 16, no. 4. December 1996: 31–44.

Feldstein, Martin S. "Preventing a National Debt Explosion." *National Bureau of Economic Research*. Working Paper 16451. 2010.

Galston, Bill and Maya MacGuineas. "The Future is Now: A Balanced Plan to Stabilize Public Debt and Promote Economic Growth." September 2010.

Henrikson, Jens. "Ten Lessons About Budget Consolidation." *Bruegel Essay and Lecture Series*. 2007.

International Monetary Fund (IMF).

"Will It Hurt? Macroeconomic Effects of Fiscal Consolidation." *World Economic Outlook*. October 2010.

"Navigating the Fiscal Challenges Ahead." *Fiscal Monitor*. May 14, 2010.

"Fiscal Rules—Anchoring Expectations for Sustainable Public Finances." December 16, 2009.

"Fiscal Implications of the Global Economic and Financial Crisis." Staff Position Note, SPN/09/13. June 9, 2009: 41–43.

"The State of Public Finances: Outlook and Medium-Term Policies After the 2008 Crisis." March 6, 2009.

"A New Rule: The Swiss Debt Brake." *IMF Working Paper*. January 2002.

Kleinbard, Edward D. "The Congress Within the Congress: How Tax Expenditures Distort Our Budget and Our Political Processes." *Tax Notes*. May 18, 2009.

Kraan, Dirk-Jan. "Off-Budget and Tax Expenditures." *OECD Journal on Budgeting*. 4, no. 1. 2004: 121–142.

Lucas, Deborah, and Damien Moore. "Guaranteed Versus Direct Lending: The Case of Student Loans." *U.S. Congressional Budget Office Working Paper Series*. 2007.

Lucas, Deborah, and Marvin Phaup. "The Cost of Risk to the Government and Its Implications for Federal Budgeting." In *Measuring and Managing Federal Financial Risk*. Deborah Lucas, ed. 2010: 29–54.

Lucas, Deborah, and Marvin Phaup. "Reforming Credit Reform." *Public Budgeting & Finance*. 28, no. 4. 2008: 90–110.

MacGuineas, Maya.

"Perspectives on Long-Term Deficits." Testimony before the House Budget Committee. January 21, 2010.

"Bipartisan Proposals for Long-Term Fiscal Stability." Testimony before Senate Budget Committee. November 10, 2009.

"Renewing Statutory PAYGO." Testimony before House Budget Committee. July 25, 2007.

Meyers, Roy. "The Ball of Confusion in Federal Budgeting: A Shadow Agenda for Deliberative Reform of the Budget Process." *Public Administration Review*. 69, no. 2. March/April 2009: 211–223.

Organisation for Economic Co-operation and Development (OECD).

"Tax Expenditures in OECD Countries." OECD. 2010.

"Prospects for Growth and Imbalances Beyond the Short Term." OECD. 2010.

"Performance Budgeting in OECD Countries." OECD. 2007.

"Fiscal Consolidation: Lessons from Past Experience." OECD. June 2007.

"Reallocation: The Role of Budget Institutions." OECD. 2005.

Penner, Rudolph G. "Repairing the Congressional Budget Process." *Urban Institute*. May 1, 2002.

Penner, Rudolph G., and C. Eugene Steuerle. "Stabilizing Future Fiscal Policy: It's Time to Pull the Trigger." *Urban Institute*. August 2007.

Pension Benefit Guaranty Corporation (PBGC). "Annual Report." *PBGC*. Various Years.

Peterson-Pew Commission on Budget Reform. "A Closer Look at the President's FY 2010 Budget Process Reform Proposals." *The Committee for a Responsible Federal Budget*. September 2009.

Peterson-Pew Commission on Budget Reform. "Red Ink Rising: A Call to Action to Stem the Mounting Federal Debt." *The Committee for a Responsible Federal Budget*. December 2009.

Phaup, Marvin. "Federal Use of Implied Guarantees: Some Preliminary Lessons from the Current Financial Distress." *Public Administration Review*. 69, no. 4. July/August 2009: 651-659.

Phaup, Marvin, and Charlotte Kirschner. "Budgeting for Disasters." *OECD Journal on Budgeting*. Forthcoming.

Podesta, John D., and Reece Rushing. "Doing What Works: Building a Government that Delivers Greater Value and Better Results to the American People." *Center for American Progress*. February 2010.

Posner, Paul L. "Budget Reform: Waiting for Godot." *Public Administration Review*. March/April 2009.

President's Commission on Budget Concepts. "Report of the President's Commission on Budget Concepts." 1967.

The President's Commission to Study Capital Budgeting. "Report of the President's Commission to Study Capital Budgeting." February 1999.

Reischauer, Robert D. "Taxes and Spending Under Gramm-Rudman-Hollings." *National Tax Journal*. Vol. 43 no. 3. September 1990.

Riedl, Brian M. "10 Elements of Comprehensive Budget Process Reform." *The Heritage Foundation*. June 15, 2006.

Ruud, Judy. "The Fair Value of the Federal Deposit Insurance Guarantee." *U.S. Congressional Budget Office Working Paper Series*. 2007.

Schick, Allen. "The Federal Budget: Politics, Policy, Process." *Brookings Institution Press*. 2007.

Schick, Allen. "Off-Budget Expenditure: An Economic and Political Framework." *OECD Journal on Budgeting*. 7, no. 3. 2007.

Steger, Gerhard. "The Austrian Federal Budget Reform." *Presentation to the Peterson-Pew Commission on Budget Reform for the Austrian Federal Ministry of Finance*. Washington, D.C. May 2010.

Stehn, Sven Jari. "Squaring the Fiscal Circle: Could a Fiscal Rule Help?" *US Economics Analyst*. Goldman Sachs Global ECS Research. No. 10/29. July 23, 2010.

Stein, Herbert. "Governing the $5 Trillion Economy." *The Brookings Review*. Spring 1989: 16–23.

Treasury Board of Canada, Secretariat. "Government of Canada—Performance Reporting." *Presentation to the 10th Annual OECD Public Sector Accruals Symposium*. Paris, France. March 8-9, 2010.

Tsibouris, George C., et al. "Experience with Large Fiscal Adjustments." *International Monetary Fund*. Occasional Paper 246, Abstract. 2006.

U.S. Congress. House of Representatives. Committee on the Budget. "Compilation of the Laws and Rules Relating to the Congressional Budget Process." November 2008.

U.S. Congress. House of Representatives. Committee on the Budget. "Compilation of the Laws and Rules Relating to the Congressional Budget Process." May 2000.

U.S. Congress. Senate. Budget Committee Republican Staff. "Eliminating the Primary Deficit Won't Stabilize the Debt." September 2010.

U.S. Congress. Senate. Budget Committee. "The Congressional Budget Process: An Explanation." December 1998.

U.S. Congressional Budget Office (CBO).

"Letter to Senator Judd Gregg regarding estimates of the budgetary impact of the President's proposal to eliminate the federal program that provides guarantees for student loans." March 2010.

"CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010.

"The Budgetary Impact and Subsidy Costs of the Federal Reserve's Actions During the Financial Crisis." May 2010.

"Unauthorized Appropriations and Expiring Authorizations." January 2010.

"Letter to Honorable George Miller regarding CLASS Act." November 2009.

"The Risk Exposure of the Pension Benefit Guaranty Corporation." September 2005.

"Cost Estimate for District of Columbia Retirement Protection Improvement Act of 2004." August 2004.

"Budgetary Implications of the Balance Budget Act of 1997, CBO Memorandum." December 1997.

U.S. Department of the Treasury. "Financial Report of the United States Government." Various Years.

U.S. Government Accountability Office (GAO).

"State and Local Governments: Fiscal Pressures Could Have Implications for Future Delivery of Intergovernmental Programs." GAO-10-899. July 2010.

"Streamlining Government: Opportunities Exist to Strengthen OMB's Approach to Improving Efficiency." GAO-10-394. May 2010.

"Program Evaluation: A Variety of Rigorous Methods Can Help Identify Effective Interventions." GAO-10-30. November 2009.

"Government Performance: 2007 Federal Managers Survey on Performance and Management Issues." GAO-08-1036SP. July 2008.

"Assessing the Efficiency, Effectiveness, or Equity of Tax Expenditures Can Be Challenging." GAO-05-690. September 2005.

"Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget." GAO-04-174. January 2004.

"Key National Indicators: Assessing the Nation's Position and Progress." *Highlights of a GAO Forum in cooperation with the National Academies*. GAO-03-672SP. May 2003.

U.S. Office of Management and Budget. "Performance Improvement Guidance: Management Responsibilities and Government Performance and Results Act Documents." *OMB Memorandum M 10-24*. June 25, 2010.

Walker, David M. "Comeback America: Turning the Country Around and Restoring Fiscal Responsibility." 2009.

Whitehouse, Edward. "The Tax Treatment of Funded Pensions. Social Protection Discussion Paper." *The World Bank*. 1999.

The White House. "National Security Strategy." May 2010.

Wildavsky, Aaron. "Controlling Public Expenditure: The Theory of Expenditure Limitation." *OECD Journal on Budgeting*. 2, no. 4. 2003.

APPENDIX

Results of the CRFB "Stabilize the Debt!" Simulator

As both an outreach and research tool, The Committee for a Responsible Federal Budget created the "Stabilize the Debt!" online simulator (http://budgetreform.org/stabilizethedebt/). The simulator presents users with 88 different spending and revenue options by which they could reduce the United States' debt. In the table below we have compiled the results from the roughly 5,700 people who voluntarily submitted their results, as of September 7, 2010*

Measure	Cumulative Savings through 2018 ($ Billions)	Percent of Users Supporting
Eliminate Certain Outdated Programs	-40	89.5
Cut All Earmarks and Devote Half of Savings to Deficit Reduction	-80	88.5
Reform International Tax System	-120	77.9
Enact Medical Malpractice Reform	-50	77.5
Reduce Farm Subsidies	-80	77.4
Raise Normal Retirement Age to 68	-110	77.3
Include all New State and Local Workers In Social Security	-80	76.3
Reduce Tax Gap	-20	74.3
Grow Discretionary Spending with Inflation	0	72.3
Decrease Troop Levels, Reverse Grow the Army Initiative	-90	72.2
Reduce Ship Building	-50	71.6
Weapons System Cuts	-30	70.6
Use Alternative Measure of Inflation for COLA	-100	67.9
Cut Federal Workforce 5%	-130	67.8
Increase Medicare Retirement Age to 67	-80	66.9
Impose Financial Crisis Responsibility Fee	-80	66.7
Limit Deductions for High-Earners	-250	64.9
Cancel TARP, Rescind Unused ARRA Funds**	-350	64.6
Cut Foreign Aid in Half	-110	62.4
Reduce Iraq/Afghanistan Troops to 30k	-740	62.0
Freeze Average Unemployment Benefits at 2009 Levels	-50	60.1
Increase Gas Tax $.10/Gallon	-80	59.8
Surtax on Income above $1 million	-190	58.7
Convert Mortgage Interest Deduction to a 20% Credit	-190	58.2
Allow All Tax Cuts, Except for AMT** Patch to Expire	480	58.0
Reduce Food Stamps to 2008 Level	-100	56.7
Eliminate Subsidies for Biofuels	-110	56.0
Sell Government Assets	-70	55.8
Enact Carbon Tax/Cap-and-Trade	-330	55.7
Increase Years Used to Calculate Benefits for Social Security	-40	54.6

* The partisan breakdown of those who voluntarily reported their results: 18.8% Republican; 33.6% Democrat; 47.5% Independent, or did not report a party affiliation. This information was self-reported, and could contain duplicate users.

** TARP (Troubled Asset Relief Program); ARRA (American Recovery and Reinvestment Act of 2009); AMT (Alternative Minimum Tax); more recent estimates of savings from TARP and ARRA are much lower.

Acknowledgments

The Peterson-Pew Commission on Budget Reform thanks the Peter G. Peterson Foundation, The Pew Charitable Trusts, and the Committee for a Responsible Federal Budget. Their support and commitment to fiscal responsibility made this report possible.

We also gratefully acknowledge the contributions of the many individuals and organizations that provided information and analyses:

- Our Commission staff, including Steve Redburn, project director; Demian Moore, senior policy analyst; David Baumann, senior writer, and Chris Dreibelbis, outreach and public liaison director; Victoria Allred, former research director; and Jason Delisle, director, Federal Education Budget Project, New America Foundation.
- Current and former staff of the Committee for a Responsible Federal Budget, including Marc Goldwein, Anne Vorce, Jason Peuquet, Ashley Shuler, Nicole Overley, Todd Zubatkin, Becky Lewis, Elspeth Grindstaff, Adam Rosenberg and Ben Chuchla.
- Outside budget experts and other readers and advisors including Paul Posner, Marvin Phaup, David Koitz, Ron Boster, Carlo Cottarelli and the many staff in the Fiscal Affairs Department at the International Monetary Foundation, Joe Gaeta, Bob Greenstein, Jim Hearn, Jim Horney, Phil Joyce, Roy Meyers, Stephanie Rennane, Alan Rhinesmith, and Douglas Walton, and our anonymous readers.
- Experts in the administration, in congressional offices and committees, and at the Congressional Budget Office, the World Bank, OECD, and the European Union whom we will not name, but whose expertise was immensely helpful.
- Susan Tanaka of the Peter G. Peterson Foundation and Douglas Hamilton of the Pew Charitable Trusts, both for their substantive contributions and for liaison to their respective organizations.
- Communications experts at the New America Foundation: Troy K. Schneider, Stephanie Gunter, Kate Schuler, Kirsten Gilbert, Kate Brown, and Nick McClellan; at the Peter G. Peterson Foundation, Myra Sung; and at the Pew Charitable Trusts, Samantha Lasky and Cynthia Magnuson.
- Free Range Studios for the design and production of the report.
- Our outside editors and fact checkers: Eugenia Grohman and Steven J. Marcus.

About the Peterson-Pew Commission on Budget Reform

To modernize an outdated congressional budget process in light of the daunting economic challenges facing the nation, the Peter G. Peterson Foundation, The Pew Charitable Trusts and the Committee for a Responsible Federal Budget have launched a landmark partnership to build bipartisan consensus for a core set of reforms. The Peterson-Pew Commission on Budget Reform has convened the nation's preeminent experts to make recommendations for how best to improve the nation's fiscal future and how best to strengthen the federal budget process.

The Commission began its work in January 2009 and in December of that year issued its first report, *Red Ink Rising*.

Peter G. Peterson Foundation
Our America. Our Future.

Founded by Peter G. Peterson with a commitment of $1 billion, the Foundation is dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future and to accelerating action on them. To address these challenges successfully, we work to bring Americans together to find and implement sensible, long-term solutions that transcend age, party lines and ideological divides in order to achieve real results.

THE PEW CHARITABLE TRUSTS

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. The Trusts apply a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life. The Trusts partner with a diverse range of donors, public and private organizations, and concerned citizens who share a commitment to fact-based solutions and goal-driven investments to improve society.

THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

The Committee for a Responsible Federal Budget is a bipartisan, nonprofit organization committed to educating the public about issues that have significant fiscal policy impact. The Committee's board includes many of the past leaders of the Budget Committees, the Congressional Budget Office, the Office of Management and Budget, the Government Accountability Office, and the Federal Reserve Board.

Peterson-Pew Commission on Budget Reform
1899 L Street NW, Suite 400
Washington, DC 20036

Peter G. Peterson Foundation
Our America. Our Future.

The PEW Charitable Trusts

The Committee for a Responsible Federal Budget