#REDUCETHEDEFICIT

FISCAL YEAR 2020 BUDGET: STRENGTHENING AMERICA'S FUTURE

An important first step in strengthening America's future must be a budget that reduces overspending and puts our nation on a more sustainable fiscal path.

FY 2020 BUDGET FAST FACTS

- ***Establishes*** *a 5-year budget plan;*
- ***Reduces*** *the deficit by more than $538 billion over the next 5 years;*
- ***Reduces*** *non-interest mandatory spending by $551 billion over the next 5 years;*
- ***Prevents*** *deficits from surpassing $1 trillion, which they are projected to do beginning in fiscal year 2022;*
- ***Shrinks*** *unified deficits to 2.9 percent of gross domestic product (GDP) by 2024, matching the 50-year historical average;*
- ***Shrinks*** *on-budget deficits to 2.3 percent of GDP by 2024, significantly less than the 3.5 percent 50-year historical average;*
- ***Curbs*** *growth in debt held by the public as a share of GDP;*
- ***Instructs*** *5 committees to produce legislation that would reduce the deficit by at least $94 billion over 5 years through the reconciliation process;*
- ***Adheres*** *to the Budget Control Act (BCA), but creates the infrastructure to adjust these levels if an agreement on revised funding levels is reached to fully meet defense needs; and*
- ***Puts*** *in place new tools to strengthen budget enforcement and stop spending gimmicks.*

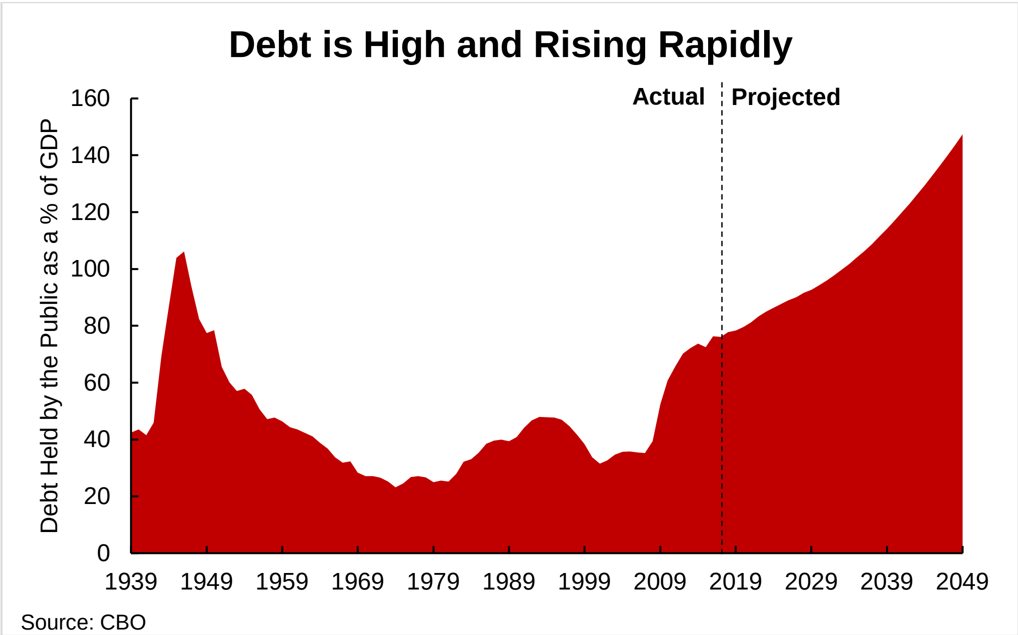
OVERVIEW

The American economy is the strongest it has been in years. Buoyed by regulatory relief and the most sweeping reform of the tax code in more than 30 years, last year saw faster growth, more jobs, and higher paychecks for millions of American families. But this economic prosperity is in jeopardy if nothing is done to address the federal government's unsustainable overspending.

In its January 2019 report, *The Budget and Economic Outlook: 2019 to 2029*, the Congressional Budget Office (CBO) projects that annual deficits will exceed $1 trillion by fiscal year 2022 and continue growing thereafter. Cumulative deficits will amount to more than $5.2 trillion over the next five years and $11.6 trillion from FY 2020 to 2029.

Continued overspending and growing deficits will expand our already high federal debt to even more dangerous levels. Federal debt held by the public is set to increase from

78 percent of GDP this year to 86 percent by 2024 and 93 percent by 2029. By 2036, debt held by the public will exceed its all-time high of 106.1 percent of GDP, and unless Congress changes course, it will only continue rise.



CONSEQUENCES OF INACTION

Deficits matter. Economic uncertainty abroad and other transitory factors have kept interest rates on federal debt relatively low, but Washington cannot continue to borrow and spend with impunity. CBO's recent *Budget and Economic Outlook* outlines some of the consequences of leaving growing deficits and debt unchecked:

- Interest payments on the national debt would increase substantially and consume a greater share of the federal budget;
- Greater federal borrowing would crowd out private investment, resulting in a smaller capital stock, lower productivity, and reduced wages;
- The federal government would have less flexibility in responding to unexpected challenges and emergencies; and
- The likelihood of a sudden fiscal crisis in the United States would increase.

Despite decades of consensus on the dangers posed by ever-growing deficits and debt, some in Congress have embraced a radical fringe theory that suggests overspending does not matter for countries that can simply print more money, an idea that former Clinton Treasury Secretary and Obama economic adviser Lawrence Summers derided as "fallacious at multiple levels," and that Federal Reserve Chairman Jerome Powell called "just wrong."[1,2] In a recent survey of prominent economists that included several

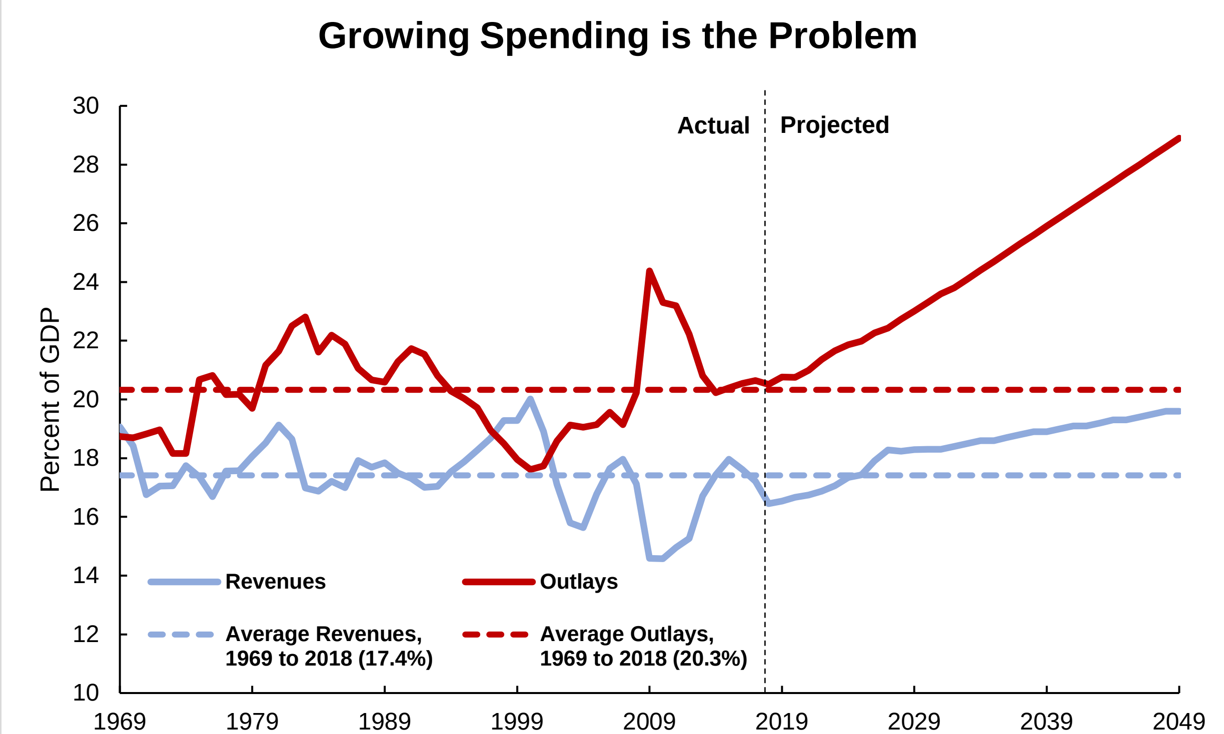
[1] Lawrence H. Summers, "The Left's Embrace of Modern Monetary Theory is a Recipe for Disaster," *Washington Post*, March 4, 2019. https://www.washingtonpost.com/opinions/the-lefts-embrace-of-modern-monetary-theory-is-a-recipe-for-disaster/2019/03/04/6ad88eec-3ea4-11e9-9361-301ffb5bd5e6_story.html?utm_term=.a7fd067a02d0

[2] Jerome H. Powell, testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, February 26, 2019.

former Obama Administration officials and left-leaning academics as well, not a single one agreed with this line of reasoning.[3]

THE CAUSES OF OUR FISCAL CHALLENGES

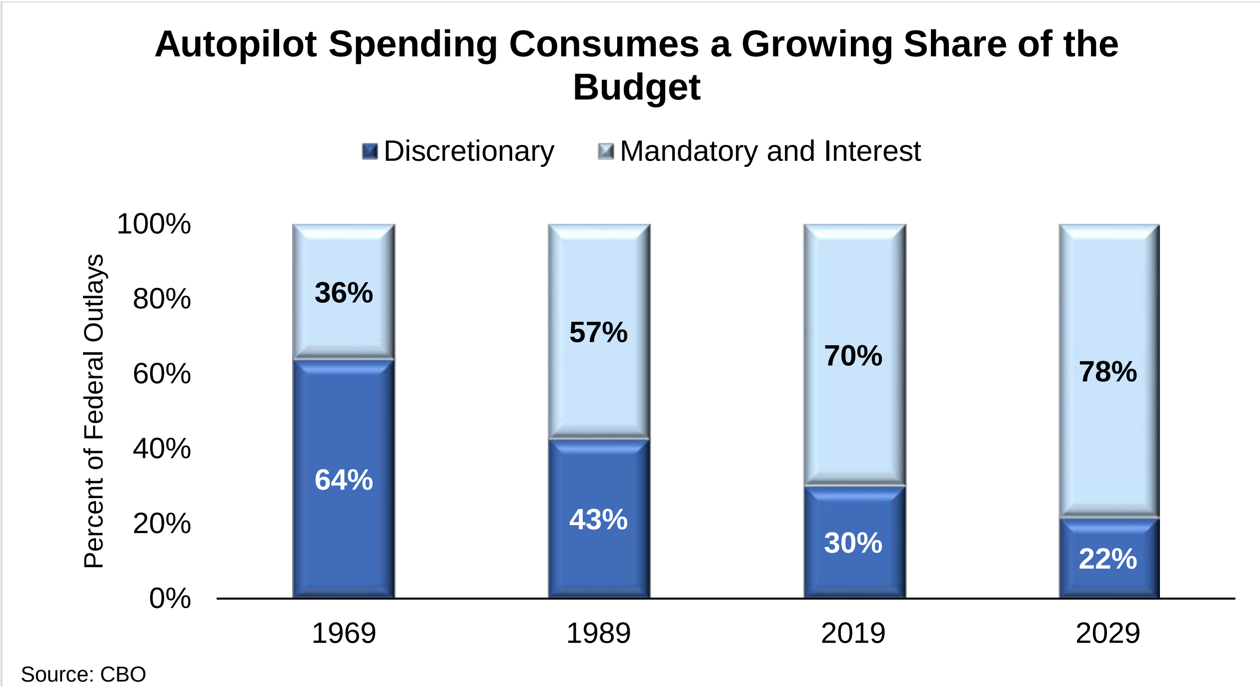
Our ballooning debt and deficits are the result of Washington's chronic addiction to spending. For the last 50 years, federal outlays have averaged 20.3 percent of GDP. Adjusted for timing shifts, they are expected to grow from 20.8 percent of GDP in 2019 to 23.0 percent in 2029. By 2049, CBO currently projects annual federal spending will equal 28.9 percent of GDP, or $19.5 trillion every year.



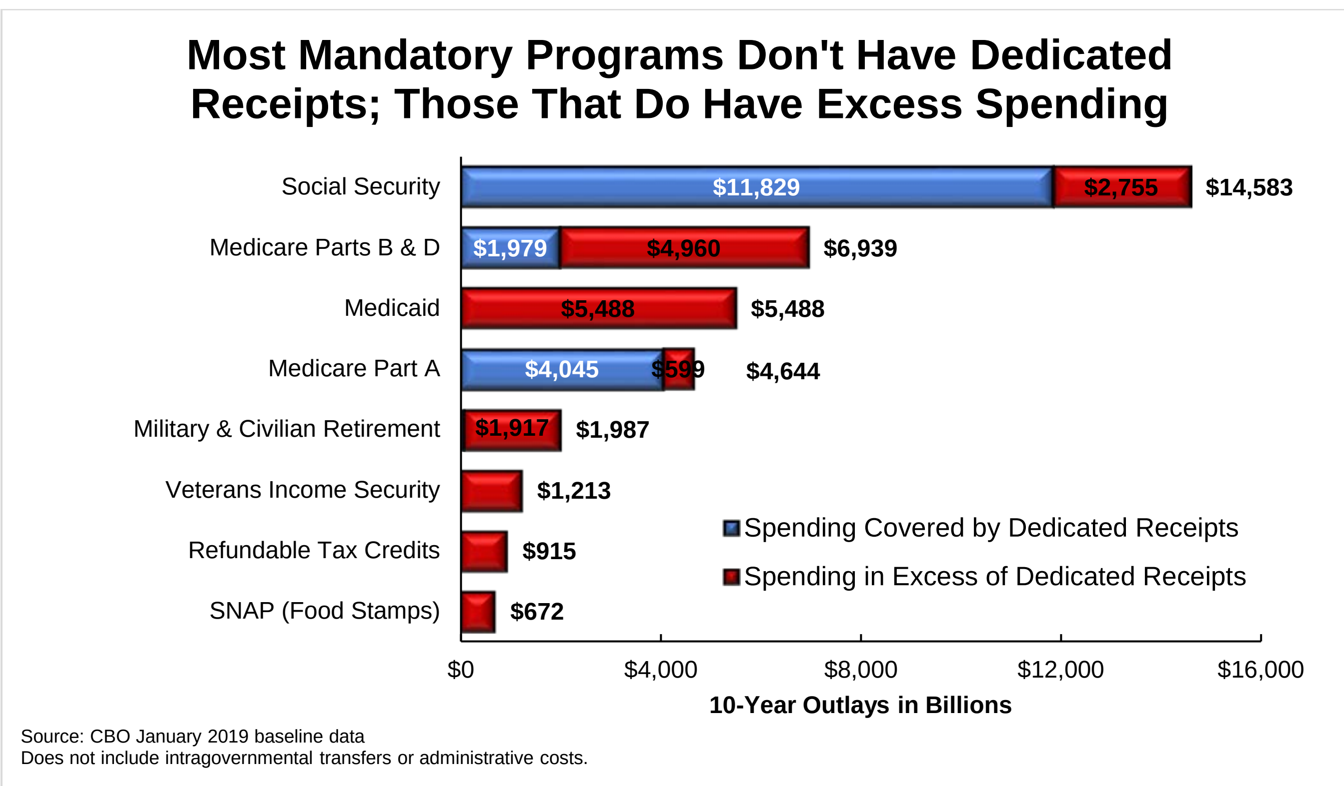
Source: CBO
Data are adjusted for timing shfits

The key driver of this growth is mandatory spending (spending on programs not controlled through the annual appropriations process). Along with the interest costs the government incurs from living beyond its means, this autopilot spending makes up 70 percent of all federal outlays, up from 36 percent 50 years ago. By 2029, nearly $8 of every $10 the government spends will be on mandatory programs and interest on the debt.

[3] University of Chicago Booth School IGM Forum, "Modern Monetary Theory," March 13, 2019. http://www.igmchicago.org/surveys/modern-monetary-theory

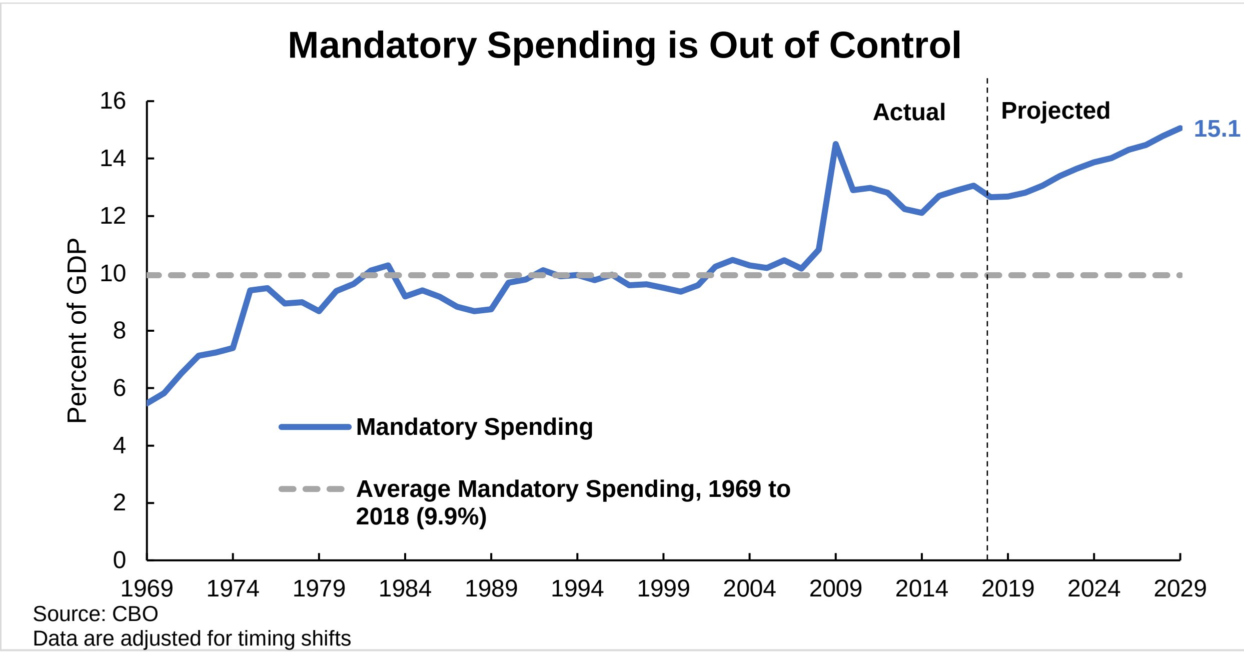


Many of the largest mandatory programs are funded entirely through general revenues, and even those with a dedicated source of financing usually spend more than they collect in receipts each year. When such gaps do exist, the difference is a draw on general revenues and a net contribution to the federal deficit.[4]



[4] See Table 1-4 in CBO, *The Budget and Economic Outlook: 2019 to 2029*. https://www.cbo.gov/publication/54918

Mandatory spending has risen from about 5.5 percent of GDP in 1969 to 12.7 percent in 2019, and CBO projects it will reach 15.1 percent of GDP by 2029 (adjusted for timing shifts). This growth reflects a combination of demographic changes, real benefit increases, expansions in eligibility, and the creation of new entitlement programs like Obamacare.



For decades, nonpartisan authorities like CBO and the Government Accountability Office (GAO) have warned that sharply rising mandatory spending would drive deficits and debt to unsustainable levels.[5] Even when the federal budget was in surplus in the late 1990s and early 2000s, these experts cautioned lawmakers that the projected explosion in such spending would cause the return of endless federal borrowing. In February 2001, the head of GAO testified before the Senate Budget Committee that "Without a change in entitlement programs, demographics will overwhelm the surplus and drive us back into escalating deficits and debt."[6] Those warnings, however, went unheeded, and spending on such programs has skyrocketed as members of the Baby Boom generation become eligible for benefits at a rate of about 10,000 every day.

FY 2020 SENATE RESOLUTION

The FY 2020 Senate Budget Resolution is a five-year deficit reduction plan that acknowledges the fiscal realities facing our country and takes a critical first step toward reining in the growth of government spending and putting the federal budget on a more sustainable fiscal path. This budget does not presume to solve all of our shared fiscal challenges. Rather, it is intended to start a gradual process of addressing our unsustainable deficits and debt.

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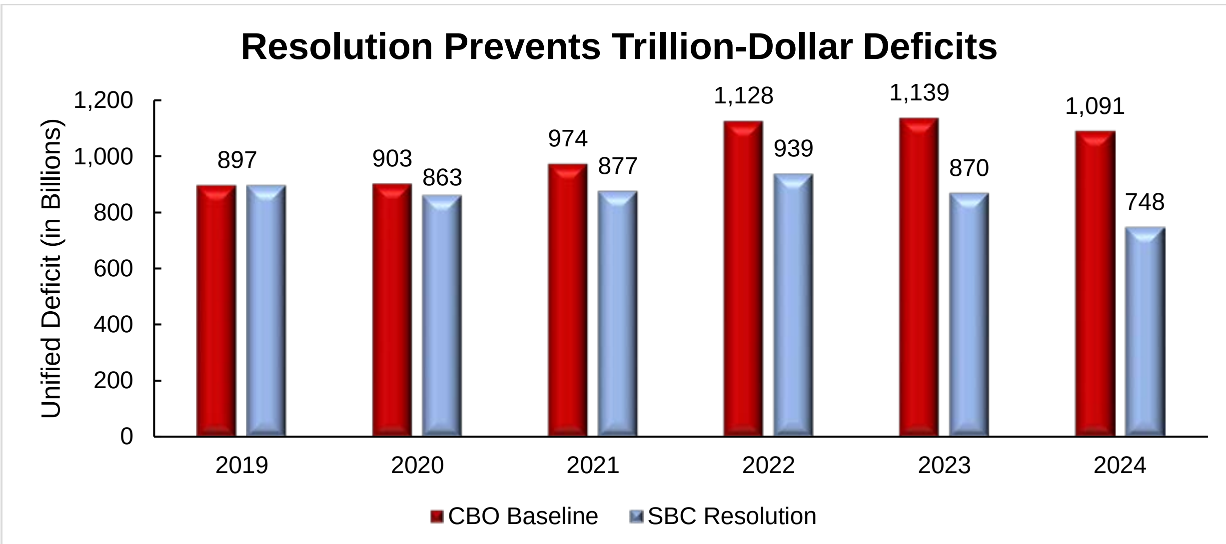
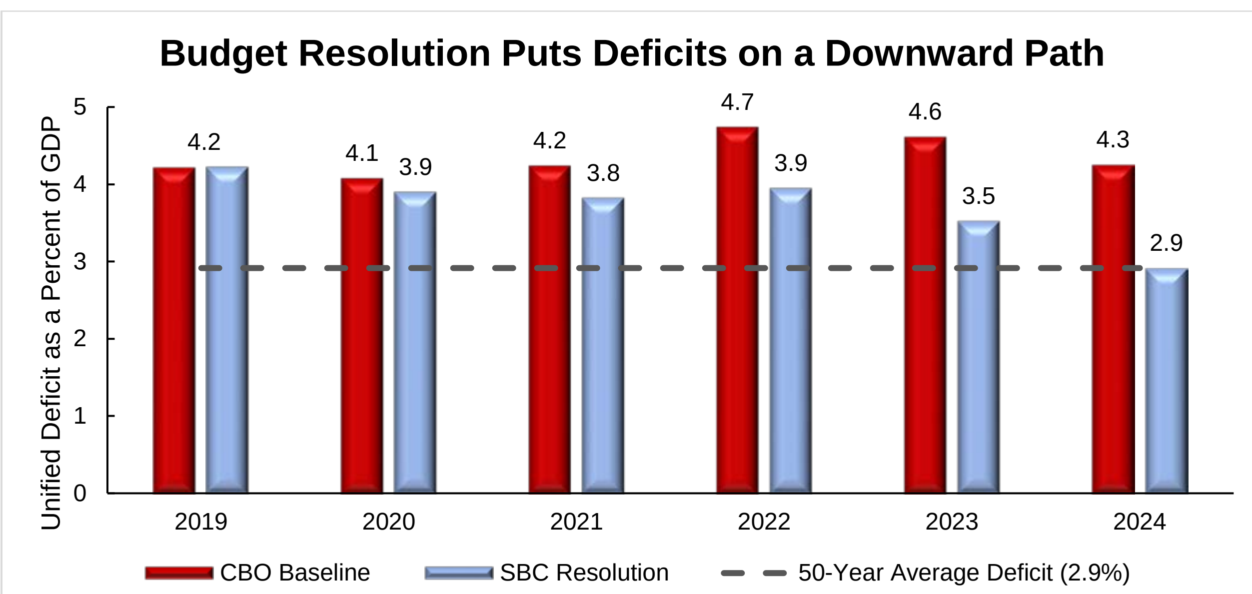
[5] See for example Congressional Budget Office, *The Long-Term Budget Outlook*, October 2000. https://www.cbo.gov/publication/12749
[6] David M. Walker, testimony before the U.S. Senate Committee on the Budget, February 6, 2001. https://www.gao.gov/new.items/d01385t.pdf

FY 2020 Resolution, Deficits, and Debt

This budget prevents the trillion dollar-plus annual deficits that are otherwise set to appear starting in 2022 and instead puts deficits on a downward path, both as a percent of the economy and in nominal dollars. Unified budget deficits under the resolution fall to $747.9 billion in FY 2024, or $343.3 billion below CBO baseline levels ($239.4 billion compared to the Senate Budget Committee (SBC) baseline, which does not include extrapolated cap-exempt spending and the associated debt service costs). Over the entire five-year period, cumulative deficits are $937.5 billion below CBO baseline levels and $538.4 billion below SBC baseline levels.



Measured as a percentage of GDP, unified deficits under the resolution fall from 4.2 percent in 2019 to their 50-year historical average of 2.9 percent of GDP in 2024. As a result, publicly held debt would stabilize at 82.6 percent of GDP by the end of the projection period rather than continue rising.



On an on-budget basis, deficits under the resolution will fall from 4.2 percent in 2019 to 2.3 percent of GDP in 2024. A significant improvement from the 50-year historical average of 3.5 percent of GDP.

FY 2020 Resolution Mandatory Spending

The resolution reflects the belief that all committees should examine their spending portfolios to right-size programs, curb autopilot spending, and make common-sense reforms to their finances to ensure accountability of taxpayer dollars. Budget resolutions do not effectuate policy outcomes and are not signed into law. Instead, they establish enforceable fiscal targets for Congress's tax and spending committees to reach. As required by the Budget Act, spending figures in the resolution are allocated to individual budget functions, which are portfolios of similarly purposed accounts, not individual programs. The FY 2020 Budget Resolution would reduce non-interest mandatory spending by $551 billion over the next five years.

The resolution does not make any changes to Social Security, which is classified as an off-budget account.

FY 2020 Resolution Discretionary Spending

Since enactment of the BCA, Congress has passed a series of two-year deals to raise the BCA's discretionary spending caps. The most recent – the Bipartisan Budget Act of 2018 – raised the discretionary limits for FYs 2018 and 2019, creating a $126 billion spending cliff between FYs 2019 and 2020.

The FY 2020 resolution adheres to the BCA levels for FYs 2020 and 2021, as mandated by statute. In the remaining three years of the resolution's window, defense spending grows by inflation from the "pre-sequester" FY 2021 level and nondefense spending is held constant at the FY 2021 level. In acknowledgement of the history of past caps agreements, however, the FY 2020 resolution provides a mechanism for discretionary spending levels to be adjusted if an agreement to revise the FY 2020 and FY 2021 levels is reached. The resolution calls for this cap agreement to be fully offset and is mindful of the fact that with the expiration of the discretionary caps at the end of FY 2021, future budgetary talks could be based off of projections that are unbound by statutory limits.

In keeping with the approach taken in previous resolutions, the FY 2020 Budget Resolution does not make program-specific discretionary assumptions for spending constrained by the BCA's caps. The resolution recognizes the Appropriations Committee's unique sub-allocation process created under the Budget Act. The Budget Committee, however, believes that the Appropriations Committee should be mindful of funding programs that have been highlighted by GAO as being duplicative, overlapping, or fragmented, and also consider CBO's findings that at least $307 billion in discretionary funding was provided to programs in FY 2019 that lacked an authorization of funds.

In addition to discretionary funding constrained by the statutory limits, the resolution also includes funding for cap adjustments, as established by the BCA, and other irregular discretionary spending. The resolution includes two years of funding for wildfire suppression, disaster relief, and overseas contingency operations (OCO) cap adjustments. The resolution also fully funds the 21st Century Cures Act, which is not constrained by the caps but receives special accounting treatment under its authorizing statute. OCO levels in the resolution for FYs 2020 ($67 billion) and 2021 ($63 billion) are consistent with the "traditional" amounts of OCO requested in the President's budget.

FY 2020 Resolution Revenue

The resolution calls for $176 billion in increased revenue over the next five years. The resolution assumes about half of these receipts could be received as part of an effort to make the Highway Trust Fund solvent, though policy decisions would be left up to the Finance Committee. This assumption is based on an overarching user-pay principle to prevent the need for additional general fund transfers into the Fund. The resolution further assumes the remaining revenue changes could be generated by increasing federal employee retirement contributions and increases in receipts stemming from changes to other mandatory and regulatory programs.

FY 2020 Resolution Reserve Funds and Enforcement

The resolution includes reserve funds to allow for adjustments to enforceable levels for specified purposes, as identified by committees of jurisdiction in the annual "views and estimates" process. These reserve funds allow the Budget Committee Chairman to make adjustments for legislation that is offset over specified periods so that it can be processed without triggering a point of order on the floor. The reserve funds in the resolution relate to the following:

- Modifying the Budget Control Act caps;
- Promoting American energy and natural resources;
- Public lands and the environment;
- American agriculture;
- Strengthening American families;
- Strengthening American communities;
- Promoting innovation in education;
- Promoting economic growth and prosperity for American workers;
- Promoting economic opportunity and self-sufficiency;
- Federal banking, insurance, and housing finance programs;
- Improving tax administration
- Improving Americans' health care options;
- Protecting Medicaid and Medicare;
- Restoring American military power;
- Improving cybersecurity;
- Veterans and service members;
- Border security and immigration;

- American transportation and infrastructure;
- Promoting financial security;
- Preventing taxpayer bailouts of pension plans;
- Efficiencies, consolidations, curbing budgetary gimmicks, and other savings; and
- Modifying statutory budget controls.

The above reserve funds can be used to accommodate deficit-neutral legislation or to lock away savings from deficit-reducing legislation—preventing the savings from being used as an offset for future legislation.

In addition to reserve funds, the resolution includes the reactivation, improvement, or creation of new budget enforcement tools for the Congress. The resolution extends the current advanced appropriations limitations, surface transportation rules, the Senate's honest accounting/dynamic scoring authority, and a surgical overseas contingency operations designation point of order. The resolution improves the current changes in mandatory programs (CHIMPs) point of order by permanently zeroing out the gimmick starting in FY 2020. The resolution creates a new surgical point of order against legislation that circumvents existing scorekeeping and federal estimating guidelines by dictating its own accounting. Finally, the resolution includes an authority for the Chairman to make adjustments to accommodate a new discretionary caps agreement, should one be reached.

CONCLUSION

Ignoring our fiscal problems is not a solution. Only by controlling spending can lawmakers hope to put the country on a more stable fiscal path and avoid a future of rising debt, high taxes, and slow growth. The need to put our fiscal house in order has been acknowledged by both parties, and it's time for us to work together to put our nation on a sustainable course. The FY 2020 Budget Resolution is a reasonable first step in that direction.