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CONGRESSIONAL BUDGETING
THE NEED FOR FISCAL GOALS

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ABSTRACT

When policymakers and the public have an understanding of the broad guidelines of government's fiscal policy, it naturally leads to incremental budgetary targets that discipline spending and taxation. For much of America's early history, the standard was the balanced budget. Since that principle was abandoned, no other norm emerged to take its place, and fiscal policy has been adrift.

An alternative to the balanced budget standard is "fiscal sustainability" – but its definition is elusive. It may refer to a stable or declining ratio of debt to gross domestic product; limiting deficits as a percentage of the economy; establishing spending or revenue targets; or several other options. Whatever standard is defined, it is not enough to be economically and fiscally defensible. It must be *politically* compelling to ensure a public consensus. The congressional budget process should then be reconstructed to achieve that goal.

THE BALANCED BUDGET PRINCIPLE

Through most of America's early history, policymakers broadly accepted the aim of balancing the Federal budget in peacetime. Not surprisingly, they often succeeded. During the Nation's first century-and-a-half, the budget was balanced roughly two-thirds of the time (see Figure 1 below).[1] "Most of the exceptions were during wartime, when a surge in federal spending led to deficits. But the deficits were small and short-lived; when the war ended, budgetary balance was restored. Deficits were also occasioned by adverse economic conditions; these, too, tended to disappear when the economy recovered."[2] Even with two major wars in the 20th century, along with the Cold War and other conflicts, Congress achieved balanced budgets in 31 fiscal years. Since World War II, the budget has been balanced in 12 fiscal years: 1947-1949; 1951; 1957-1958; 1960; 1969; and 1998-2001. The Federal Government has run deficits every year since 2001.[3]

Figure 1: Instances of Balanced Federal Budgets
(by fiscal year)

Time Period	Number of Balanced Budgets
1791-1939	
1791-1840	35
1841-1890	36
1891-1939	23
20th Century	
1901-1950	22
1951-2001	9
2001-2016	0

Sources: *Historical Statistics of the United States: Colonial Times to 1970*, 93rd Congress, First Session; Allen Schick, *The Federal Budget: Politics, Policy, Process* – Third Edition

For many, the belief in balancing budgets was merely common sense: Government simply should not outspend its resources. As President Truman put it: "There is nothing sacred about the pay-as-you-go idea except that it represents the soundest principle of financing that I know."[4] For others, however, balancing budgets reflected a moral commitment, as described by Nobel Laureate James M. Buchanan: "Politicians prior to World War II would have considered it to be immoral (to be a sin) to spend more than they were willing to generate in tax revenues, except during periods of extreme and temporary emergency. To spend borrowed sums on ordinary items for public consumption was, quite simply, beyond the pale of acceptable political behavior. There

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[1] *Historical Statistics of the United States: Colonial Times to 1970*, 93rd Congress, First Session, H. Doc. 78, part 2, Y 335-38.
[2] Allen Schick, *The Federal Budget: Politics, Policy, Process* – Third Edition (Washington, DC: The Brookings Institution, 2007), p. 10. Data drawn from the Historical Statistics of the United States: Colonial Times to 1970, 93rd Congress, First Session, H. Doc. 78, part 2, Y 335-38.
[3] Office of Management and Budget, *Budget of the U.S Government: Fiscal Year 2017* – Historical Tables.
[4] Harry S. Truman, *Memoirs of Harry S. Truman*, two volumes (Garden City, NY: Doubleday & Company, 1956), 2:41 quoted in Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969), p. 207, and Aaron B. Wildavsky, *The New Politics of the Budgetary Process – Second Edition* (New York: HarperCollins Publishers Inc., 1992), p. 71. Before it was diluted into a rationalization for merely managing budget deficits, "pay-as-you-go" referred to balancing budgets.

were basic moral constraints in place; there was no need for an explicit fiscal rule in the written constitution."[5]

In any case, the balanced budget norm provided an overarching guideline for the Federal Government's fiscal policy. Although John Maynard Keynes published his economic theory in the 1930s – saying deficit spending could be justified at times for promoting economic growth and employment – it was not until the 1960s that deficits became politically acceptable. Even then, President Johnson insisted on balancing his final budget (for fiscal year 1969), notwithstanding the costs of the Vietnam War and his ambitious Great Society programs.

After that, however, policymakers grew increasingly tolerant of deficits. "We have gone from trying to achieve balanced budgets at least over a business cycle to trying to keep peacetime deficits no larger than the rate of growth in the economy."[6] Due to this tolerance, the Federal Government has run deficits – often of substantial magnitude – for all but four of the past 45 years, and the one brief stretch of surpluses resulted mainly from an unexpected surge in economic output (and consequently tax revenue) in the late 1990s. In recent years, annual deficits have soared to greater than $1 trillion, so that nearly 40 percent of the government's spending was financed with borrowed money. Although deficits have declined in recent years, they still range near a half trillion dollars annually and are projected to rise again later in the decade, driven mainly by a surge of entitlement spending largely due to the retirement of the baby-boom generation.[7] The government's publicly held debt has swollen as well. It now matches roughly three-fourths of the entire economy – higher than at any time in the past 65 years – and it continues to rise (see further discussion below).

The erosion of the balanced budget standard has also deprived policymakers of the only consensus norm for fiscal policy they ever had, and nothing has replaced it. Today, the only guideline is the modern, relativistic pay-as-you-go concept, which merely ratifies existing deficits as the measure of budgetary rectitude – no matter how large those deficits might be. Thus, the proponents of the Affordable Care Act could boast the health care program was fiscally "responsible" because it did not increase deficits – which already exceeded a trillion dollars a year – while it recklessly added trillions of dollars to government spending.

Although some budget experts consider the balanced budget concept a kind of quaint anachronism, no other standard has come to replace it, and the lack of any budgetary norm has left fiscal policy adrift. "Without an effective and enforced fiscal goal, policymakers can always choose to borrow for any tax cut or spending initiative. Policymakers are not forced to prioritize or determine if something is worth the cost. . . . Having a goal – whether it is balancing the budget by a certain date, or getting the debt to a specific level or share of the economy in a certain amount of time – forces policymakers to show their preferred paths for achieving the goal, which in turn would

[5] James M. Buchanan, "Clarifying Confusion About the Balanced Budget Amendment," *National Tax Journal*, Vol. 48, No. 3, September 1995, p. 347.
[6] David M. Walker, former Comptroller of the United States, *Budget Reforms and Mandatory Spending*, testimony to the Committee on the Budget, U.S. House of Representatives, 9 June 2016.
[7] Congressional Budget Office, *Updated Budget Projections: 2016-2026*, March 2016, Table 1.

lead to the discussion of the various trade-offs or different approaches. That is supposed to be a core principle of budgeting."[8]

Several alternatives for a fiscal goal have been offered, backed by economically sound reasoning. A key question, however, is whether alternative standards can gain a compelling *political* consensus as well as an economic one.

OTHER FISCAL NORMS AND TARGETS

What is the Right Target?

Before choosing fiscal goals, one must first answer: "What is the ultimate purpose of Federal budgeting?" It is possible to conceive of numerous activities worthy of government expenditure – military readiness, income and health security, a competitive workforce, and many others. Yet most would argue the main point of budgeting is to ensure the country's financial sustainability over time, even if national priorities change; other targets are secondary.

What is 'Sustainability'?

Naturally, that assumption begs the question of what "fiscal sustainability" means. Since early on, the question mostly has been connected with debt. Many of America's early political leaders associated government debt with corruption and thought it undermined checks and balances, threatening liberty.[9]

Today, government debt remains a key measure of fiscal sustainability. While some debt is acceptable, when its growth exceeds that of the overall economy, it puts the country on a dangerous fiscal path. Debt service costs begin to absorb an increasing share of national income, and the government must borrow an increasing amount each year both to fund its ongoing services and to make good on previous debt commitments. Ultimately, this dynamic drains national savings and crowds out private investment, leading to a decline in economic output and a diminution of a country's standard of living.

For this reason, economists caution that government debt in excess of about 60 percent of the economy is not sustainable for an extended period. When debt is growing faster than a country's economy indefinitely, that country over time faces an increased risk of economic stagnation, a sovereign debt crisis, or both. "Higher debt levels serve to increase interest rate risk, can create a drag on economic growth, and can result in a loss of confidence in the dollar and a loss of global currency market share. The uncertainty over how the future fiscal gap will be addressed results in fewer investments, less economic growth, and fewer employment opportunities. The related uncertainty also undercuts the ability of states, municipalities, companies, non-profits, [and] individuals to plan for the future."[10]

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[8] Maya C. MacGuineas, *Setting a Fiscal Goal*, testimony before the Committee on the Budget, U.S. House of Representatives, 15 June 2016.
[9] Chris Edwards, book review in the *Cato Journal*, Vol. 35, No. 2 (Spring/Summer 2015).
[10] Walker, op. cit.

The Federal Government currently stands at risk of such a debt crisis. Due to profligate spending, gross Federal debt – which includes funds owed to the Social Security Trust Fund and other Federal accounts – has almost doubled in the past eight years, to nearly $19 trillion, and CBO projects it will rise to $29.1 trillion in the next decade. Additionally, the share of debt known as "debt held by the public" – the amount owed to outside investors – is projected to reach $14.0 trillion, or 75.4 percent of GDP, at the end of fiscal year 2016. Over the next 10 years, it will surge to $23.6 trillion, or 85.6 percent of GDP – a $9.7-trillion increase – by far the highest level of debt since just after World War II.[11] After that, the debt outlook worsens further. "In 2035, debt [held by the public] would surpass the peak of 106 percent of GDP recorded in 1946. By 2046, federal debt would reach 141 percent of GDP . . . more than three and a half times the average over the past five decades. Moreover, the debt would be on track to grow even larger."[12]

Moreover, unlike the government's post-war debt, which resulted from temporary surges of war spending, today's debt results from runaway spending in *permanent* government programs – specifically the Federal entitlements. The growing debt already threatens to crowd out other government programs. Under current trends, by 2026 the government's interest payments will exceed funding for national defense, Medicaid, education, transportation, and many other activities.

The growing debt presents broader hazards as well. "The widely acknowledged drivers of the long-term debt – health and retirement programs for aging populations, and borrowing costs – will begin to overtake higher than average tax revenue and steady economic growth by the middle of the decade, and grow ever inexorably upwards until creditors effectively refuse to continue to finance our deficits by charging ever higher interest payments on an increasingly large debt portfolio. This crisis state is more pernicious than mere stabilization of the debt at a high level, which would suppress economic growth as financing the debt crowds out other productive investment. Rather, unchecked accumulation of debt would precipitate a fiscal crisis that would upend world financial markets and do lasting harm to the nation's standard of living."[13]

OPTIONS FOR PRIMARY FISCAL GOALS

The Balanced Budget

Forty-nine of the 50 American States have balanced budget requirements, although some exclude capital spending. Citizens, businesses, interest groups, and others readily understand this concept because they must follow it in their own financial activities. Yet despite the wide acceptance of a balanced budget as a fundamental principle, there are important differences in how one defines "balance."

Cash Balance. At the Federal level, a balanced budget is primarily defined as "cash balance" – that is, cash expenditures do not exceed cash receipts.[14] In this framework,

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[11] Congressional Budget Office, *Updated Budget Projections: 2016 to 2026*, March 2016, Table 2.
[12] Congressional Budget Office, *The 2016 Long-Term Budget Outlook*, July 2016, p. 8.
[13] Douglas J. Holtz-Eakin, *The Need for Budget Process Reforms*, testimony before the Committee on the Budget, U.S. House of Representatives, 15 June 2016.
[14] Some components of the Federal budget, such as credit programs, are treated on an accrual basis. By and large, however, the budget is cash-based.

capital expenditures for roads, bridges, planes, and buildings are treated as full budgetary expenditures in the year they are financed.

A principal virtue of maintaining cash balance is that it precludes the accumulation of debt. Presumably it can also head off long-term fiscal problems, such as those the Federal Government now faces, because it addresses spending pressures year by year rather than allowing them to build. On the other hand, maintaining simple annual cash balances does not account for mounting pressures from factors such as demographics and longer-term government obligations. Consequently, it may give an illusion of fiscal stability while simply failing to face potential longer-term crises.

Some also argue that a cash balance is difficult to achieve during times of slow or negative economic growth, when demands on government assistance programs, called "automatic stabilizers," are greater.

Accrual-Based Balance. An alternative to the cash-based model is full accrual accounting, in which capital expenses are recognized over the lifetime of the asset. For example, instead of booking the full expense of a new building in the year it was financed, an accrual-based system would recognize $1/30^{th}$ of the building's cost each year for the next 30 years. This is the accounting system used by most businesses, States, and in the everyday lives of citizens.

Under an accrual-based system, the budget is not "cash-balanced" in years in which borrowing is used to finance long-term capital needs. Instead, "balance" is defined as ensuring *operating expenditures* do not exceed revenue. A fundamental accounting requirement of this system is that operating expenditures are defined to include the principal and interest that is necessary to pay down capital needs over the lifetime of capital assets. Under this system, a balanced operating budget usually leads to fiscal sustainability even if borrowing still occurs for capital needs. An operating budget that is not balanced signals trouble and a likely deviation from a fiscally sustainable path.

Clearly, a sound definition of "capital" is crucial to ensuring a workable accrual-based budget. Generally Accepted Accounting Principles typically define capital as long-lived assets whose lifetime exceeds one year or more. Some argue that softer assets such as "human capital," job training, development grants, and other less tangible public goods should also be treated as capital assets. The risk of widening the definition of capital, however, is that as more items become eligible for borrowing and fewer things are considered as operating expenses, a balanced operating budget becomes less likely to ensure a sustainable debt load. Put another way, the temptation in an accrual arrangement is to define an ever-growing list of popular items as "investments," and thereby justify chronic deficit spending.

Under either of the balanced-budget scenarios described above, budget reformers will need to define what a Federal balanced budget truly means if that concept is ever to be adopted as the primary fiscal target.

Sustainable Debt Level

The other widely discussed primary fiscal target, implied by the discussion above, is a sustainable debt level, usually defined as the ratio of debt to GDP. This metric is popular among economists and budgeteers because it indicates a nation's financial flexibility and a government's ability to finance basic operations. The higher the debt level as a share of the economy, the less flexibility a government has to respond to emergencies such as wars, natural disasters, or severe economic downturns. Similarly, the higher the debt level, the more government revenue must be diverted to pay principal and interest, making less resources available for basic services.

A debt level at 60 percent of GDP has international recognition as a sustainable norm; it is the standard employed under the Maastricht Treaty that formed the European Union. Nevertheless, there is scant evidence that this specific number leads to predictable economic results, either good or bad, as even proponents of the debt-to-GDP measure acknowledge: "There is no magic number, but we need to set a realistic, yet ambitious goal that will convince credit markets we are serious about addressing the debt."[15]

Spending Growth Limitation

An alternative to fixed targets of some sort would be a more dynamic concept, such as limiting the rate of increase in overall Federal spending to less than the economy's growth. This might be described as ensuring the economy outgrows the government. The aim might face problems similar to that of a cash-balanced budget in difficult economic times, when demands on government assistance programs are greater. On the other hand, if the approach could be maintained for the most part, it would almost surely lead to balanced budgets, or something close, and the resulting benefits of declining debt and shrinking debt service. This is because Federal tax revenue generally grows faster than GDP. Therefore, if Congress held spending at less than GDP growth – or even equivalent to it – revenue inevitably would overtake spending, creating balanced budgets.

Time Period for Achieving Primary Fiscal Goals

Any primary fiscal goal, whether it be a balanced budget, a debt-to-GDP ratio, or something else, needs a time period over which the goal will be measured and enforced. For example, should the target be enforced each fiscal year or should it be evaluated over a period of years? Should it align with economic cycles of growth, unemployment, or other conditions? The answers to these questions will affect the practicality, effectiveness, and ultimately the durability of fiscal targets.

SECONDARY FISCAL TARGET OPTIONS

Spending and Revenue Caps

Secondary fiscal targets do not speak directly to fiscal sustainability, but they can have a profound impact on the type of government under which citizens live. Chief among these are spending and revenue targets. For example, some proposals would cap spending and revenue at a certain level of GDP. Fiscal targets such as these will influence whether Americans live under an ever-expanding government or a more limited one, but fiscal sustainability is at least theoretically possible either way.

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[15] Committee for a Responsible Federal Budget, *Stabilize the Debt: An Online Exercise in Hard Choices*, FAQ page.

"Spending targets could be divided further among major types of spending, perhaps with separate limits on discretionary and mandatory spending or possibly dividing further with separate targets for health entitlements and other major categories of mandatory spending. Establishing separate spending and revenue goals would allow fiscal rules to target the cause of any violation of debt or deficit targets – if the debt or deficit target was missed because spending exceeded the target, fiscal rules would focus on corrective action on the spending side and if the goal was not met because revenues fall short of the target fiscal rules would focus corrective action on the revenue side."[16]

These types of fiscal targets more properly belong in a budget resolution or in statute with periodic sunset dates so that Americans can regularly express their preference for the type of government they want. Whichever they ultimately choose, however, the primary fiscal target of the budget should be long-term sustainability.

Deficit Ratios

A popular fiscal target is a deficit-to-GDP ratio of no larger than 3 percent, as employed in the European Union (see further discussion below). The level of 3 percent is chosen because deficits at that level or below usually result in a stable debt-to-GDP ratio as long as the economy is growing near 3 percent. (The U.S. economy has been growing at about 2 percent per year in the past seven years, adjusted for inflation, and is projected to continue at about that rate.) This specific fiscal target may be considered a secondary measure because its main purpose is to maintain a certain debt-to-GDP level, which is the primary concern.

President Obama's budget has included deficit targets in this range to maintain a stable debt-to-GDP ratio of about 75 percent of GDP. The downside, however, is that it simply becomes a justification for chronic deficits that continue growing. The President's fiscal year 2017 budget never balances; deficits begin to increase in 2021, and approach $800 billion in 2026 – and they will surely continue growing beyond that budget window.

Spending Caps for Discretionary Spending, Entitlement Programs, and Other Categories

At various times, the budget has included spending caps for discrete categories such as total discretionary spending, national defense, and non-defense domestic programs. These caps have been relatively successful at containing spending growth in limited areas, but they have not resulted in overall fiscal sustainability. Recent discussions have turned to whether to impose caps on major entitlement categories, because there is nearly universal recognition that these programs are growing shares of the budget and are the main drivers of rising debt levels.

Committee Spending Allocations

A little known feature of the Federal budget is the spending allocations provided to each authorizing committee as part of the congressional budget resolution. These allocations

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[16] MacGuineas, op. cit.

reflect spending assumptions within the budget. Although the Congressional Budget Act provides points of order to enforce these allocations, such provisions are typically waived. Thus, there are no real consequences for breaching them. A reformed budget process should rethink how to make these spending allocations more effective.

HOW ARE TARGETS CODIFIED?

Ensuring a fiscal target will be met raises questions of where it should be codified. A primary fiscal target that speaks to sustainability should be a constitutional requirement, or at the very least codified in statute. An amendment to the Constitution stands the best chance of enduring and actually achieving the intended outcome. If ratified, a constitutional amendment would enjoy broad-based public support, a basic understanding and awareness among citizens, and an expectation that government has a fundamental responsibility to live within its means. It would provide citizens not only with electoral control over the budget, but also legal recourse if government failed to abide by its constitutional duty – though admittedly there are many unanswered questions about how courts could enforce fiscal targets.

Secondary fiscal targets that do not deal directly with fiscal sustainability are best codified in statute, a budget resolution, or House/Senate rules.

Exceptions to Fiscal Targets

Inevitably, national emergencies or other unexpected events will cause the budget to veer from the agreed-to fiscal targets. There should be flexibility built into the targets and their associated enforcement mechanisms to accommodate certain such episodes. These exceptions, however, should not be routine. Instead, they should be rare and reflect national consensus on true emergency needs that justify a temporary suspension of fiscal norms. Such exceptions should possibly require super-majority votes and a plan to restore fiscal norms, including paying down any debt accumulated during such an emergency.

Enforceability

Ultimately, fiscal targets are only as good as the will to enforce them. Primary fiscal targets need an enforceable guarantee; otherwise they will not be taken seriously and ultimately will be ignored. Regrettably, most means of enforcing fiscal targets are blunt and do not easily help rationalize national priorities. That is because the main way to enforce fiscal targets is by automatic spending or revenue triggers. For example, under the existing discretionary spending caps, an across-the-board spending cut (a sequester) must be ordered if Congress appropriates more funding than is statutorily allowed.

Another possible statutory control is to automatically end authority for certain programs to operate under specific circumstances. Tying these to budget criteria, however, could prove challenging.

A non-statutory control to enforce fiscal targets is to withhold scheduling of legislation unless certain conditions are met. For example, the Congressional Budget Act does not allow appropriations bills to be considered before the 15th of May unless a budget resolution has been adopted. Similarly, the House Leadership has created Cut-As-You-

Go protocols under which it will not schedule bills that authorize higher direct or discretionary spending unless offset by other reductions. The Leadership and Rules Committee also will often withhold scheduling bills or amendments that have budget violations. These non-statutory tools, however, can easily be waived and have proved ineffective in ensuring fiscal sustainability over the long term.

WHAT ARE OTHER COUNTRIES DOING?

European Union

The European Union [EU] implemented five "convergence criteria" in 1992 through the Maastricht Treaty for new member states to meet before joining (see Figure 2). These criteria were established to maintain price stability in the Eurozone and to ensure no shock to a new member's economy, allowing for easy adoption of the euro as a single currency.

Figure 2: European Union Five Convergence Criteria

What is measured?	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How is it measured?	Consumer price inflation rate	Government deficit as percent of GDP	Government debt as percent of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3 percent	Reference value: not more than 60 percent	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least two years without severe tensions

Source: European Commission

The five convergence criteria are still applied today and are measured by the consumer price inflation rate; a government's deficit as a percent of GDP, which may not exceed 3 percent; government debt as a percent of GDP, which may not exceed 60 percent; a long-term interest rate; and the deviation from a central exchange rate. The five convergence criteria function as a fiscal safety net for the Eurozone by maintaining fiscal stability.

Ireland

In 2011, Ireland established a Fiscal Advisory Council that independently assesses, and publicly comments on, whether the government is meeting budget targets and goals. This watchdog council is successful in bringing transparency to government decision-making regarding spending. As stated on its website, the Irish Fiscal Advisory Council's mandate consists of the following:[17]

[17] http://www.fiscalcouncil.ie/about-the-council/.

- To endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and Stability Programme Update are based.

- To assess the official forecasts produced by the Department of Finance. These are the macroeconomic and budgetary forecasts published by the Department twice a year – in the Stability Programme Update in the spring and in the Budget in the autumn.

- To assess whether the fiscal stance of the Government is conducive to prudent economic and budgetary management, with reference to the EU Stability and Growth Pact [SGP]. The SGP is a rule-based framework that aims to coordinate national fiscal policies in the economic and monetary union.

- To monitor and assess compliance with the budgetary rule as set out in the Fiscal Responsibility Act. The budgetary rule requires that the Government's budget is in surplus or in balance, or is moving at a satisfactory pace towards that position.

- In relation to the budgetary rule, to assess whether any non-compliance is a result of "exceptional circumstances." This could mean a severe economic downturn and/or an unusual event outside the control of Government which may have a major impact on the budgetary position.

New Zealand

In 1994, New Zealand passed the Fiscal Responsibility Act, which used transparency as the main tool to maintain sound fiscal policy and prevent future debt. For example, the Act requires the government to obtain permission from the Parliament before incurring a deficit. Such a request must include the following: the cause for the projected deficit; how long the government is expected to be in debt as a result; the projected amount of accumulated debt that will be incurred; and a plan on how and when the government will repay the debt.

The Act has reportedly succeeded in enforcing fiscal responsibility: "The net result of these requirements is that no government has sought permission to go into debt, and the country has a history of balanced budgets where surpluses are a regular feature of government fiscal management."[18]

CONCLUSION

For most of America's history, running through the 1950s, Federal budget policy was guided by the principle of balancing the budget. Congress did not always succeed in doing so, but the standard helped maintain a fiscal discipline. When deficits did emerge – usually during wars or other economic emergencies – they were usually eliminated after the crisis passed. Consequently, when the government did accumulate large debts, they were typically paid down fairly swiftly.

[18] The Honorable Maurice P. McTigue, testimony before the Homeland Security and Governmental Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, U.S. Senate, 26 June 2008.

The loss of the balanced budget norm has left fiscal policy adrift. In recent years, the absence of sound budget control has contributed to historically high levels of government debt that show no sign of abating. The situation is even more alarming with the retirement of the baby-boom generation now under way, and the inexorable growth of Federal retirement programs that will result.

An essential step for regaining control of the budget is to establish a consensus about the goal of fiscal policy. If not a balanced budget, then some other standard must be developed that provides fiscal and economic sustainability and commands broad political acceptance. The Federal budget process should then drive fiscal policy toward that goal.

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