RESTORING THE TRUST
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POLICY BRIEF

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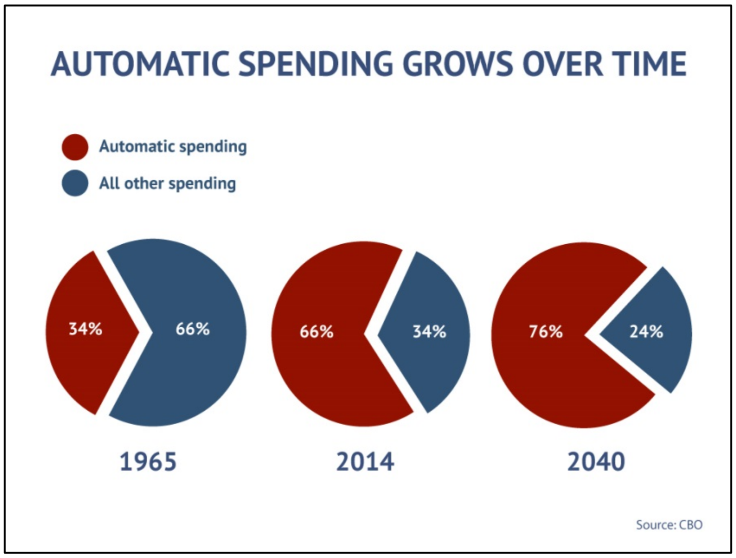
Source of the Government's Fiscal Problem: Reckless Automatic Spending

The fundamental budgetary problem in Washington is that most of the Federal Government's spending is automatic and unlimited. The vast majority of this spending – called "direct" or "mandatory"[1] – runs on effectively permanent authorizations, without regular congressional review, and grows largely due to factors outside Congress's control, such as demographics, inflation, interest rates, and the like. Congress sets few constraints on this spending; programs funded this way essentially spend whatever is necessary to meet their obligations. In short, this spending is out of control because it is designed to be uncontrollable.

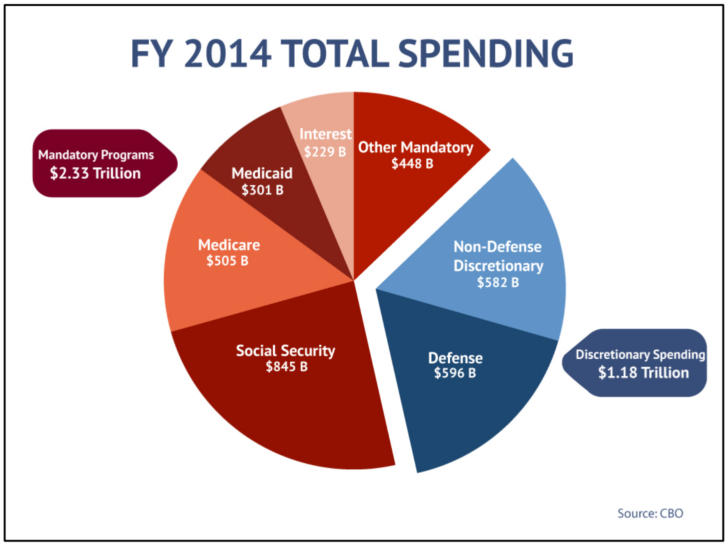


This form of spending is claiming ever-growing shares of the Federal budget. In 1965, one-third of the budget consisted of this automatic spending; Congress set limits on the other two-thirds, known as "discretionary" spending, which is subject to annual appropriations. Today those proportions are reversed, with roughly two-thirds of the budget (including interest payments) on automatic pilot. This is the principal cause of the crippling, unsustainable government deficits and debt projected in the future. It could be said that if Washington appears to be out of control, it is largely because of this uncontrolled spending, which distorts policymaking choices and leaves Congress with limited tools to gain control of fiscal policy.

[1] Although "mandatory" spending has come into common usage, it is direct spending that has an actual definition in law. The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) defines it as budget authority provided in law other than appropriations acts; and the Supplemental Nutrition Assistance Program (formerly food stamps).

Restoring the Trust for All Generations is an initiative of the Committee on the Budget, U.S. House of Representatives, aimed at promoting innovative solutions for keeping the promises of the Federal Government's health, retirement, and income security programs. This Policy Brief is one of a series of short pieces summarizing key fiscal and policy issues related to the project.

It is important to note that it is mainly this *form* of spending – and not solely the programs funded this way – that drives the fiscal problem. No matter what programs employed this open-ended spending, the practice would be a formula for fiscal catastrophe. Complicating the matter, policymakers have employed this form of spending for most of the government's health, retirement, and economic security programs, such as Social Security, Medicare, Medicaid, and safety net programs. In general, these programs support beneficiaries through direct payments or services, based on eligibility requirements and benefit levels. These programs are especially sensitive because most of them affect individual Americans directly and personally.



Fiscal Relativism

Coupled with the growth in automatic spending has been a loss of fiscal consensus in general. Through the 1950s, Congress and presidents generally sought to balance the Federal budget in peacetime. This principle offered stability and direction to fiscal policy. By the early 1970s, this agreement had been largely abandoned, and no other fiscal norm emerged to replace. Fiscal policy has remained adrift ever since.[2]

Some have tried to substitute intellectually sophisticated concepts, such as limiting deficits or debt as a share of the economy; yet there is no broadly accepted agreement on what the acceptable upper limits might be. Others have suggested allowing "counter-cyclical" policies while striving for "long-term fiscal sustainability" – with no sound definition of what that means.

Today, the only guideline is the modern, relativistic pay-as-you-go concept, which does not reduce deficits but merely maintains them. In this sense, pay-as-you-go accepts deficit spending as a fiscal standard. Thus, proponents of the Affordable Care Act the health care program as fiscally "responsible" because it did not increase deficits – which already exceeded a trillion dollars a year – though it added trillions more to government spending. The problem is that such tolerance for government red ink leads to chronic deficits and growing debt.

Spending, Deficits, and Debt

The expansion of automatic spending and the loss of fiscal direction have combined into a disastrous course for Federal fiscal policy. The Federal Government has run deficits – often of substantial magnitude – for all but 4 of the past 45 years. The one brief stretch of surpluses resulted mainly from an unexpected surge in economic output and tax revenue in the late 1990s. In recent

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[2] The Keynesian theory used today to rationalize "counter-cyclical" deficit spending originated with John Maynard Keynes 1936 work, *The General Theory of Employment, Interest and Money.* It was not until the 1960s, however, that Washington policymakers actually embraced the doctrine as a guideline for Federal budgeting. Even then, President Johnson remained committed to balancing his fiscal year 1969 budget.

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 within the current decade.[3]

Table 1: Summary of CBO's Extended Baseline Projections of Federal Spending, Deficits, and Debt
(in percentages of gross domestic product)

	2015	2025	2040
	Without Macroeconomic Feedback		
Benefits Programs and Other Direct Spending	12.7	14.1	16.0
Discretionary (annually appropriated) Spending	6.5	5.1	5.1
Subtotal	19.2	19.2	21.1
Net Interest	1.3	3.0	4.3
Total Spending	20.5	22.2	25.3
Revenues	17.7	18.3	19.4
Deficit	-2.7	-3.8	-5.9
Debt Held by the Public (end of year)	74	78	103
	With Macroeconomic Feedback		
Deficit	-2.7	-3.8	-6.6
Debt Held by the Public (end of year)	74	78	107

Source: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, Summary Table 1.
Figures may not sum due to rounding.

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.[4] Of note, these trends are occurring even as the government reduces its spending for military activities overseas. The growth of spending and debt is not temporary; it results from *permanent* government programs.

In its latest version of *The Long-Term Budget Outlook*, the Congressional Budget Office [CBO] projects Federal spending will outpace revenue consistently over the next 25 years (See Table 1). This will occur even though tax collections will reach an historically high 19.4 percent of gross domestic product [GDP], compared with the 50-year average of 17.4 percent. Indeed, programmatic spending alone – excluding interest payments – will persistently exceed tax revenue. CBO's figures show that all the projected spending increase as a share of the economy will come from the government's direct spending program – especially the health care programs and Social Security – and interest payments. Higher taxes cannot solve the problem; only spending discipline can. Absent such spending control, the result will be chronic budget deficits reaching 5.9 percent of GDP by 2040. Publicly held debt, nearly 74 percent of GDP now, will continue growing unabated under current policies, reaching 103 percent of economic output by 2040 – under the most favorable scenario.[5]

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[3] Congressional Budget Office, *An Update of the Budget and Economic Outlook: 2015 to 2025*, Summary Table 1, 25 August 2015: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50724-BudEconOutlook-3.pdf.
[4] Ibid., Summary Table 1.
[5] Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50250-LongTerm-BudgetOutlook-3.pdf.