Eyes on the Horizon: Multi-Year Budgeting and its Role in the Federal Budget Process

The Peterson-Pew Commission on Budget Reform

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Eyes on the Horizon: Multi-Year Budgeting and its Role in the Federal Budget Process

Summary

The demise of the process established by the Budget Control Act of 2011 (BCA) is not an ending, but a new opportunity to rethink the regular federal budget process. It is—or could be—the first step toward establishing a target for stabilizing the publicly held federal debt; an enforcement process to ensure that this and further debt reduction is achieved; and a credible, forward-looking process that will discourage myopic, unsustainable budgeting in the future. Further movement toward multi-year budgeting is consistent with the approach adopted in the BCA and necessary to build on what we have learned in that abortive effort to find a short cut to fiscal responsibility.

The most desirable way to establish multi-year budgeting and enforcement may be for Congress to enact legislation designed to ensure that any deficit reductions enacted (spending cuts or revenue increases) are not undone by subsequent actions. The legislation should specify medium- and long-term debt targets and a future debt path similar to those of the Sustainable Debt Act (SDA) recommended in The Commission's November, 2010, report.

The legislation would have two elements. First, it would include a multi-year debt target, putting the budget on a path to a debt no greater than 60 percent of GDP. Second, it would include annual savings targets, relative to the baseline, necessary to meet the multi-year target. The savings numbers would be the guiding, and enforceable, targets that would need to be met through enactment of subsequent budget legislation. Failure of Congress and the President to enact specific policy changes to meet the targets in the SDA would trigger the following enforcement actions:

- An automatic individual income tax increase (or percentage reduction in the value of tax expenditures) providing revenues equaling one-half of the savings target;
- Across-the-board spending reductions ordered by the Office of Management and Budget, covering all accounts (discretionary and mandatory) in the federal budget in equal amounts, and equal to one-half of the savings target.

Regardless of the details of design and implementation, the presumption underlying a multi-year budgeting process means that the budget is not merely a one-year plan to respond to short-term concerns, but rather a long-term plan that would move the federal government to a sustainable fiscal path, and then help it stay on that path going forward. Budgets should be developed and adopted with an eye to the horizon.

Introduction

The brinkmanship in August 2011 between the President and Congress that resulted in them raising the federal debt ceiling embodied in the Budget Control Act of 2011 (BCA) and avoided a default on the U.S. debt. It also highlighted once again the *ad hoc* nature of the current federal budget process. Not only is little attention paid to medium- and long-term effects of policies, but any semblance of a "normal" budget process has been replaced by one where budget decisions are only made in response to a crisis, such as a potential debt default or a government shutdown. This episodic and crisis-driven budget process inhibits effective budget planning for federal agencies and programs, and undermines confidence in the ability of the U.S. to manage its finances. The dysfunctional manner in which U.S. fiscal policy is made contributed significantly to the downgrade of the U.S., in that same August, by Standard and Poor's. The downgrade, which happened *after* the enactment of the BCA, was precipitated not by a single event, but by a general disillusionment with the government's potential for effective budgetary decision making.

In a sense, establishing comprehensive, multi-year budgeting was precisely what the Congressional Budget and Impoundment Control Act of 1974, which established the budget resolution, was designed to do. This new process was intended to replace the piecemeal, single year-focused process that existed previously (Meyers and Joyce, 2005). The Budget Act of 1974 attempted to address these shortcomings by establishing Budget Committees, which are responsible for the budget resolution, a comprehensive statement by the Congress of its priorities covering multiple years (five to ten years). The Budget Committees were to be supported in this by the Congressional Budget Office (CBO), which would both establish a multi-year budget baseline (starting point) for budget deliberations and track the economic and fiscal effects of legislation over multiple years.

It has not worked out that way in practice. Instead of being focused on multiple years, the budget process is preoccupied with short-term decisions and deadlines. The combination of the multiplicity of decisions made (presidential budget proposal, budget resolutions, authorizations, and appropriations), the routine missing of deadlines, and frequent supplemental appropriations have contributed to a situation where budgeting is something that happens not once a year, or once every two years, but constantly. Its focus, moreover, is on getting through the next crisis, rather than solving medium- or long-term problems. Under recent stresses, the process itself has almost completely broken down, as evidenced by the failure to enact budget resolutions in each of the last two years, and six times since the late 1990s. Recent partisan disagreements have led to high stakes, last-minute agreements to avert either government shutdowns or debt defaults. This kind of *ad hoc* budget process gives *annual* budgeting a bad name; it goes without saying that it does not promote responsible *multi-year* budget decision making.

The November collapse of the Joint Select Committee on Deficit Reduction (JSC) created by the BCA provides an opportunity to again focus on budget process reforms that could both move the country toward a solution to its current debt problem and put it in a better position to make future decisions to encourage fiscally sustainable budgeting. The magnitude of the fiscal problem facing the country makes it imperative to think about budgeting—and budget enforcement—in multi-year terms. One year, or even five years, is not a sufficiently long enough time frame in which to return the budget to a place where revenues match ongoing expenditures. Even after the current crisis has abated, moreover, it will remain desirable to consider budgetary actions in a multi-year framework. Periodic ups and downs of the business cycle make budget policy—and budget targets—difficult to deal with annually. Merely setting annual goals—such as a balanced budget or a deficit as an annual set percentage of GDP—is inconsistent with establishing a sound, stable fiscal policy or achieving long-term debt reduction goals. An annual focus also promotes other dysfunctional actions, including offloading costs onto third parties, pushing costs forward, failing to capture full costs and benefits that spill-over over multiple years, and sets the nation up for future fiscal and economic surprises.

The Peterson-Pew Commission, in its ***Getting Back in the Black*** report issued in November 2010, explicitly endorsed a multi-year approach to getting control of the country's debt. This multi-year approach would involve setting a target level of debt as a percentage of GDP, annual savings targets necessary to adhere to a path necessary to achieve that goal, and enforcement procedures ("triggers") that would enact automatic tax increases and spending cuts if the targets were not met (See Box 1 for more details on prior Peterson-Pew recommendations).

Box 1: Summary of Peterson-Pew Commission Approach to the Debt Crisis

The two Peterson-Pew reports, ***Red Ink Rising*** and ***Getting Back in the Black***, documented the country's current debt problem and laid out a plan for addressing the fiscal imbalance faced by the country (Peterson-Pew Commission on Budget Reform, 2009, 2010). Absent responsible action, the nation faces the prospect of reaching unsustainable debt levels and carry with them the threat of long-term reductions in living standards both immediately, and for future generations.

For example, under the Peterson-Pew baseline (that is, with the continuation of current policies), the debt, which has historically averaged around 45 percent of GDP, would rise from its level at the end of 2011 of 67 percent of GDP to 81 percent of GDP by 2021 (Peterson-Pew and the Committee For a Responsible Federal Budget (CRFB) Realistic Baseline). By 2030, debt would reach 100 percent of GDP, and it would reach 200 percent of GDP by 2060. To say that this is unsustainable seems to hardly do the situation justice. Even if the $2.3 trillion in cuts over the next ten years anticipated in the Budget Control Act are enacted and sustained, this would not alter the trajectory by a significant amount. ***Getting Back in the Black***, issued in November 2010, included a number of specific recommendations for addressing the debt problem (Peterson-Pew, 2010, pp. 3-4).

1. The Congress should pass, and the president should sign, a Sustainable Debt Act. This act would establish a medium-term debt target along with annual fiscal targets, expressed as levels of annual dollar savings. The Act also would specify the level and timetable for achievement of a stable public debt as a percentage of GDP.

2. The president would then, on an annual basis, submit a budget meeting the statutory targets. Congress would also be required to adopt annual budget resolutions which would include multi-year savings allocations and policy direction to meet the annual and medium-term targets.

3. Enforcement mechanisms would include discretionary spending caps and PAYGO, with the backup of automatic triggers of tax increases and spending cuts.

4. After the medium-term target is reached, a longer-term goal would be set to continue reducing the debt, and this would be coupled with a new medium-term plan, in statute, to achieve a new set of debt and deficit reduction targets.

The fact that the JSC failed to come up with legislation to cut the required $1.2 trillion does not change the underlying fiscal situation facing the nation. Whether the BCA's sequestration is permitted to kick in, or whether some legislative changes are enacted prior to January 2013 that prevent those automatic reductions from taking place, a multi-year approach to budgeting is essential going forward. This is not, however, the end of the story. The $1.2 trillion in savings, whether they occur automatically or through legislation, will neither be sufficient to dig the country out of its fiscal hole nor ensure enforcement of either these or subsequent actions. In this case, something like the Sustainable Debt Act (SDA) recommended by the Peterson-Pew Commission in its ***Getting Back in the Black*** report will still be necessary in order to set future debt targets and establish consequences for failing to meet those targets. The fallback sequestration mechanism, if it is triggered, will change the makeup of the target amount of savings, but it will not change the basic fact that more actions will be necessary, and that those actions will need to be enforced.

The outcome of the Joint Committee's deliberations also does not change the fact that the U.S. needs an effective, ongoing process, focused on the multi-year effects of policies. An *ad hoc*, year-by-year budget process is neither an effective way of dealing with our current fiscal problems nor a way to restore the faith of the public and of financial markets in the ability of Congress and the president to manage their responsibility for setting fiscal policy.

This paper recommends that Congress explicitly embrace a multi-year approach to resolving the current imbalance, by taking these steps:

1. In 2012, Congress should pass, and the president should sign, aa SDA, which would establish targets for future debt and deficits, enact reforms to the budget process that will enforce future actions to reduce the debt and deficit, and explicitly focus the budget process on multi-year effects of actions taken. This SDA would anticipate, or include, follow-on deficit reduction legislation that would make progress in meeting the Act's debt and deficit reduction targets.
2. The Congress should, whether as part of the SDA or subsequently, enact a set of deficit reduction actions that go well beyond the $1.2 trillion in deficit reduction enforced under the BCA. The next legislative effort should "Go Big"; the CRFB has suggested setting a savings target over 10 years of around $4 trillion.
3. Congress should establish: (1) enforcement procedures that ensure future Congresses cannot easily undo enacted deficit reduction, including the $1.2 trillion automatic cuts mandated by the BCA in January, 2013; and (2) further sanctions for failing to meet new debt and deficit targets going forward.
4. The normal budget process (presidential budget submissions, budget resolutions, and subsequent legislation) should focus on the detailed policies that reinforce the achievement of a sustainable level of debt over multiple years.

The remainder of this paper will provide further justification for, and expand on, these recommended actions and the accompanying actions necessary to focus more attention on the effects of policies over the long term.

A Suggested Approach to Multi-Year Budgeting

Multi-year budgeting is, in a sense, already a budgeting "best practice." Both the International Monetary Fund (IMF) and the World Bank have embraced multi-year budgeting. Specifically, countries often accomplish this through the establishment of a medium-term expenditure framework (MTEF) which considers the effects of spending and revenue actions over a three to five year period. The MTEF approach has two main attributes. First, the budget is enacted covering multiple years, rather than one year at a time. Second, budget policy in years subsequent to the initial year automatically remains in place unless a subsequent budget policy (enactment of a subsequent budget) overturns it. More background on the MTEF is provided in Box 2.

Box 2: The Medium-Term Expenditure Framework

According to the IMF, there are three general objectives for an MTEF. First (and most relevant to the current discussion in the U.S.) it "instill(s) greater discipline over advance commitments of public money by constraining budget appropriation and execution in future years to level consistent with the Government's medium-term fiscal and sectoral objectives" (Hughes, 2008. p. 2). Second, it facilitates a more strategic prioritization of expenditures because it creates some distance between prioritization and short-term political concerns. Third, it encourages transparency in budget adoption, thus creating more certainty for recipients of government funds.

MTEFs at the national level do vary in time horizon and coverage. Most cover three to five years, and may be revised each year or every two to four years. While some (for example, Australia) cover 100 percent of spending, others cover less, including the Netherlands (80%), Sweden (64%), and the United Kingdom (59%) (Hughes, 2008, p. 4). The general experience of MTEFs is that the further in the future budget forecasts are made, the greater the forecasting error. For example, the United Kingdom had a forecasting error of only one percent going out one year, but rose to more than five percent five years out (Hughes, 2008, p. 7). For this reason, the United Kingdom decided to limit expenditure ceilings to three years. Many MTEFs also build in contingency reserves to guard against forecasting errors.

In most cases MTEFs came about because of fiscal adversity in countries, but were not part of the initial remedy for solving fiscal problems. Rather, they assisted countries in maintaining discipline after countries "had turned the corner." Multi-year budgeting is not the solution to fiscal instability, but it is an approach consistent with sound budgetary practice once a path to fiscal stability has been forged.

In fact, one "bottom line" observation from international practice is that an MTEF "cannot make up for basic weaknesses or lack of political discipline and policy coherence" (Schiavo-Campo, 2008, p. 15). This suggests two things about such a framework as it relates to the U.S. First, a multi-year budget enforcement framework is more likely to work subsequent to an agreement on a plan for debt reduction, to encourage the adoption of policies over multiple years consistent with that framework. Second, it would probably be necessary to consider such a framework in the U.S. in more than just a single three-to-five year increment.

The MTEF approach is consistent with the original goals of the 1974 Budget Act, and there are clearly elements of the current process that do focus on multiple years. The CBO baseline now covers ten years, as do CBO cost estimates of proposed legislation. The budget resolution and the president's budget focus on at least five years, and sometimes as many as ten. In a sense, giving the budget more of a multi-year focus is not a radical departure from current law; it is simply a radical departure from current practice. The main difference between a typical MTEF and the current federal budget process is the assumption that a prior set of budget decisions would remain in place until or unless changed.

General attention is already being paid to the multiple-year effects of policies during the budget process—in the president's budget, in the Congressional Budget Office baseline projections, and in cost estimates of legislation. The process, however, is more multi-year in theory than in practice. In many years, the budget resolution—if there is one at all—simply sets the next year's envelope for discretionary appropriations, which only represent 40 percent of the budget. For all other spending, the budget resolution tends to just ratify the status quo. Further, the appropriations process itself is an annual process, with little attention paid to the out year effects of decisions made. The budget process does not include any kind of fiscal rule that would provide a future guidepost for Congress and the president, and there are no sanctions for failing to adopt a fiscally sustainable budget, or a timely budget, or even any budget at all.

The budget resolution, at present, is a hit and miss proposition. In some years, no budget resolution is adopted. In other years, it is THE key driver of federal policy. Typically, the latter would describe years in which the budget resolution includes reconciliation instructions, and comprehensive reconciliation legislation is passed to fulfill those instructions and becomes law.

Absent the passage of a budget resolution, there are no consistent (across the two chambers) and enforceable committee allocations covering multiple years.[1] It is necessary to create the specific presumption that a prior agreement on levels of taxes and spending will remain in place, and must conform to legal restrictions on the debt, deficit, taxes or spending. That is, unless a new budget resolution is enacted, the presumption needs to be that the prior budget resolution would be enforced both in the House and in the Senate.

Other papers issued by the Peterson-Pew Commission have addressed the setting and enforcement of multi-year budget targets. In particular, ***Getting Back in the Black*** argued for a budget regime where budget savings targets would be enacted as part of a debt reduction law, and adherence to these targets would be enforced through a trigger mechanism that, if used, would result in a sequestration of spending and automatic revenue increases.

This paper relates to the Commission's previous proposals by considering options for adopting explicitly multi-year legislation. The presumption is made that out-year policy actions envisioned in a given budget resolution or deficit reduction law would automatically take effect unless a subsequent law explicitly changed those policies.

What needs to happen to take advantage of the present opportunity to engage in more responsible, multi-year, budgeting? First, as a direct result of the collapse of the BCA process,

[1] The Senate continues to enforce committee allocations based on the most recent budget resolution, but the window during which those allocations are enforced grows shorter with each year. There is also now a statutory PAYGO regime that is enforced, but much spending is exempt from PAYGO enforcement.

Congress and the president should consider what legislative changes might be made to stabilize the debt in the medium-term and decrease it to a safer level thereafter. Next they should consider what annual presidential budgets and Congressional budget resolutions would need to accomplish to achieve the debt and deficit goals, and to encourage better attention to the multi-year effects of budget choices going forward.

Next Steps to Debt Reduction: Beyond the Budget Control Act of 2011

As is certainly now apparent, the BCA did not itself make deficit reductions necessary, nor did it clearly establish the path that needs to be followed to get the country out of its fiscal mess. The estimated $2 trillion[2] of eventual debt reduction agreed to in August is insufficiently ambitious to deal with the longer-term fiscal problem, and the Peterson-Pew Commission would advocate going farther. **If further debt reduction is deemed impossible or inadvisable at this time, we would propose that Congress at least adopt legislation specifying a future path for debt reduction and follow it with spending cuts and tax increases in the next congressional session to meet those targets.**

The crucial first step toward avoiding a future fiscal crisis would be to enact legislation in 2012 that would specify medium- and long-term debt targets and a future debt path similar to those of the SDA recommended in the ***Getting Back in the Black*** report. The SDA would have two elements. First, it would include a multi-year debt target, for example, to stabilize the debt at a level no greater than 60 percent of GDP by 2021, and to reduce it further by 2032. This would include a "glide path" of year-by-year debt-to-GDP targets. Second, it would include annual savings targets, relative to the baseline, necessary to meet the multi-year debt targets. The savings numbers would be the guiding and enforceable targets that must met through subsequent legislation. They would be adjustable in subsequent years, based on changing projections of GDP. Failure of Congress to enact the specific policy changes to meet the targets would result in the following "triggers", or enforcement actions:

- An automatic broad-based tax increase or surtax (or percentage reduction in the value of tax expenditures) equal to one-half of the savings target; and

- Across-the-board spending reductions ordered by OMB, covering all accounts (discretionary and mandatory) in the federal budget in equal amounts, and equal to one-half of the savings target.

Enforcement of the SDA would focus on deviations, not from the current law baseline, but from the path agreed to in the Sustainable Debt Act. The triggers would be "pulled" if, in any year, the deficit were large enough to result in exceeding the debt targets in the SDA. For example, consider a case where, under the SDA, the debt target for fiscal 2014 was 70 percent of GDP, and it would require that deficit reductions of $200 billion be achieved to meet that target. If the

[2] This assumes that the effect of the discretionary caps is to reduce outlays by $756 billion over 10 years, and that the $1.2 trillion of additional deficit reduction through the BCA sequester triggered by failure of the JSC is sustained. See Peterson, 2011.

projected savings fell short of that level by $100 billion in 2014, it would require a $1:$1 combination of a sequester and surtax totaling an additional $100 billion in that year.

If the legislation enacted in 2012 stopped with the setting of enforceable targets, the sequestration scheduled to take effect in January 2013 would go into effect, as currently planned. If a BCA sequester is to be avoided, then Congress would need to, preferably as part of the same legislation, enact spending reductions and tax increases to substitute for those that would otherwise take effect automatically.

Congress could even enact a budget resolution in 2012 (for fiscal year 2013) that used the Congressional Budget Act's reconciliation procedures to enact a ten-year deficit reduction agreement that complied with the targets included in the SDA. This ten-year deficit reduction legislation itself, whether enacted in 2012 (for fiscal years 2013-2022) or 2013 (for fiscal years 2014-2023), would include the following elements:

1. *Policy changes affecting mandatory spending and revenues*. These could be permanent changes, but would presumably need to cover at least the ten years covered by the reconciliation bill.

2. *Extending or lowering the caps on discretionary spending*. These caps would be set at a level that would not permit discretionary spending to grow with inflation, reducing the deficit relative to the baseline. The caps could initially be those already enacted in the BCA, but could be made stricter and/or be extended in this deficit reduction law. These could either represent overall caps, or perhaps divide discretionary spending into categories—such as defense and nondefense. If budget authority or outlays exceeded the capped levels, a sequestration of discretionary spending would occur.

3. *Other budget enforcement procedures.* The existing statutory PAYGO system would be strengthened by broadening the sequestration base to include all spending and revenue changes, including tax expenditures, and by basing the scorecard not on the current law baseline but on the path to debt stability set in the SDA. If legislative actions that year added to deficits in any year covered by the deficit reduction legislation, this would trigger a PAYGO sequester to bring the budget back in line with the path envisioned by the SDA.

Because this deficit reduction legislation would have the force of law, it would remain in place until and unless subsequent deficit reduction legislation was enacted. It is likely that the initial implementing legislation would not last for the full ten years. Rather, political and/or economic developments would probably require changes to be made at some point before the ten year period expires. For example, during the 1990s, even though the first two enacted reconciliation bills covered five years, the Omnibus Budget Reconciliation Act (OBRA) of 1990 was replaced by another in 1993, and the OBRA 1993 legislation was replaced by the Balanced Budget Act of 1997. The important point is that enactment of an enforceable ten-year agreement, consistent with savings targets included in the SDA, creates the presumption that any policy changes would continue until and unless they are changed. A change would result in a new multi-year agreement being enacted that would itself remain in place until a subsequent new agreement was reached.

There would be two levels of enforcement. First, triggers would encourage the development of deficit reduction legislation: absent the passage of specific deficit reduction legislation that met the targets of the SDA, a sequestration of all spending AND an automatic tax increase, including be reducing or eliminating tax expenditures, would take effect. A second level of enforcement, given enactment of deficit reduction legislation, would be a more traditional discretionary cap and PAYGO process. The "hard trigger" of an SDA sequestration would be unnecessary as long as the deficit reduction legislation included enough spending cuts and tax increases to allow the SDA targets to be achieved, and the deficit reductions included in the legislation were not undone by subsequent legislation.

The failure of the BCA is not the end of the budgeting process but an opportunity to reconsider the regular process. Whether the result is a $1.2 trillion sequestration, or a similar or larger amount of deficit reduction enacted through the regular legislative process, it can now be seen as a first step toward the establishment of a sustainable level of debt, an enforcement process to ensure that this and further debt reduction is achieved, and a credible, forward-looking process that will discourage myopic, unsustainable budgeting in the future. Further movement toward multi-year budgeting is fully consistent with the approach envisioned by the BCA.

The Role of Future Presidential Budget Proposals and Budget Resolutions

Even with an SDA and a ten-year deficit reduction bill, the existing budget process would remain. Its role, however, would be to provide a framework for adopting legislation in the annual budget process consistent with enacted deficit reduction legislation. Each year, the President would be required to submit a budget that met the fiscal targets and complied with the path laid out in the deficit reduction legislation in effect at that point. The budget resolution each year must focus not only on aggregates that met the targets, but also on allocations to committees consistent with the provisions of this same legislation. CBO would be required to assess whether the President's budget, and the budget resolution, met the overall savings targets as laid out in the SDA and the deficit reduction legislation.

Budget Committees would continue to enforce the budget resolution, including applying points of order, as they do at present. The budget resolution would be used to annually reaffirm congressional commitment to implementing the deficit reduction law, and points of order would enforce compliance with budget strictures already enacted. Any budget resolution that did not comply with the law would be subject to points of order, backed up by sequestration if the points of order did not have their desired effect.

OMB would be authorized to order PAYGO or discretionary sequestrations at the end of each legislative session. While the budget resolution could theoretically follow a different path than that laid out in the deficit reduction legislation (by, for example, providing 302(a) allocations to committees that exceeded the level permitted under the caps or caused PAYGO to be violated), this would result in a larger sequestration ordered by OMB.

The magnitude of the country's debt problem is such that it may take the full 20 years covered by the SDA to stabilize the debt and then achieve the desired level of debt reduction. This would necessitate (perhaps six or seven, depending on how frequently they are revised) separate multi-year reconciliation bills changing baseline levels of spending and/or revenues during this period. Every one of these bills would remain in place, and be enforced, until a subsequent one was enacted.

Beyond the 20 year process of stabilizing the debt, what should the budget process look like going forward if it is to continue to have a multi-year emphasis? Any effective, multi-year budget regime will need to have a statutory underpinning to avoid the tendency to degenerate into a budget process focused only on the short term. Even after the debt is stabilized Congress should continue to enact multi-year reconciliation bills that would remain in force until and unless new reconciliation bills are enacted. It seems most desirable for these bills to be enacted at least every two years (in the first term of a Congress, for example) and to cover at least five fiscal years. If Congress adopted a budget resolution including reconciliation at the beginning of each session, it would have the effect of establishing a fiscal path to follow.

The preceding assumes enactment of laws to create the necessary follow-through—that is, translating the targets in the SDA into policy changes to reach those targets. If these policy changes are to remain in effect and be enforced until subsequent action is taken to change or undo them, concurrent resolutions on the budget will not be sufficient. Not only are concurrent budget resolutions not enforced in an equivalent manner in the House and Senate, but House enforcement goes away the moment a new Congress takes office. While the House has in recent years enforced its own House passed budget resolution, this enforcement has no legal underpinning and could not trigger (for example) spending reductions and tax increases after the fact.

What About Emergencies and Unforeseen Events?

A clear problem in any multi-year regime is what to do about emergency spending and unforeseen circumstances, such as recessions or national security emergencies. In terms of what might be called "routine emergencies" Congress should budget explicitly for them as part of the regular budget process, thus creating an emergency "contingency". This would counteract the historical tendency to use the emergency designation as a loophole that compromises fiscally responsible budgeting. Too often, emergency spending has been underfunded in the regular budget process, and then natural disasters and other emergencies are funded as additions to the deficit. While some unanticipated increases in spending because of emergencies may be unavoidable, budgeting for them at a higher level in the budget process will lessen the tendency for emergency supplemental appropriations to be routine, annual events (Peterson-Pew Commission, 2011).[3]

While this approach can prevent the funding of routine disaster assistance from becoming extra-budgetary events, there is probably no way to anticipate, and budget for in advance, responses to larger unanticipated emergencies such as national security events or recessions. In this case, the

[3] See also Peterson-Pew Commission, *Budgeting for Emergencies*, December 13, 2011.

budget process may simply need to build in some kind of an after-the-fact "look back" provision to offset the effects of these budgetary changes.[4]

In all likelihood, permitting an appropriate response to this kind of unanticipated event will necessitate adjustments to targets as a result of economic and technical changes. One approach would be to allow the legislated target to be turned off by a two-thirds vote of both chambers. Alternatively the target might be turned off if CBO certified a situation where there were—or were projected to be—two or more consecutive quarters of negative economic growth. If the target is turned off, this might need to result in an additional look back addition to savings targets in the future might be needed. For example, provision might be made for adding deficit reductions foregone during a recession to deficit reduction targets over a three-year period directly after the recession.

Conclusion

The current imbalance between taxes and spending, which has led to an unsustainable level of debt, did not occur overnight. It has largely been ignored, however, by a budget process that is focused too much on short-term effects and not enough on longer-term impacts. Since it is inevitable that any solution to the debt problem will take years to achieve, it is particularly imperative that the solution be focused not just on the next year, or the next two years, but the next ten or twenty. Particularly given the necessity of a multi-year plan to return the federal budget to anything close to a sustainable path, focusing on a year at a time seems unlikely to permit the necessary progress to be made. Further, the federal government needs to enact multi-year budgets consistent with enforceable debt reduction targets that remain in place until and unless subsequent laws are enacted to change either the path or the means of accomplishing it.

The presumption needs to be not that the budget is an annual plan put in place to respond to short-term concerns, but rather that it is a long-term plan that would move us to a sustainable fiscal path, and then would help us stay on that path going forward. The collapse of the Joint Select Committee shows the urgent need for and provides a new opportunity to enact meaningful legislation to make further progress on that path. Congress should seize this opportunity to put in place a set of debt and deficit reduction goals, incentives to achieve those goals, and changes to the budget process that encourage greater attention to the multi-year effects of budget policies.

[4] For further discussion of options for dealing with emergency spending in a reformed budget process, see the Commission's paper, "Budgeting for Emergencies," December, 2011.

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