



THE CONCORD COALITION

1011 Arlington Blvd. • Suite 300 • Arlington, VA 22209
(703) 894-6222 • FAX (703) 894-6231 • www.concordcoalition.org

Ten Criteria for Judging How Budget Plans Measure Up

First issued: February 5, 1997

Updated: March 19, 2003

President Bush's fiscal year 2004 budget projects deficits for as far as the eye can see. It is the first Presidential budget to do so since President Clinton submitted his fiscal year 1996 budget to Congress eight years ago. The return of sustained deficits presented Congressional leaders with a choice of either accepting the President's tolerant approach or trying to chart a course back to balance.

That choice has now been made. To their credit, the respective Chairs of the House and Senate Budget Committees, Representative Jim Nussle (R-IA) and Senator Don Nickles (R-OK), rejected the idea of writing a Congressional Budget Resolution that, like the President's budget, never gets back to balance within the 10-year window.¹ Instead, they produced plans that assume a balanced budget by 2010 in the House version and by 2013 in the Senate version. The fact that Congressional leaders have rallied to the balanced budget goal is a very positive development. It demonstrates their understanding that over the long-term, deficits threaten our future standard of living and that without a clear fiscal policy goal such as balance, deficits can quickly spiral out of control.

Yet, reaffirming the balanced budget goal is only the first step in actually making it happen. To be effective, a balanced budget plan must also be credible.

In February of 1997, before the last balanced budget plan was adopted and before a string of four consecutive surpluses wrongly convinced many policymakers that hard choices were no longer necessary, the Concord Coalition published a list of 10 criteria for evaluating balanced budget plans. Now that Congress is once more confronted with the need to craft a long-term balanced budget plan these criteria are, unfortunately, relevant again. There is, of course, no one single "right" way to balance the budget, and each plan will reflect its sponsor's notions of the proper role and size of government and the relative emphasis that should be given to various government functions. But in sorting out the strengths and weaknesses of balanced budget plans it helps to begin with a set of criteria against which each plan should be judged.

What follows is an updated version of The Concord Coalition's 1997 *"Ten Criteria For Judging How Budget Plans Measure Up."*

¹ The President's budget only shows estimates through fiscal year 2008. There can be no doubt, however, that if the Administration had published a 10-year estimate it would have shown the budget never returning to balance. Material published in the *Analytical Perspectives* of the budget show that extending FY2004 budget policy results in perpetual deficits, even under optimistic alternative health care and discretionary spending assumptions. See Charts 3-2 and 3-3 and Table 3-2, pp 41-42, *Analytical Perspectives, FY2004 Budget of the United States*.

Executive Summary

- **Are the estimates of future deficits and proposed policy changes realistic?** Estimates of current law deficits in the years ahead and savings achievable through proposed policies should not be overly optimistic. Aiming at an overly optimistic target decreases the likelihood that the plan will actually result in a balanced budget.
- **Does the deficit path trend steadily and smoothly downward so that each year's planned deficit is smaller than in the preceding year until a zero deficit is reached?** A budget plan that begins by increasing the deficit in the first year or two should be viewed with great suspicion. Actual results are most likely to match a budget plan in the first year or two; after that they are subject to economic and political developments that are difficult to predict.
- **Are major tax cuts and spending increases postponed until a balanced budget has been achieved?** Large tax cuts or massive expansions of federal programs increase the deficit and have no place in a plan to bring the budget into balance.
- **Are new or expanded entitlements avoided, or if included, are they held to a minimum and is their cost fully offset?** New entitlements create their own demand and generally end up costing more than predicted. A budget plan that proposes such new or expanded entitlements must pay for them fully by offsetting tax increases or reductions in other entitlements.
- **Are proposals to cut discretionary spending explicit and plausible?** Recent experience has shown that Congress can limit discretionary appropriations only with extraordinary difficulty. A budget plan should not rest on the assumption that a future Congress and a future President will somehow defy previous experience by enacting heroic domestic spending cuts.
- **Do the numbers add up without resort to "triggers," score-keeping gimmicks, or "time bombs?"** Budget tricks should be avoided. Clever accounting does not fool the economy.
- **Does the plan keep the budget in balance in the decades after the baby boom generation ages and entitlement costs explode?** A budget that ignores the huge impending fiscal impact of the boomers retirement might eliminate the deficit in the short-term but it will not prove sustainable in the face of the enormous projected fiscal cost of the coming senior boom.
- **Does the plan distribute short-term sacrifice fairly and equitably among Americans of all ages and income groups, expecting the wealthy to do their fair share, and exempting only the very poor?** The fruits of a balanced budget will be enjoyed by all. Thus, no economic group, except for the very needy, should be exempt from contributing to eliminating the federal budget deficit, and those who can more readily shoulder the burden should be asked to do so.
- **Can the plan attract substantial bipartisan support?** Starkly partisan budget proposals may appeal to true believers and party loyalists, but they are not likely to be enacted and even less likely to be enforced.
- **Does the plan contain credible enforcement mechanisms?** Congress will need a set of rules to help enforce any plan it may adopt to rebalance the budget. There are too many claims on too few dollars to declare that formal budgetary restraints are no longer necessary.

The Concord Coalition's 10 Criteria For Judging How Budget Plans Measure Up

1. Are the estimates of future deficits and proposed policy changes realistic?

Estimates of current law deficits in the years ahead and savings achievable through proposed policies should not be overly optimistic. The tendency is for proposed savings to fall out of the plan during the process of compromise that is part of budget decision making. Aiming at an overly optimistic target decreases the likelihood that the plan will actually result in a balanced budget. A budget plan should not depend on unwarranted or unrealistic assumptions about future economic or technical factors including projected economic growth, interest rates, health care costs, corporate profits, and taxable income. Although no forecast is guaranteed to be accurate, the Congressional Budget Office's projections have generally proved to be conservative and non-partisan. They should be used in scoring all plans without resort to "dynamic" or "directed" scorekeeping. In the interest of prudence a budget plan should take into account the risk that things will turn out worse than projections suggest. If they turn out better, dealing with the extra money will be no problem.

2. Does the deficit path trend steadily and smoothly downward so that each year's planned deficit is smaller than in the preceding year until a zero deficit is reached?

A budget plan that begins by increasing the deficit in the first year or two should be viewed with great suspicion. Actual results are most likely to match a budget plan in the first year or two; after that they are subject to economic and political developments that are difficult to predict.

A plan that begins by calling for higher short term deficits must promise larger deficit reductions in the final years if balance is to be achieved. However, past experience has shown that postponed large deficit reductions are seldom, if ever, achieved. Instead, a *new* plan is adopted and deficit reduction is again postponed. Moreover, a "lumpy" or back-loaded deficit path will not generate as large a fiscal dividend as a steady downward deficit trend and therefore will require more savings from policy changes. Any policies that deliberately increase short-term deficits to provide the economy with fiscal stimulus should be carefully designed to have minimal long-term costs.

3. Are major tax cuts and spending increases postponed until a balanced budget has been achieved?

Large tax cuts or massive expansions of federal programs increase the deficit and have no place in a plan to bring the budget into balance. The first task should be balancing the budget. Then, after a balanced budget plan has been enacted and implemented, other policies, along with the means to finance them, can be considered. If large tax cuts are included in a budget plan, deeper spending cuts than otherwise would be required are needed in order to achieve a balanced budget. This invites political opposition; each spending cut can be challenged as being necessary to pay for a tax cut.

4. Are new or expanded entitlements avoided, or if included, are they held to a minimum and is their cost fully offset?

Entitlements are government benefits or programs that have been permanently written into law in such a way as to command resources regardless of other competing needs. Currently promised entitlement benefits far exceed our ability or willingness to pay for them over the long-term and account for the government's long-term structural imbalance. A plan intended to balance the budget and keep it balanced should not fall into the trap of creating new entitlements that are not fully financed or offset, no matter how attractive they may seem. It is the nature of the political process to generate near constant pressure to expand existing benefits or to restore benefits that have been trimmed recently. New entitlements create their own demand and generally end up costing more than predicted. A budget plan that proposes such new or expanded entitlements should pay for them with offsetting tax increases or reductions in other entitlements.

5. Are proposals to cut discretionary spending explicit and plausible?

A credible budget plan must chart a plausible, achievable path for discretionary spending, the roughly one-third of the federal budget subject to annual appropriations. It is important that sufficient detail be outlined about how discretionary defense and non-defense spending will be reduced to the levels specified in the budget plan to provide convincing evidence that the stated goals are, in fact, politically and practically achievable.

A budget plan that treats discretionary spending as a “black box” and calls for unspecified, deep cuts in real spending for domestic, international or defense programs is neither credible nor sustainable. Recent experience has shown that Congress can limit discretionary spending only with extraordinary difficulty. A budget plan should not rest on the assumption that a future Congress and a future President will somehow defy previous experience by enacting heroic domestic spending cuts. It most likely won’t happen. Moreover, in the current post-September 11 environment, projections of defense and homeland security spending should be based on a realistic assessment of the military and civilian capabilities needed to counter national security threats today and in the foreseeable future. The only way to make sizeable reductions in the real level of discretionary spending is to reduce or eliminate the mission of government programs. If the government is to spend less, in most cases it must try to do less. If a budget plan calls for tough discipline on discretionary spending, it should outline what changes in government activities are required to achieve the reduced discretionary spending levels.

6. Do the numbers add up without resort to “triggers,” score-keeping gimmicks, or “time bombs?”

There are many tricks that can make a budget plan appear to achieve balance when, in actual operation, it is destined to fall short of the goal. Below is a list of some of the budget tricks that should be avoided:

- *Moving programs off-budget.* So long as a program’s spending has not been reduced, giving it “off- budget” designation does nothing to change its economic impact. However, off-budget designation would tend to shield a program from annual budget process scrutiny. Exactly the intended result. Deficits go up or down based on the government’s actual cash flows, not by how those cash flows are treated in a bookkeeping sense.
- *Selling assets to pay for current operating costs.* Proceeds from the sale of government physical or financial assets can pay for the cost of government operations in the very short term, but do nothing to address the long-term structural budget deficit. Counting on proceeds from asset sales is akin to holding a garage sale to pay this month’s rent. It does nothing to help you pay the rent next month, or the month after that. Some government assets, such as oil reserves, generate revenues that would be lost in the future if these assets were sold. The price paid by purchasers might not reflect fairly the value of these future revenues. Finally, asset sales transfer ownership from the public to the private sector, but they do nothing to increase net national saving. Privatization of government assets should be evaluated on the merits of whether the enterprises or entities should be in public or private hands, but assets should not be sold as a way of balancing the budget.
- *“Triggers” or contingency provisions that raise taxes or require draconian discretionary spending cuts in the future if budget deficits are higher than a specified level.* Tax cuts that disappear or discretionary spending levels that plummet steeply after a few years if budget deficits exceed a specified level have been contained in prior budget plans. Inclusion of triggers and contingencies is a signal that the plan has come up short and that padding is required to reach the target.
- *Policies contrived to hold costs down during the budget estimating window.* Another deceptive technique in a budget plan is to include attractive tax or spending initiatives that have a modest impact during the years before the budget is supposed to be balanced and then entail large costs as they become fully effective thereafter. A plan to balance the budget, *and keep it in balance*, cannot include such time bombs. (See criteria #7.)

7. Does the plan keep the budget in balance in the decades after the baby boom generation ages and entitlement costs explode?

A budget that ignores the huge impending fiscal impact of the boomers retirement might eliminate the deficit in the short-term and remain precariously in balance briefly thereafter, but it will not prove sustainable in the face of the enormous projected cost of the coming senior boom. It is essential that a budget plan lay the foundation for dealing with an aging America.

Tinkering piecemeal with the programs that support retirees—chiefly Social Security, Medicare and Medicaid—treats each as a separate and self-contained problem. This, in turn, leads to lack of coordination in policies affecting the same people and fosters the illusion that the rising cost of any individual program can be afforded. A balanced budget plan should not be based on a strategy that merely seeks to keep individual programs technically “solvent” for the next decade, but rather on fundamental structural changes that put benefits for seniors on a coherent, sustainable and affordable basis so that both beneficiaries and taxpayers can know what to expect in decades to come.

Providing for the well-being of the young is how every generation of Americans has traditionally undertaken their stewardship. Except ours. Generational responsibility is a sacred trust. A balanced budget plan should address this generational obligation by investing in the future, achieving a permanently balanced budget or even modest surpluses during sustained periods of peacetime prosperity, and asking citizens of all ages, including those who are elderly and who have the means, to contribute to solving this national problem not only for ourselves, but for generations to come.

8. Does the plan distribute short-term sacrifice fairly and equitably among Americans of all ages and income groups, expecting the wealthy to do their fair share, and exempting only the very poor?

We are all in this together. The fruits of a balanced budget will be enjoyed by all. Thus, no economic group, except for the very needy, should be exempt from contributing to eliminating the federal budget deficit, and those who can more readily shoulder the burden should be asked to do so. No generation, including seniors, should be exempt from contributing to solving this national problem. Exempting programs and benefits that go to seniors, which make up more than one-third of total outlays, would put a greater burden on programs and benefits that go to children and others. In short, no group or program should be eliminated from consideration on the basis of political calculations.

9. Can the plan attract substantial bipartisan support?

Starkly partisan budget proposals may appeal to true believers and party loyalists, but they are not likely to be enacted and even less likely to be enforced. A plan that cannot be enacted or enforced is nothing more than a rhetorical exercise. The best way to ensure that a plan can stand up over the several years that may be required to achieve results is to infuse it with broad bipartisan support from the beginning. This, in turn, requires that priorities be set and compromises be made. Everything must be on the table, including the politically charged areas of entitlement reform and taxes.

10. Does the plan contain credible enforcement mechanisms?

The Budget Enforcement Act of 1990 (BEA) established caps on discretionary spending, and a pay-as-you-go limitation on entitlements spending and tax cuts. By helping to constrain fiscal policy, these budget enforcement mechanisms made a direct contribution to the more favorable budget outlook that developed by the end of the 1990s.

The lesson to be learned from the overall success of the BEA is that budget process, while no guarantee, can be an important tool in achieving strategic long-term goals. These mechanisms helped Congress manage the political pressures inherent in our competitive political system in which the rewards for reducing taxes and delivering helpful benefits are more immediate and direct than the distant, diffuse and indirect rewards for prudent financial stewardship.

The statutory enforcement mechanism of the 1990 BEA has now expired. Congress will need a set of rules to help enforce any plan it may adopt to rebalance the budget. There are too many claims on too few dollars to declare that formal budgetary restraints are no longer necessary. And while it cannot be said that either discretionary spending caps or paygo worked very well after surpluses emerged in 1998, it is clear that in the new post-September 11 environment a more realistic prioritized allocation of budgetary resources is called for than has recently prevailed. The need to respond to both new challenges and the remaining long-term challenges should inspire the political will to adopt a new enforcement regime and make it work.