Taming the Deficit
Forge a Grand Compromise for a Sustainable Future

William Frenzel, Charles W. Stenholm, G. William Hoagland, and
Isabel V. Sawhill

Summary

Currently projected deficits are unsustainable and pose serious risks to the economy, make us dangerously dependent on other countries, impose a “debt tax” on every taxpayer, send the bill for current spending to future generations, and weaken the government’s ability to invest in the future or respond to emergencies. The next President will have to act to meet the deficit challenge.

Specifically, Presidential candidates should commit to restoring fiscal balance over the next five years and to constructing a sustainable fiscal course over the long term by reforming entitlements and taxes as soon as possible. They should emphasize to the public that the deficit matters and pledge to work in a bipartisan way to tame it; they should agree to putting all options on the table, provide an outline of the reforms needed on both the tax and spending sides of the ledger, and be candid with the American people about the magnitude of the problem. Candidates also may want to propose reforms to the budget process, but these alone will not restore fiscal balance.

This paper presents detailed proposals in order to illustrate what a defensible deficit reduction package might contain. None of the authors entirely support every component, but the package as a whole shows that it is possible for people of good will to come together and produce a deficit reduction plan that gets the job done.

Context

The federal government is spending beyond its means. Surpluses of the late 1990s have been transformed into deficits that hovered around $300 to 400 billion a year in the first half of the current decade and stood at $248 billion in FY06. Although the picture seemed to improve somewhat by early 2007, any good news is likely to be short-lived, for two major reasons. First, and most important, the retirement of the baby boom generation and rapidly rising *per capita* health care costs will soon produce substantially larger deficits, unless action is taken to reform Social Security, Medicare, and Medicaid. Second, although official projections show the deficit withering away, this rosy outlook is due to the statutory requirement that the Congressional Budget Office (CBO) adopt several unlikely assumptions, including the complete expiration of recently enacted tax cuts. Under a more realistic scenario, deficits could swell to $535 billion by 2016 and continue increasing in subsequent decades as the population grows older and health care spending keeps climbing.

By the early 2030s, assuming health care costs grow at their historical rate, the three major entitlement programs will absorb *all* of the federal government's projected revenues (Figure 1). To prevent the elimination of the rest of government, either taxes would have to be raised by half, or benefits for seniors would have to be drastically curtailed. In short, projected deficits are enormous and unsustainable, and almost everyone agrees that there is no plausible rate of economic growth that will enable us to "grow our way out" of the problem.[1]

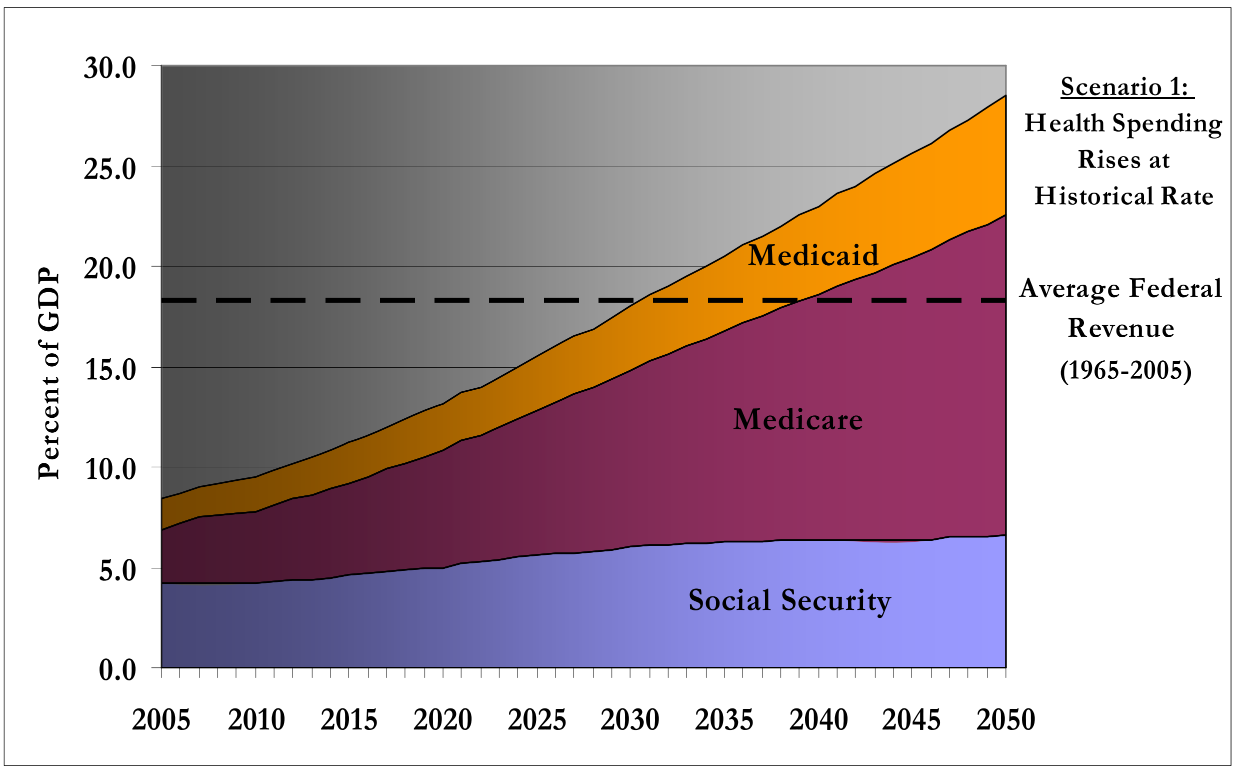
Why Deficits Matter

Why is it vital for any candidate for President to address this issue? Continuing deficits pose a serious threat to the economy. At present, the effects of deficits are masked by the willingness of other countries to lend us money, thereby allowing us to live beyond our means. Three-fourths of recent-year deficits have been financed by foreigners,

[1] According to the Congressional Budget Office, an increase in the growth rate of real GDP of one-half of one percent per year for each of the next five years would reduce the deficit by only $75 billion. *Budget and Economic Outlook: Fiscal Years 2007 to 2016,* Appendix C, p. 123.

including the central banks of China, other Asian nations, and oil-exporting countries in the Middle East.[2] Without this influx of money from abroad, our economic strength would erode. It would be more expensive for both businesses and households to borrow; interest rates could rise by two percentage points, increasing the cost of a typical mortgage by more than $2,500 per year[3]; the value of the dollar would fall; a recession would likely follow; and growth in the American standard of living would slow. The exact scenario is unpredictable, and it could be a gradual adjustment (soft landing) or a full-scale economic crisis. Either way, our mounting indebtedness to foreign countries means that we are losing control of our economic destiny.

FIGURE 1. PROJECTED SPENDING GROWTH FOR MAJOR ENTITLEMENT PROGRAMS



Source: Congressional Budget Office, *The Long-Term Budget Outlook*, December 2005, Scenario 1.

---

[2] Authors' calculations, based on data from: U.S. Treasury Department, *Major Foreign Holders of Treasury Securities*, through August 15, 2006; U.S. Bureau of the Public Debt, *Monthly Statements of the Public Debt*, through July 31, 2006.

[3] Authors' calculations, assuming a 20 percent down payment on a $225,000 house, with a 30-year fixed-rate mortgage. (In 2005, $225,000 was the median sale price for an existing single-family home, as reported by the Joint Center for Housing Studies at Harvard University, *The State of the Nation's Housing: 2006,* October 2006.)

Besides threatening the economy, continuing deficits enlarge the national debt and require that more tax dollars be devoted to servicing it. These interest payments absorb nearly one-tenth of all tax revenue and, in 2005, cost the average family more than $1,600.[4] When Americans pay their taxes each year, they increasingly are paying for the privilege of borrowing more and forgoing the opportunity to reduce tax burdens or devote these dollars to defense, education, or other programs.

Deficits shift the costs of government from current to future generations. Sometimes, borrowing is justified: to cover the costs of a national emergency or to bolster the economy during a recession. However, currently projected deficits are *structural* and not the result of special needs—such as the 2001 recession, the wars in Iraq and Afghanistan, and Hurricanes Katrina and Rita.

Finally, deficits limit the nation's ability to respond effectively to future emergencies or to make public investments in areas such as national security or education. In an avian flu epidemic or deep recession, the federal government's ability to act would be encumbered by red ink.

In short, the nation's current fiscal stance threatens the economy, makes us dangerously dependent on the rest of the world, imposes a "debt tax" on every American, sends the bills for current spending to future generations, and weakens the ability of the federal government to invest in the future or respond to crises.

Solutions to this problem will require that elected officials take what initially may be unpopular steps to both raise taxes and cut spending. Congressional leaders are well aware of the problem but are hampered by the breakdown of the budget process in recent years and a lack of trust between the two political parties. *Presidential leadership is needed to break the impasse and move the country toward fiscal balance.*

---

[4] Authors' calculations based on data from: Census Bureau, "Table F-5: Families by Median and Mean Income," September 2006; Congressional Budget Office, "Historical Effective Tax Rates: 1979-2003," December 2005, Table 2A; Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2006, Tables 1-3.

Address the Issue Squarely

Presidential candidates should not be expected to provide detailed blueprints for reducing the deficit. Prior to entering office, candidates do not possess the detailed knowledge and staff resources necessary to navigate complex budget issues. However, all candidates can and should do the following:

- state unequivocally that deficits **do** matter
- commit to restore fiscal balance over a reasonable time period, such as five years, and to put the nation on a sustainable fiscal course by reforming entitlements as soon as possible
- pledge to work in a bipartisan way to achieve this objective
- put all issues and options on the table: entitlements, revenues, defense, and all other spending categories
- outline the spending cuts and revenue increases needed to achieve short-term fiscal objectives and the changes needed in Social Security and Medicare to maintain long-term fiscal discipline
- be candid with the American people about the nature and magnitude of the challenge, acknowledging that the problem cannot be solved simply by cutting fraud, waste, and abuse, curbing earmarks, raising taxes on the very wealthy, or streamlining government
- propose reforms to the budget process without assuming that these alone will be sufficient to restore fiscal balance

These are the minimal requirements for any candidate asserting a claim to fiscal responsibility. In their absence, the next President will have no mandate to lead the way to a solution.

Aim toward a Grand Compromise

Serious deficit reduction will require bipartisan support, regardless of which political party holds the White House. Enacting a durable solution will depend on respecting certain principles and values that each party holds dear:

- **A balance of spending cuts and revenue increases** and an agreement that the bulk of the savings will be devoted to deficit reduction and not to tax cuts or increased spending. However, to sweeten the package, and in recognition that some high-priority tax reductions (e.g., reform of the Alternative Minimum Tax, or AMT) and additional funding for selected cost-effective investments can strengthen the nation as much as reducing the deficit can, some of the savings could be devoted to these purposes.
- **Sensitivity to conservative concerns** that higher tax rates might reduce incentives to work, save, and invest, thereby weakening economic growth, and that, in the absence of constraints on spending, government will absorb too large a proportion of national income.
- **Sensitivity to liberal concerns** that tax burdens and spending cuts should be fairly distributed and that government has a positive role to play in improving the economy, providing a safety net for the vulnerable, and making strategic investments undervalued by the private sector.
- **Improving the efficacy of government** through the elimination of poorly performing programs and the reallocation of some funding to more cost-effective uses. The objective is not bigger government or smaller government, but smarter, more efficient government.
- **Recognition that entitlement programs, especially Medicare, drive spending growth** and that the small, non-defense discretionary portion of the budget (18 percent) cannot carry the deficit-reduction load.

The illustrative plan that follows applies these principles. It would eliminate the deficit within five years and set the budget on a sustainable and fiscally responsible trajectory (Table 1). The package is about evenly divided between expenditure reductions and revenue increases. Over time, spending reductions will come primarily from curbing the growth in entitlements. For the first five years, though, to protect current beneficiaries and allow time for political compromises to emerge, most cuts focus on discretionary programs. The plan would raise revenue through broadening the base of the tax system, instituting a tax on energy, and promoting tax compliance. Once the steps needed to achieve balance are in place, a portion of the projected interest savings—a “fiscal responsibility dividend”—is earmarked toward initiatives to strengthen the nation, by replacing wasteful spending with productive investments. The remainder is reserved for deficit reduction.

TABLE 1. ONE PATH TO A BALANCED BUDGET

	FY 2013 (in $ billions)
Revenue Increases	206
Outlay Reductions	219
Discretionary Spending (Hard Freeze)	124
Social Security, Medicare, and Medicaid Reforms	38
Reduced Debt Service	57
Subtotal	*425*
Additional Investments	(37)
Net Impact of Proposals	388
Projected Deficit	(388)
Resulting Surplus (Deficit)	**0**

Note: The cost estimates for new investments include the associated debt service.

Restrain Spending

The federal government spent $2.7 trillion in FY06. While much of the public believes that the federal budget is bloated, interest groups lobby vigorously to maintain favored programs, with support from relevant agencies and congressional champions. As a result, spending has grown through Democratic and Republican administrations alike, although rarely more rapidly than during the last five years.[5] Scores of programs have accumulated that, at best, have had modest impacts, have cost far more than they were worth, and have increased burdens on the average taxpayer in order to benefit relatively small but politically powerful groups. Specific examples of programs that could be cut will be found in a series of Brookings papers and books (see Additional Resources).

We propose a very simple, if draconian, solution: *set a freeze on all discretionary programs.* This cap would permit trade-offs between programs but require that any increase above current levels be paid for by cuts in other programs. A freeze would save $268 billion over five years, starting in 2009.[6] This approach spreads the pain widely and puts the onus on the President and Congress to make the case for any exception. Presidential candidates should commit to a freeze and promise to veto any breach. Combined with short-run adjustments in the major entitlement programs and revenue increases, discussed later, this approach would balance the budget in 2013, when constraints could be eased.

Not just domestic spending needs to be reined in. Department of Defense spending totaled $499 billion in FY06, exceeding real expenditures at the height of the Korean War and approaching a level not witnessed since the Second World War. A significant component of the increase is attributable, broadly, to the Global War on Terror.

---

[5] From FY 2002 to FY 2006 (estimated), total federal spending grew at a faster inflation-adjusted rate than during any administration since Lyndon Johnson's. Authors' calculations from *Budget of the United States Government: FY 2007*, Tables 1.3, 4.1, and 8.2.

[6] Authors' calculations from the Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2007 to 2016*, August 2006, Tables 1-3 and 1-8; Tax Policy Center, "Outlook Tables," August 2006; Congressional Budget Office, *Long-Term Implications of Current Defense Plans and Alternatives: Summary Update for Fiscal Year 2006,* October 2005. Baseline assumptions regarding discretionary spending are explained in "Taming the Deficit," February 2007.

However, the Defense Department continues to fund numerous weapons systems with little regard for their relevance to current threats or to their performance on measures of cost-effectiveness, ability to meet production timelines, or likelihood of delivering promised capabilities. The defense acquisitions budget reasonably could be trimmed by $35 billion per year.

Reform Entitlements

Social Security, Medicare, and Medicaid are popular because they help a large portion of the population meet essential retirement and health care expenses. However, these three programs, especially Medicare, are the major reason that we are on an unsustainable course *after* 2013. No amount of reasonable cuts in other programs or revenue increases can meet the long-term fiscal challenge they pose, and the next President and Congress must address this challenge.

Social Security

Although President Bush's 2005 attempt to reform Social Security was unsuccessful, the entire system still must be placed on a more solid financial footing.[7] According to the program's Trustees, benefit payments will exceed payroll tax revenues within the decade. The only ways to restore solvency to the system are to reduce benefits or to raise taxes, but almost no one supports changes that would harm current beneficiaries. Instead, many experts believe the solution will entail: adjusting the age of retirement to reflect greater longevity, encouraging people to remain in the workforce longer, reducing the future growth of benefits for the more affluent, and encouraging workers to save more for their own retirement in personal accounts outside Social Security.

Further, Social Security revenues could be increased by raising payroll taxes. Removing the cap ($97,500 in 2007) on payroll taxes would increase funding especially if it were combined with a change in the benefit formula for those at the top

[7] Whatever one thinks about the merits of 'carve-out' private accounts, they do not address the fiscal challenges facing the current system and instead would only make matters worse for a number of decades, because the diversion of payroll taxes into private accounts would leave the current system of benefits underfunded, requiring more borrowing to make up the difference.

of the earnings scale. Some of the resulting additional revenue could be used to reduce the payroll tax rate.

Significant progress also can be made within the next five to ten years, by changing the way in which benefits are indexed for inflation and by accelerating implementation of the scheduled increase in the normal retirement age from 66 to 67. These changes would yield close to $20 billion in annual savings within a decade. Presidential candidates should consider these or other options, publicly outline their thinking on the issue, and pledge to work with members of the opposite party to craft a solution.

Medicare, Medicaid, and the Health Care System

Health care expenditures in the United States have been growing 2.5 percentage points faster than the economy since 1960. Further, the U.S. health care system is inefficient, costing far more and possibly delivering fewer benefits than more heavily government-financed systems in other developed countries.[8] Reforming the *entire* health care system, not just the public programs, should be a very high priority. The next President must address the challenge of reducing health expenditures, while ensuring that patients have access to the benefits of cost-effective medical advances. Although the task is exceedingly difficult, the stakes could not be higher. Indeed, the entire U.S. fiscal problem can be viewed, in essence, as a health care problem. Slowing the growth of health spending would enhance the nation's competitiveness while reducing most of the nation's long-term deficit.

Experts have suggested diverse strategies: collecting more evidence on effective treatments and creating incentives for patients and providers to use that evidence; instituting electronic health records; emphasizing more preventive care; and more effectively managing chronic diseases, such as diabetes and asthma. Health care financing ideas for encouraging consumers to make thriftier choices include greater reliance on prepaid managed care and high-deductible health plans linked to health savings accounts. Some experts believe that the states are the best place to introduce

[8] To illustrate, U.S. *per-capita* health expenditures were more than twice those of the other Organization for Economic Cooperation and Development (OECD) countries in 2002. .

these or other reforms; however, the most notable example of state-based reform to date—the one being implemented in Massachusetts—contains little in the way of real cost containment and thus may not be an ideal national model. In any case, the federal government should take the lead. As large payers, Medicare and Medicaid have tremendous influence over practice patterns and prices overall and can access huge data sets on the costs and outcomes of clinical care.

The above-mentioned strategies are designed to work within the current employer-based system, supplemented by public programs that provide subsidies to the elderly, the disabled, and the poor. More fundamental reforms that replace the existing system may be needed. An example would be guaranteeing everyone access to a basic health insurance plan, with income-related subsidies for the less affluent and constraints on total public spending that would automatically trigger a tax increase if exceeded. Americans should have whatever level of publicly sponsored health care they want, but only if they are willing to pay for it.

Are such comprehensive financing reforms feasible? We cannot know, unless more effort is expended on fully articulating their designs and putting them on the agenda for debate and discussion. The essence of the social contract implicit in many parts of these plans is universal access to care in the short-run, coupled with limits on spending in the longer run.

Presidential candidates should educate the public on both the nature of the health care financing problem and the solution they favor. Leadership is critical. Past failures to achieve consensus do not justify inaction; indeed, the difficulty of achieving consensus is the reason to start now.

Enhance Revenue

Adopting the changes proposed so far would reduce discretionary spending 11 percent relative to adjusted baseline projections for 2013. In addition, Social Security, Medicare, and Medicaid would each undergo extensive restructuring, yielding modest savings in the near term ($38 billion in 2013) and substantial savings over the long term, as each of the major entitlement programs assumed a sustainable trajectory. The shorter-term savings come from more accurate indexing of Social Security benefits, charging higher premiums to more affluent Medicare beneficiaries, and other similar changes (see Additional Resources for more detail).

Unfortunately, the proposed expenditure reductions can stanch only half the budgetary red ink within the five-year horizon. Limiting spending further would require draconian cuts in domestic discretionary spending, imprudent reductions in resources for national security, or reneging on promises to current Medicare and Social Security beneficiaries. Spending cuts of this sort almost certainly would derail any political compromise between moderates in both parties. Accordingly, a non-negligible component of any effort to balance the budget must involve revenue enhancements—which is not merely a coy term for “tax hikes,” but a strategy to link increases in tax receipts with efforts to facilitate economic growth, improve economic efficiency, simplify the tax code, and promote fairness.

The following revenue package respects these principles and has four components (Table 2): collecting more of the taxes already owed; broadening the tax base by curbing various deductions and exclusions; imposing a new tax on energy consumption to combat global warming and improve energy security; and reforming the AMT.

TABLE 2. REVENUE PROPOSALS

Revenue-Raising Measures	2009	2010	2011	2012	2013
1. Narrow the Tax Gap	**25**	**26**	**27**	**29**	**30**
2. Broaden the Base*	**98**	**128**	**133**	**136**	**139**
Limit itemized deductions to 15%	50	68	70	71	71
Limit exclusion on employer-paid health insurance	49	60	63	66	69
3. Impose a Carbon Tax	**10**	**21**	**33**	**34**	**36**
Net effect	**133**	**176**	**193**	**199**	**206**
Revenue-Neutral Reform of the Alternative Minimum Tax					
Index AMT Exemption Levels	-1	-2	-4	-5	-7
Freeze Estate Tax at 2009 Level	0	16	18	19	21
Net effect	-1	14	14	14	13

Sources: Brookings-Urban Tax Policy Center, Tables T07-0032, T07-0034, T07-0035, T07-0036, T06-0214, and T06-0124; Rogers, Diane L. "Reducing the Deficit Through Better Tax Policy." Brookings Budgeting for National Priorities Paper, January 2007.
Notes: The AMT reform produces revenue over the next five years, but is revenue-neutral over a longer time frame. For a more detailed discussion of these components and several variants, see "Taming the Deficit," Brookings Budgeting for National Priorities Paper, February 2007

Promote Compliance with Existing Tax Law

Collecting taxes that are lawfully owed should be a high governmental priority. In its most recent review, the IRS estimated a 14 percent noncompliance rate for 2001, resulting in $290 billion in missing revenue. "Tax gaps" of this magnitude necessitate higher tax rates for those who do pay and could induce a downward spiral in compliance, as honest taxpayers abandon what they perceive as an unfair system.

The IRS should be given statutory authority to require more third-party information reporting and withholding (such as reporting cost bases of security transactions and subjecting corporate taxpayers to similar 1099 requirements as unincorporated businesses). In addition, new resources should be devoted to enforcement. The IRS enforcement workforce declined 36 percent between 1999 and 2005. IRS

Commissioner Charles Rossotti stated that $2.2 billion in additional enforcement funding would recover $30 billion from identified, noncompliant taxpayers for 2002. Although most experts are skeptical about the ability of such enforcement efforts to increase revenues in the absence of reform and simplification of the tax system, we assume some $25 billion in additional first-year net revenue could be obtained by narrowing the tax gap through better enforcement.

Broaden the Tax Base

Since the 1986 Tax Reform Act, the tax code has been riddled with 14,000 new exclusions, exemptions, deductions, credits, and preferential tax rates. From 1974 to 2004, the Treasury Department reported that the number of such losses, known as tax expenditures, more than doubled. Tax expenditures introduce complexity, needlessly raise the costs of compliance, provide little benefit to the two-thirds of households who do not itemize, are regressive, conceal subsidies, and often provide tax breaks for behavior that would have occurred even without the tax benefit. Consider this: the revenue loss from savings incentives in the tax code is greater than total personal savings.

There are a number of ways to broaden the tax base. One is to eliminate most itemized deductions in favor of a standard deduction for everyone, with a few exceptions for unusually high expenditures (like medical care), which might reduce one's tax-paying ability. A more politically feasible alternative, endorsed here, is to turn almost all itemized deductions into a 15 percent credit against taxes. Further, the tax code should limit exclusions from income of employer-paid health insurance premiums and certain other health-related tax expenditures. The limit could be set at the average premium paid in the year of enactment; assuming the limit was not indexed over time, it would gradually increase the incentive for employers and employees to make better health care choices. Finally, if the taxable income threshold for the Social Security payroll tax were increased, the additional revenues could be used either to shore up the financing of Social Security benefits in a progressive fashion or to finance a small reduction in the payroll tax rate (e.g., from 6.2 to 5.35

percent for both employers and employees). In total, these changes would raise $139 billion in 2013.

Enact an Energy Tax

A new energy (carbon) tax would promote energy efficiency, reduce dependence on oil imports from unstable parts of the world, and combat global warming. The current level of energy taxation in the United States is anemic by international standards, measuring only two-thirds the OECD average.

Experts from Resources for the Future, The Brookings Institution, and the World Resources Institute support a carbon tax, administered upstream, where carbon-laden fuels are imported or produced. Recommended here is a modest carbon tax of $15 per metric ton, phased in over three years, to produce revenue of $35 billion per year once phased in. Under a cap-and-trade system with a "safety valve" pricing mechanism,[9] the government would cap permissible emissions but allow firms to buy and sell allowances among themselves. When the price reached the "safety valve" level, the government would auction off additional allowances to bring in more revenue.

Reform the Alternative Minimum Tax (AMT)

As currently structured, the AMT, originally designed to prevent high-income households from evading federal taxes, will impose higher tax rates on an increasing proportion of households—nearly 30 million taxpayers by 2010. Revenue-neutral reform of the AMT would neither lower nor raise tax rates overall, but simply create a fairer, more sustainable tax structure. This can be accomplished by holding constant the percentage of taxpayers subject to the AMT and recouping the revenue this would lose by freezing the estate tax at its 2009 exemption levels ($3.5 million per individual, $7 million per couple) with a 45 percent rate of taxation. With these

[9] In conjunction with the carbon tax, the President and Congress also could eliminate harmful, inefficient, and redundant tax subsidies related to energy. These include, but are not limited to, expensing of exploration and development costs for extractive industries, corn-based ethanol subsidies, and the "percentage depletion" rules for extractive industries. These additional measures should recover $15 to 20 billion in revenue each year.

parameters, less than one-half of one percent of estates would be subject to estate taxes, and the AMT would no longer threaten middle- or upper-middle-income families.

Reinvest a Portion of the Fiscal Responsibility Dividend

The plan outlined here would slow the accumulation of debt and reduce interest costs,[10] producing a "fiscal responsibility dividend" that would total about $57 billion by 2013—more than enough to close the remaining fiscal hole. We propose devoting $20 billion of this dividend to deficit reduction and the remaining $37 billion to investments in the nation's future, although none of the dividend should be spent until the CBO certifies that the deficit has been lowered enough to truly produce the dividend. Following this verification, areas for spending might include:

- sliding-scale subsidies for early childhood education, at an estimated cost of $18 billion in 2009 and $97 billion over five years (even under conservative assumptions, these programs return more than $2 in benefits for every $1 in costs)
- international assistance, a long-run strategy that would help defuse terrorism
- biomedical research, electronic medical records, and covering the uninsured, as a prelude to fundamental health care reform

Break the Legislative Stalemate

In deficit reduction, it has been almost as difficult to get agreement on *how* to proceed as on *what* to do. Some process reforms could provide political cover for the tough choices that need to be made and thus could help break the stalemate.

In 2006, President Bush called for a bipartisan entitlement commission. Democrats balked at participating, mainly because taxes were not part of the deal. A future commission would need highly respected co-chairs (similar to the 9/11 Commission), an equal number of Democrats and Republicans, a mandate to tackle not only entitlements but also tax reforms to enhance revenue, and a requirement that a

---

[10] In part the interest savings occur because of the reduction in the accumulation of debt, and in part because interest rates are likely to be lower in response to less borrowing. We conservatively include only the first of these effects.

supermajority of commissioners support its recommendations. In addition, the President and Congress should agree to consider commission recommendations on a fast-track basis.

For discretionary programs, the recent revision of House rules to reinstate pay-as-you-go financing is promising—although a firmer, statutory version of PAYGO that cannot be waived by the House Rules Committee would be preferable. Other process reforms worth considering include stating the long-term costs of present commitments in budget documents, giving the President enhanced rescission authority (a modified line-item veto), and creating a rainy-day fund in lieu of using supplemental appropriations to fund emergencies. They could also include biennial budgeting and appropriations, automatic continuing resolutions when Congress fails to pass appropriations bills, and simplified committee operations.

Concluding Observations

The nation will face a fiscal tsunami once baby boomers begin to retire. Any candidate for President who downplays the problem or avoids talking about specifics will ill-serve the public and forfeit any mandate to lead. This issue is too important to try to ignore until after the votes are counted.

About the Authors and the Project

William Frenzel

William Frenzel is a Brookings guest scholar. He retired from the U.S. House of Representatives in 1991 after serving his Minnesota constituency for 20 years. Frenzel was the ranking minority member on the House Budget Committee and a member of its tax policy committee. He served as special advisor to President Clinton for NAFTA, and on the Social Security Commission convened by President Bush.

G. William Hoagland

G. William Hoagland is vice president of public policy at CIGNA Corporation. A policy adviser and top budget aide to former Senate Majority Leader Bill Frist (R-Tenn.), Hoagland is an expert on federal budget policy, income security, and food and nutrition policy. He served as staff director of the Senate Budget Committee, special assistant to the Agriculture Secretary, and staff economist at the Congressional Budget Office.

Charles Stenholm

Charles Stenholm served the United States House of Representatives for 13 terms, representing his Texas district from 1979 to 2005. For six years, he was the ranking Democrat on the House Agriculture Committee. He is a longtime supporter of a balanced budget amendment to the Constitution.

Isabel V. Sawhill

Isabel V. Sawhill is a Brookings senior fellow and leads the Budgeting for National Priorities project. She is an expert on issues related to the federal budget, poverty, and inequality. She was an Associate Director at the Office of Management and Budget during the Clinton Administration.

Opportunity 08 aims to help 2008 presidential candidates and the public focus on critical issues facing the nation, presenting policy ideas on a wide array of domestic and foreign policy questions. The project is committed to providing both independent policy solutions and background material on issues of concern to voters.

Additional Resources

Aaron, Henry J., and Butler, Stuart M. "How Federalism Could Spur Bipartisan Action On The Uninsured." *Health Affairs*, Web Exclusive, March 31, 2004.

Auerbach, Alan J., Gale, William G., and Orszag, Peter. "New Estimates of the Budget Outlook: *Plus Ça Change, Plus C'est la Même Chose*," Brookings-Urban Tax Policy Center, April 2006.

Capretta, James. "Restraining Federal Domestic Spending." Brookings Budgeting for National Priorities Paper, January 2007.

Frenzel, William, Charles Stenholm, William Hoagland, and Isabel Sawhill. "Taming the Deficit." Brookings Budgeting for National Priorities Paper, February 2007.

Gluck, Frederick W. “Plain Talk About Health Care.” Brookings Budgeting for National Priorities Discussion Paper, February 2007.

Isaacs, Julia. “Cost Effective Investments in Children.” Brookings Budgeting for National Priorities Paper, January 2007.

Rogers, Diane L. “Reducing the Deficit Through Better Tax Policy.” Brookings Budgeting for National Priorities Paper, January 2007.

Sawhill, Isabel V., and Rivlin, Alice M., eds. *Restoring Fiscal Sanity: How to Balance the Budget.* Washington, D.C.: Brookings Institution, 2004.

Sawhill, Isabel V., and Rivlin, Alice M., eds. *Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenge.* Washington, D.C.: Brookings Institution, 2005.

Tebbs, Jeffrey M. “Pruning the Defense Budget.” Brookings Budgeting for National Priorities Paper, January 2007.

White, Chapin. “*Trends:* Health Care Spending Growth: How Different Is the United States from the Rest of the OECD?” *Health Affairs 26*:154-161, January/February 2007.