



U.S. Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Federal Spending Oversight

Senator Rand Paul, M.D. (Kentucky), Chairman



Chairman Paul's Penny Plan Budget: A Budget for Fiscal Year 2019



Chairman Rand Paul, M.D.

United States Senate

April, 2018

Executive Summary

As leader of the global economy, the United States should serve as an example of how to reduce the pressures and fragility of massive public debts and how to initiate internal structural and fiscally responsible reforms. In so doing, we can help ensure the integrity of the interconnected, global free-market economic system. Though the federal budget has long diverged from these principles, this budget resolution defies those trends, providing a strong fiscal basis from which the U.S. economy can continue to grow and flourish.

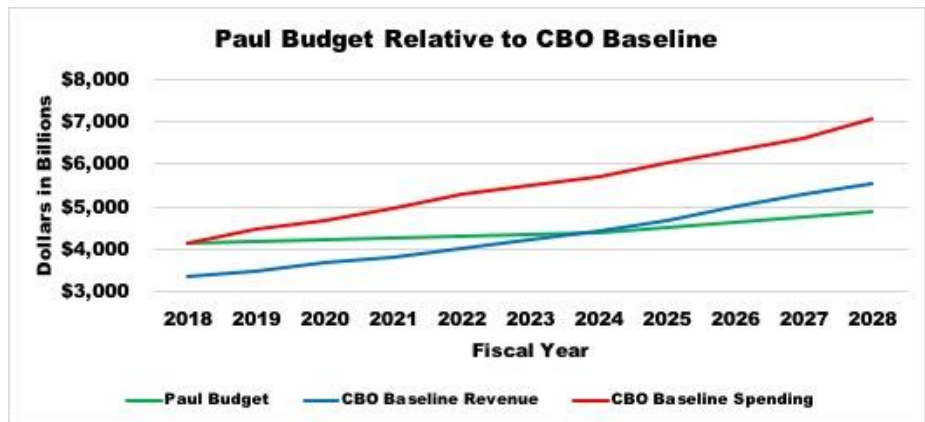
The Penny Plan

An important part of any budget resolution is its bottom line: does it balance? This budget balances in just five years without touching Social Security. Congress can achieve these savings by repealing the

Bipartisan Budget Act of 2018 and using the Penny Plan, which states that for every dollar the federal government spends in on budget spending in a fiscal year, it must spend one penny less the next year.

This budget is a particularly effective implementation of the Penny Plan, because rather than making nebulous policy assumptions that will never happen,

it sets out one common goal: balance. That is the one key assumption in this budget. Above all, the fiscal goal of each lawmaker should be a balanced budget. In order to achieve this goal, this budget simply requires Congress to make a one percent cut to on budget spending for five years. Rather than holding hands and agreeing to the common gluttony, this plan requires Congress to do the opposite: hold hands and sacrifice for the common good.



Health Savings Accounts

While ultimately it will be up to the authorizing committees to make policy and put forward legislation to implement this budget, the Finance Committee is provided a reconciliation instruction to reduce revenue by \$18.6 billion over the budget window to expand Health Savings Accounts. Expanding HSAs would certainly help improve health care in America, foster greater competition and consumer engagement, and ultimately help bend the cost curve.

Despite the challenges Obamacare has presented to all health insurance markets, HSAs remain a great option for Americans to cover more of their health care costs, as has been recently noted, with advantages that include the accounts not only growing tax-free, but account holders also not having to worry about state or federal taxes on their contributions.¹

One of the fundamental flaws in our current health insurance system is that insurance does not move with the individual from job to job, welfare to work, or into retirement. However, the individual owns their HSA, so it stays with them regardless of life changes, and there's no expiration date on the funds.² In order to better leverage the portability of HSAs, we should remove the high-deductible plan requirement so that individuals can not only possess an HSA throughout their life but continue to contribute to one.

¹ WillisTowers Watson, "Employees Fail to Take Advantage of Health Savings Accounts." Press Release. December 12, 2017. <https://www.willistowerswatson.com/en/press/2017/12/employees-fail-to-take-advantage-of-health-savings-accounts>

² O'Brien, Elizabeth, "Why 80% of Obamacare Plans are Ineligible for this Tax Break," MarketWatch. March 29, 2016. <https://www.marketwatch.com/story/why-80-of-obamacare-plans-are-ineligible-for-this-tax-break-2016-03-29>

Furthermore, Congress should expand HSAs by increasing the contribution limits – so that patients can save for the entirety of their out-of-pocket costs – and allowing for HSAs to be used to pay premiums. It should also expand eligible HSA disbursements to include dietary supplements, over-the-counter (OTC) medications, gym memberships, and other activities that promote wellness and reduce overall health care costs.

Reconciliation

The original purpose of budget reconciliation, as enacted by the Congressional Budget Act, was to supplement Congress' ability to bring existing spending, revenue, and debt-limit laws into compliance with the budget resolution's articulation of fiscal priorities. In recent years, this privileged process has morphed from reconciling current law into a tool both parties use when in the majority to quell minority rights in order to exclusively achieve whatever policy preference the majority desires. This budget returns reconciliation to its original intent by giving instructions to each committee with mandatory spending in its jurisdiction, not just Senate Finance, rather than selecting those with jurisdiction over areas in which the majority seeks to pass signature legislation.

Budget Process Reform

Unwillingness to balance, a long history of process failure, and entrenched powers-that-be have all resulted in a system in desperate need of reform. In addition to providing a plan to balance the federal budget in five years without touching Social Security, this budget includes a number of process reforms that would allow Congress to begin to see more positive results from the federal budget process in the future, including strengthening and enhancing enforcement mechanisms and the budget functions.

This budget requires that in years in which Congress does not adopt a budget, the funding levels in the out-years of the most recent budget resolution would be enforced. It also makes apportioned functional totals enforceable against other priorities - forcing the Senate to consider the relative value of each budget function.

It also raises the votes needed to waive budget points of order, reflecting the need for Congress to take its fiscal responsibilities significantly more seriously. Additionally, it creates a new point of order against any piece of legislation that contains funding subject to more than three different 302(b) allocations. This will effectively prohibit the use of omnibus appropriations bills, as well as limit consolidated appropriations and continuing resolutions to more easily avoid burying budget legislation in giant omnibus spending bills and forcing members to make binomial choices.

Though it is true that a portion of the duplication, fragmentation, and overlap comes from various presidential directives, Congress is not immune in this regard, often appropriating considerable funds to duplicative programs. It is for this reason that this budget includes a directive to the Congressional Budget Office (CBO) to amend its legislative scoring procedures to include a duplication assessment in each cost estimate.



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For more than 100 years, the United States has been the world’s economic leader, creating economic norms that have allowed the global free market economic system to endure. In today’s significantly economically globalized world, the United States should be the one nation in the world – the shining city on a hill, to borrow from President Reagan – that should be leading by example to reduce the pressures and fragility of massive debts; to initiate internal structural and fiscally responsible reforms; and, in doing both, ensure the integrity of the interconnected global free market economic system. This truism renders the readily apparent fact that Washington is broken all the more troubling. The 2017 Gallup poll, “Confidence in Institutions,” found just 12 percent of the American public have substantial confidence in Congress – up from 9 percent the year prior. To put that in perspective, 16 percent of respondents have a high level of confidence in internet news.³

Though the scourge of dysfunction has spread to many corners of the federal government, nowhere is it more evident than in the federal budget process. From start to finish, the budget process is riddled with delays, demagoguery, and dereliction of duty. The quality of results, or lack thereof, Congress has reaped from the budget process reflects what it has sewn. However, this affliction need not be permanent. But assuredly, the first step in the road to recovery must be to recognize a problem exists.

How Did We Get Here?

The modern congressional budget process began in 1921, when the public demanded Congress rein in deficits incurred throughout the course of fighting World War I.⁴ At the time, the federal deficit was roughly \$13 billion or, adjusted for inflation, approximately \$192 billion.⁵ **Congress chose to implement reforms because appropriations subcommittees had become “partisans of the particular departments committed to their care and sought to make out the best possible case for the grants requested instead of seeking to shed light on the efficiency of departmental administration.”⁶** In response to this eerily familiar phenomenon, Congress passed the

Congressional Budget Act of 1974 Budget Process Timetable	
<i>Date</i>	<i>Action</i>
First Monday in February	President submits the Executive Budget Proposal to Congress
February 15	CBO submits economic and budget outlook report to Budget Committees
Six weeks after President submits budget	Committees submit views and estimates to Budget Committees
April 1	Senate Budget Committee reports a budget resolution
April 15	Congress completes action on a budget resolution
May 15	Annual appropriations bills may be considered in the House, even if action on a budget resolution has not been completed
June 10	House Appropriations Committee reports last annual appropriations bill
June 15	Congress completes action on reconciliation legislation (if required by the budget resolution)
June 30	House completes action on annual appropriations bills
July 15	President submits mid-session review of his budget
October 1	Fiscal year begins
P.L. 93-344, 2 U.S.C. 631	

³ Gallup Polling, “Confidence in Institutions.” 2017. <http://news.gallup.com/poll/1597/confidence-institutions.aspx>

⁴ Dewhirst, Robert E., and John David Rausch, Jr. “Encyclopedia of the United States Congress,” Facts on File, Inc. 2007. <http://1.droppdf.com/files/BMJ8H/encyclopedia-of-united-states-congress.pdf>

⁵ Office of Management and Budget, “Historical Tables,” 2018. <https://www.whitehouse.gov/omb/historical-tables/>

⁶ Dews, Fred, “Brookings’s Role in ‘The Greatest Reformation in Governmental Practices’—the 1921 budget reform.” Brookings Institution. October 12, 2016. <https://www.brookings.edu/blog/brookings-now/2016/10/12/brookings-role-in-1921-budget-reform/>

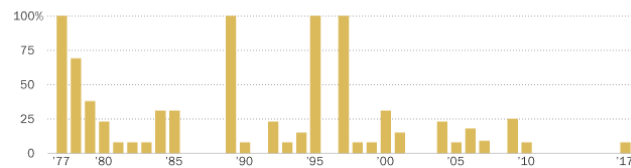
Budget and Accounting Act of 1921. But, notably, budgeting and spending decisions remained distinct processes until the Congressional Budget and Impoundment Act of 1974 (hereafter referred to as the Congressional Budget Act) joined the two processes into one.⁷

Congress included a detailed timetable in the Congressional Budget Act directing the President and Congress to follow a strict, 10-step process. But unfortunately, these guidelines are all but ignored by all parties lately.⁸ If only such delay were the reason the budget schedule collapses most years, but surely the blame lies with Congress. Congress has funded the government on time and under the process enacted through the Congressional Budget Act just four times: fiscal years 1977 (the first year the process was used), 1989, 1995, and 1997,⁹ amounting to a success rate of 9.75 percent over close to half a century. Put a different way, 89 of 100 senators currently serving in the Senate, including all members of the FSO Subcommittee, have never in their time serving in the Senate been able to vote to fund the government under the process governing the congressional budget process.

The 40-plus years of budget failures are clear to see. Because the Congressional Budget Act provides no penalty if Congress does not do a budget resolution, it has simply opted not to do so this year, as it has done nine previous times.¹⁰ In fact, when Congress adopted the budget resolution for FY 2016 in May 2015, it was

U.S. Congress rarely passes spending legislation on time

U.S. Congress rarely passes spending legislation on time
Percentage of stand-alone appropriations bills enacted on or before Oct. 1 of each fiscal year



Note: Although each fiscal year ends on Sept. 30, bills enacted by or on Oct. 1 are considered to be "on time."
Source: Pew Research Center analysis of legislative data from Congress.gov, Congressional Research Service.
PEW RESEARCH CENTER

the first budget resolution both chambers of Congress had adopted since April 2009.¹¹ In the years in which Congress has adopted a budget resolution, it has done so an average of 36 days after the target date included in the Congressional Budget Act.¹² Despite Congress' behavior indicating otherwise, budget resolutions are a necessary tool to ensure the fiscal health of the nation. Each resolution presents Congress with the opportunity to examine and revise the macroeconomic-level impact of federal outlay priorities from the previous fiscal year. In essence, budget resolutions allow Congress to alter debt, deficit, and revenue levels for the coming fiscal

year. If Congress were to ever find it appropriate to decrease spending from one fiscal year to the next, as it should, it would indicate its desire to do so through the budget resolution. Budgets inform spending, and without that skeleton the "body" falls apart. Priorities and conditions change from year to year, and when Congress opts to forego consideration of a budget resolution, it is declaring its satisfaction with not having a plan to address changing circumstances. Can one be surprised that in the intervening six years between FY 2010 and FY 2016, during which Congress adopted no budget resolutions, the federal government operated with trillion dollar deficits?¹³

Nevertheless, it would be folly to assert that our fiscal crisis would be resolved if Congress simply adopted a budget resolution each year. **Adoption of a resolution is certainly a necessary first step in the process, but it is merely a first step.** Congress has failed spectacularly in other areas of the budget process, as

⁷ House Committee on the Budget, "The Federal Budget Process." U.S. House of Representatives, December 7, 2011. <https://budget.house.gov/uploadedfiles/bprhistory.pdf>

⁸ Chistensen, Michelle, D., "The President's Budget: Overview of Structure and Timing of Submission to Congress." Congressional Research Service, July 25, 2013. <https://fas.org/sgp/crs/misc/R43163.pdf>

⁹ Desilver, Drew, "Congress has Long Struggled to Pass Spending Bills on Time." Pew Research Center, January 16, 2018. <http://www.pewresearch.org/fact-tank/2018/01/16/congress-has-long-struggled-to-pass-spending-bills-on-time/>

¹⁰ Heniff, Bill Jr., "Congressional Budget Resolutions: Historical Information." Congressional Research Service, November 16, 2015. <http://www.crs.gov/Reports/RL30297>

¹¹ *Ibid.*

¹² *Ibid.*

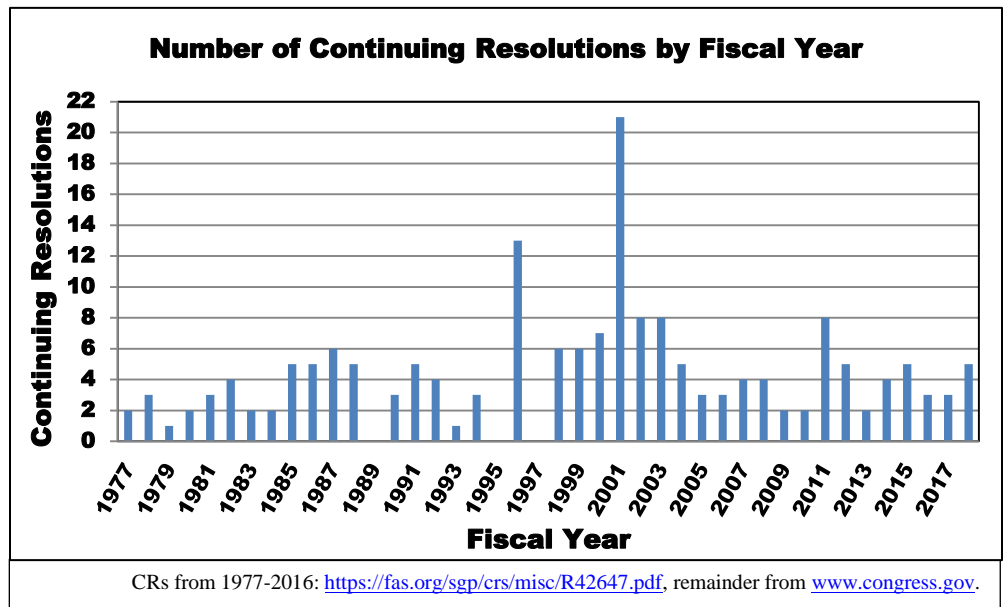
¹³ U.S. Treasury, "Historical Debt Outstanding – Annual 2000 – 2015." U.S. Treasury, June 8, 2016. https://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo5.htm

well. The Congressional Budget Act gives the Senate from, at the absolute latest, June 30¹⁴ to the beginning of the fiscal year in October to pass each of the 12 (or 13 before FY 2006) separate appropriations bills. For the current fiscal year, the House passed one of their 12 bills. The Senate passed zero.

In considering spending bills and debating the substance thereof, senators are able to make changes from spending levels in years prior. But for the previous 10 fiscal years, Congress has been able to pass just 10, 8 of which were late. Congress passed four for FY 2008 and six for FY 2010. This is a failure rate of 91 and two-thirds percent. Not since 2009 has Congress been able to vote on how, rather than whether, the government is funded.

Of course, the government has been funded, with few lapses, throughout that period - just by other means. Fiscal Year 2019 marks the 42nd year in which the Congressional Budget Act's timetable will guide the budget process. Though Congress has succeeded in adhering to its target dates just four times in that period, it has been successful in passing 181 continuing resolutions, some lasting for as short as a single day. Continuing resolutions are intended to be safety valves to avoid a government shutdown, and the need to resort to such

measures represents a fundamental failure. Rather than using such measures sparingly, Congress routinely relies on CRs, passing an average of more than 4 per year. **FY 2001 was a banner year for Congress in this regard. Congress passed a record 21 CRs, rather than 13 appropriations bills.**¹⁵ In fact CRs, and the explicit threat of a government shutdown should it be opposed, are used to jam through changes in



policies and funding levels which, if considered in

isolation, members of the House of Representatives and the Senate would vehemently oppose.

Moreover, rather than passing individual appropriations bills as the Congressional Budget Act instructs, Congress has crammed what should have been 175 distinct appropriations bills into 23 omnibus or so-called “mini-bus” spending packages, 7 of which were CRs, between 1986 and 2017. This is particularly galling, as the authors of the Congressional Budget Act also moved the beginning of the fiscal year back to October 1 from July 1 because it was thought the extra three months would be sufficient for Congress to act in a timely manner. Evidence suggests they were mistaken. When these delayed and Frankenstein’s monster-esque spending packages come before members for a vote, there are rarely opportunities for substantive debate or amending the text. What’s worse, in recent years, these monstrosities have become more frequent. From FY 1977 through FY 1997, Congress passed five omnibuses or consolidated appropriations bills.¹⁶ From FY 1998 through FY 2017, it passed 18.¹⁷ Though budget points of order (rules

¹⁴ The House is constitutionally required to act before the Senate on Appropriations bills. Should the House conclude its business early, the Senate may address appropriations bills prior to June 30.

¹⁵ Saturno, James V., and Jessica Tollestrup, “Continuing Resolutions: Overview of Components and Recent Practices.” Congressional Research Service, January 14, 2016. <https://fas.org/sgp/crs/misc/R42647.pdf>

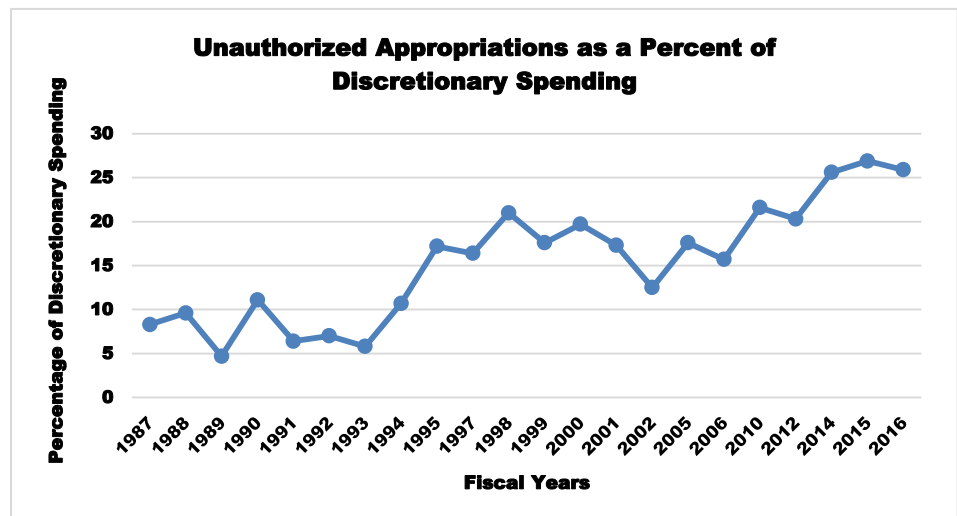
¹⁶ Saturno James V., and Jessica Tollestrup, “Omnibus Appropriations Acts: Overview of Recent Practices.” Congressional Research Service, January 14, 2016. <https://fas.org/sgp/crs/misc/RL32473.pdf>

the Senate has written out for itself, such as a prohibition on consideration of any legislation that would raise the deficit more than \$5 billion over 10 years) can be raised, they are not self-enforcing, and so a senator must declare one violated, after which the full Senate must vote to enforce it. Further, it poses no higher hurdle than passage.

Make no mistake, **the Senate frequently votes to ignore such objections. In fact, since 1981, there have been nearly 100 instances in which the Senate has simply opted to waive a point of order.**¹⁸ Budget points of order serve as prohibitions against various types of congressional actions or types of legislation and have been fixtures in the budget process since the Congressional Budget Act of 1974.¹⁹ Subsequent Congresses, most recently the 114th Congress, have adopted various additional points of order.²⁰ Though points of order prohibit certain actions, any senator can motion to waive the application of a point of order preemptively or, if he or she is being generous, after another senator raises the point of order.²¹ In practice, when the motion is made to waive, the Senate votes to either enforce, or ignore, the budgetary concerns involved. Depending on the point of order, it is waived by either a simple majority or 3/5ths majority vote to ignore the costs of whatever legislation the Senate is considering.²²

Just as a farmer cannot expect to grow healthy crops from a poisoned seed, lawmakers cannot expect fiscally sound results from a flawed process. At the end of FY 1997, the last year for which Congress adhered to the budget process, federal outlays were approximately \$1.6 trillion.²³ Adjusted for inflation, this represents roughly \$2.4 trillion in 2017 dollars. But just two decades later, government was spending 2.5 times what it was previously: \$4 trillion.²⁴ Is it any wonder that such a drastic rise in spending levels happened in the two decades during which the Congress failed to use the appropriate budget process?

Of course, the sole reason for such a meteoric rise in debt and spending levels cannot be entirely attributed to irregularities in the budget and appropriations process. Such abandonment of process does, however, preclude the opportunity to address unauthorized and wasteful spending. Though not included in the Constitution, House and Senate rules have required appropriations to have congressional authorizations since the mid-19th century.²⁵ Yet routinely, the vast majority of federal



Data note: Years in which appropriations bills or the defense authorization bill were not passed in timely manner were excluded from the chart. This is a recreation of a chart originally published by The Mercatus Center in an article entitled "Unauthorized Appropriations Continue to Grow."

¹⁷ *Ibid.*; Fiscal year 2017 sourced from www.congress.gov.

¹⁸ Federal Spending Oversight Subcommittee Staff Correspondence with CRS

¹⁹ Saturno, James V., "Points of Order in the Congressional Budget Process." Congressional Research Service, October 20, 2015. <https://www.senate.gov/CRSPubs/814bf855-39fc-4626-9356-4235537a6f89.pdf>

²⁰ *Ibid.*

²¹ *Ibid.*

²² Section 904 of the Congressional Budget Act of 1974 as amended

²³ Office of Management and Budget, "Summary of Receipts, Outlays, and Suppluses or Deficits 1789-2020." Executive Office of the President, 2016. <https://www.gpo.gov/fdsys/pkg/BUDGET-2016-TAB/pdf/BUDGET-2016-TAB.pdf#page=29>

²⁴ Congressional Budget Office, "Budget Projections for FY 2018." Congressional Budget Office, 2018. <https://www.cbo.gov/topics/budget>

²⁵ House Rule XXI and Senate Rule XVI.

discretionary spending expenditures remain unauthorized. CBO reported that in FY 2016, the last year for which there is data,²⁶ **lawmakers appropriated \$310 billion in unauthorized funds.**²⁷ **This represents roughly 52 percent of the total non-defense discretionary budget and 26 percent of all discretionary spending.**²⁸ **In FY 1999, unauthorized spending totaled \$35 billion, or just 10 percent of discretionary spending.**²⁹

Though the dual funding process may seem like an unnecessarily arcane step, authorizations serve as checks on zealous spenders by requiring a distinct body to approve funding from that which determines the level at which programs are funded. Congress instituted these procedures to bake an opportunity to reassess and improve federal programs into the funding process. It forces lawmakers to look at each activity receiving federal funds and deliberate on whether or not each federal program is necessary, how it can be improved, and at what funding level it is warranted. Without utilization of this process, programs such as Inter-America Foundation, a foreign aid organization last reauthorized in 1986³⁰ and tasked with funding projects in Latin America and the Caribbean (which has in the past funded such projects as teaching Argentinians to be circus clowns),³¹ continue to expend funds without significant oversight. Of course, the driver of our debt crisis is not unauthorized spending. However, this should not preclude Congress from proactively overseeing all federal funding.

But the truth of the matter is that federal **debt and deficits** do not come to be as a result of an unwillingness to address unauthorized spending. **A significant contributing factor is an unwillingness to address the fact that in Washington many, on both sides of the aisle, rail against slowing the rate of growth of a program as if the program is actually being decreased.** Only in Washington is slowing the rate of growth considered cutting it. Senators of both parties routinely come to the Senate floor or go in front of a camera to admonish their colleagues for cutting his or her favored priority or program, when in reality, those being admonished are merely suggesting that in the coming year the federal government spend more than it did this year, but perhaps not quite as much more. But characterizing such changes as a cut, rather than as a slowing of the growth of spending, does not help members fundraise or campaign as much as their saying that “Republicans want to pay for tax cuts with American lives” and “Democrats have hollowed out the military.” This sort of rhetoric from both parties makes advocating for even the mildest of spending reform politically infeasible for many senators and representatives that recognize the federal government has found itself in an extremely fiscally precarious place.

²⁶ Federal Spending Oversight Staff Correspondence with CBO

²⁷ Congressional Budget Office, “Unauthorized Appropriations and Expiring Authorizations.” Congressional Budget Office, January 15, 2016. <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51131-UAEA-Senate.pdf>

²⁸ Congressional Budget Office, “The Federal Budget in 2016.” Congressional Budget Office, 2016. <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/graphic/52408-budgetoverall.pdf>

²⁹ Christian, William, “Making Unauthorized Spending Wrong Again.” Citizens Against Government Waste, May 19, 2017. <https://www.cagw.org/thewastewatcher/making-unauthorized-spending-wrong-again>

³⁰ Congressional Budget Office, “Unauthorized Appropriations and Expiring Authorizations.” Congressional Budget Office, January 2018. <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/53444-eeaa-approps.pdf>

³¹ Inter-America Foundation Grant Number IAF-AR-352, A-1, & A-4

Guns & Butter

The dirty little secret around here is you can only get more military money if you give the other side more welfare money. We have warfare and welfare. That is guns and butter. It has been going on for a long time... [and what you] have is a looting of the Treasury, basically. Both sides are really culpable.

Senator Rand Paul, M.D. – Senate floor speech on February 8, 2018

The concept of Guns and Butter is a classic economic curve designed to demonstrate the idea of opportunity cost. For every X units of butter, you must sacrifice Y units of guns. There is simply no way to have both.

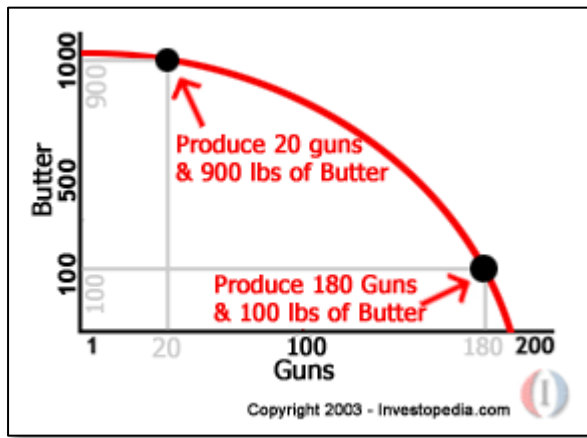


Figure 1 -
<https://www.investopedia.com/terms/g/gunsandbutter.asp>

Sometimes this trade off can be temporarily avoided through borrowing. Debt instruments allow a nation (and people) to trade future guns and butter for higher levels of both goods than they would be able to accommodate in the present.

In certain scenarios, borrowing (delaying the tradeoff) makes sense. In dealing with emergencies or making investments, the necessary sacrifices tomorrow will either be less than future gains (investment) or less than present losses and their long-term consequences (emergency).

Unfortunately, the common mistake people make (often intentionally) is to misidentify wants of guns and butter as justifiable needs – investments and emergencies. Unlike true investments and emergencies, which are usually isolated events, borrowing for wants usually is perpetual - that is, until the point that credit becomes unmanageable and the necessary sacrifice becomes worse than having never borrowed in the first place.

Nowhere is this more the case than in the federal government. In Congress, one camp sounds the alarm that without more defense spending (guns), Americans will not be safe. From the other camp we hear if there is not more domestic spending (butter), people will be left uneducated, naked, and starving in the streets. The end result is continual borrowing.

Unfortunately, the American people will ultimately pay a heavy burden in the not too distant future for these borrowing practices. **The irony is that, in the name of safety and prosperity, Americans will be LESS SAFE and LESS PROSPEROUS.**

What is most troubling is that America is careening toward ruin for no reason; neither guns nor butter are lacking or could not be sufficiently funded with resources available. This begs the question of why?

Deficits Don't Make Us Safe

Many raising objections to unbridled military spending often cite Admiral Mike Mullen, former Chairman of the Joint Chiefs of Staff, who noted, “Our national debt is our biggest national security threat.”³²

However, proponents of more military spending ignore this sentiment, asserting that U.S. military spending is at historic lows. But the numbers just do not support that claim. As Figure 2 shows, for the past decade, military spending has far exceeded its historic highs in constant dollars, with the exception of a few years.

In fact, military spending in 2018 was already projected to be more than the apex of the Reagan Cold War buildup, before the Bipartisan Budget Act of 2018 raised spending caps on military spending further - without paying for them. The so-called

“hollowing out” of the military

that some claim the Budget Control Act has caused at worst caused military spending to drop below the height of Reagan Cold War spending by just 1 percent on average for three years – adjusted for inflation. **Only in government can something be nearly the largest it has ever been and still be called “hollowed out.”**

Moreover, in 2015, this “hollowed out” **DOD itself identified a “clear path” to saving \$125 billion without laying off civilian personnel or making any military personnel reductions.** Instead, DOD would have “streamlined the bureaucracy through attrition and early retirements, curtailed high-priced contractors and made better use of information technology.”³³ **Instead of implementing the clear path, DOD buried the report, and cried to Congress that it was underfunded.**³⁴

Then there was the “Fat Leonard” scandal, where more than 480 Navy personnel, including 60 admirals, accepted bribes of “cash, prostitutes and other gifts” to influence defense contracts and outright defraud the federal government of millions of dollars, if not more.³⁵

The Special Inspector General for Afghan Reconstruction has identified millions of dollars wasted by DOD, including \$29 million in lost heavy equipment,³⁶ and at least \$675 million on the Task Force for Business and Stability Operations.³⁷ This of course is reconstruction, not defense. Could it be the case that our military’s nation-building activities are degrading its fighting capacity?

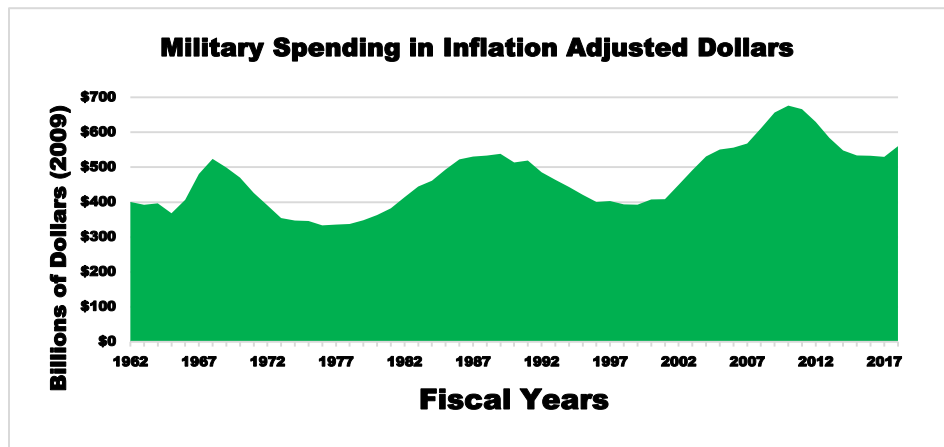


Figure 2 – Data from OMB Historical Table 8.8

³² Bassett, Laura, “Admiral Mike Mullen: ‘National Debt Is Our Biggest Security Threat.’” The Huffington Post, June 24, 2010. https://www.huffingtonpost.com/2010/06/24/adm-mike-mullen-national_n_624096.html

³³ Whitlock, Craig and Bob Woodward, “Pentagon Buries Evidence of \$25 Billion in Bureaucratic Waste.” The Chicago Tribune, December 5, 2016. <http://www.chicagotribune.com/news/nationworld/ct-pentagon-bureaucratic-waste-20161205-story.html>

³⁴ *Ibid.*

³⁵ Whitlock, Craig and Kevin Uhrmacher, “Prostitutes, Vacations, and Cash: The Navy Officials ‘Fat Leonard’ Took Down.” The Washington Post, March 26, 2018. <https://www.washingtonpost.com/graphics/investigations/seducing-the-seventh-fleet/>

³⁶ Special Inspector General for Afghanistan Reconstruction, “Afghan National Engineer Brigade: Despite U.S. Training Efforts, the Brigade is Incapable of Operating Independently.” Special Inspector General for Afghanistan Reconstruction, January, 2016. <https://www.sigar.mil/pdf/audits/SIGAR-16-15-AR.pdf>

³⁷ Special Inspector General for Afghanistan Reconstruction, “Statement of John F. Sopko before the Senate Subcommittee on Readiness and Management Support,” Special Inspector General for Afghanistan Reconstruction, January 20, 2016. <https://www.sigar.mil/pdf/testimony/SIGAR-16-14-TY.pdf>

Of course, all this spending and wasting comes from an agency that has never passed an audit and has claimed that is acceptable because of their size.

So, in this context, it seems Secretary Mattis might be misguided in saying the spending controls have harmed the military more than the enemy. But even if DOD is wasting money hand over fist (which it appears to be), could deficit spending actually make us less safe, as Admiral Mullin suggested? After all, the U.S. has the most advanced and capable military in the world.

MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES (in billions of dollars) HOLDINGS 1/ AT END OF PERIOD													
Country	Dec 2017	Nov 2017	Oct 2017	Sep 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 2017	Dec 2016
China, Mainland	1184.9	1176.6	1189.2	1180.8	1200.5	1166.0	1146.6	1102.2	1092.2	1088.1	1059.7	1051.1	1058.4
Japan	1061.5	1084.1	1094.0	1096.0	1101.7	1113.1	1090.8	1111.3	1106.9	1120.5	1115.5	1102.5	1090.8
Ireland	326.5	324.3	312.4	310.6	309.0	312.8	306.6	297.8	301.9	313.9	309.1	293.7	288.2
Cayman Islands	269.9	267.4	269.9	267.6	260.0	259.2	268.3	266.1	256.8	250.4	259.1	256.9	263.7
Brazil	256.8	265.3	270.0	272.8	273.6	271.9	269.7	269.7	267.7	259.5	257.7	257.7	259.2
United Kingdom	250.0	237.5	225.9	237.4	225.4	229.7	237.3	234.4	231.5	228.3	218.3	214.1	217.2
Switzerland	249.6	250.9	254.0	254.9	248.3	244.8	244.5	239.5	234.1	227.8	236.4	224.0	230.0
Luxembourg	217.6	218.3	217.9	213.9	213.3	213.0	211.7	207.7	212.1	218.3	217.8	218.9	224.3
Hong Kong	194.7	194.9	192.3	194.7	197.3	199.1	202.7	196.3	196.6	195.1	197.8	189.4	191.4
Taiwan	180.9	179.9	181.7	183.9	180.4	182.5	184.4	181.2	185.6	183.8	183.6	183.6	189.3
Saudi Arabia	147.4	147.6	145.2	136.7	137.9	142.5	142.8	134.0	126.8	124.5	116.7	112.3	102.8
India	144.7	140.8	141.4	145.1	138.9	135.7	130.3	127.3	124.1	117.1	112.3	113.7	118.2
Singapore	125.0	124.2	130.4	125.2	119.3	112.3	106.5	107.9	107.0	103.1	107.4	103.3	102.2
Belgium	119.2	115.3	116.0	104.8	96.9	99.4	98.3	98.7	96.4	109.9	105.7	112.2	120.4
Russia	102.2	105.7	105.0	103.9	105.4	103.1	102.9	108.7	104.9	99.8	86.3	86.2	86.1

Figure 3 - <http://ticdata.treasury.gov/Publish/mfh.txt>

Certainly no other nation could challenge the U.S. in terms of military superiority. But do they have to? In fact, there is historical evidence they do not.

In 1956, the British, French, and Israelis went to war with the Egyptians over control of the Suez Canal. **Egyptian forces were outnumbered 4 to 1**, and in just a few months of fighting, at least 1,500 Egyptians were killed in action, with more than 17,000 were wounded and 2,000 captured. In total, fewer than 400 British, Israeli, and French troops were killed or injured.³⁸ That is 19,500 Egyptians vs 400 British, Israeli, and French troops.

Yet the war ended quickly and not in British favor. Russia was threatening to intervene on the Egyptians' behalf, and the U.S. wanted to avoid an escalation of the Cold War. **So President Eisenhower threatened to dump American holdings of the British pound-sterling and restrict their access to credit. The result is that the British withdrew expeditiously, in what has been widely noted as the end of the British Empire.**³⁹

The threat harmed the British economy, but not nearly as much as if it was acted on, and **a decidedly superior military force was brought to its knees by economic intervention relating to its country's debt dependency.** The British withdrew arguably in defeat because of economics, not a lack of military prowess. Defense hawks would be wise to take note.

³⁸ New World Encyclopedia, "Suez Crisis," New World Encyclopedia, 2018.
http://www.newworldencyclopedia.org/entry/Suez_Crisis

³⁹ McMaken, Ryan, "Financial Warfare and the Declining Dollar." Mises Daily Articles, May 7, 2015.
<https://mises.org/library/financial-warfare-and-declining-dollar>

So how economically vulnerable is the U.S.? Figure 3 is an excerpt of a list produced by the U.S. Treasury to show major foreign holders of U.S. debt by month over the past year. Most of these countries are generally friendly to the U.S., but recall, the U.S. wielded debt influence against the British - our closest ally.

We are told the necessity of military spending is because the world is more dangerous than ever before. We are warned about a China and Taiwan conflict; we are concerned about Pakistan; there is also concern about Russia. Yet the same people sounding these alarms to justify more military spending seem to have completely ignored the reality that many of the countries that would have an interest in U.S. engagement or deterrence in these and other conflicts own substantial amounts of our debt.

Imagine if China began overtly making preparations to invade Taiwan. Taiwan calls for U.S. intervention. But China warns that if the U.S. does intervene, they will dump the U.S. Treasuries they hold on the global market, and they will walk away from U.S. bond sales. This would certainly cause a chain reaction that would cripple the U.S. economy worse than even the Great Depression. And there would be no New Deal, because there would be no loans to finance it. Moreover, even if the U.S. did want to intervene, the economic collapse and lack of access to credit would make it difficult to fund such operations.

Of course, if the U.S. did stay on the sideline, Taiwan (probably joined by Japan) could threaten the same thing in favor of our intervention. That is lose-lose for the U.S.

This same scenario could play out in numerous other military (or potentially military) conflicts. Certainly we should be concerned about our military capabilities and our capacity to fight and win wars. However, excessive debt degrades those capacities. **The best battleships and fighter jets are of little use when out-of-control inflation makes it impossible to afford the fuel to put in them or to pay the personnel enough to man them.**

Of course, some may argue that since the U.S. is such a major economic entity in the world market, and that the dollar is the world's reserve currency, no country would ever seek to engage in economic warfare with the U.S. because they would ultimately hurt themselves, as well. But the U.S. military capacity is comparable to our economic size and influence in the world. So if our military size and scope does not deter our enemies, why would our economy?

Butter Still Spoils

The butter camp fails no better in terms of its supposed needs and lack of funding.

The butter camp's argument for more spending is that without their programs, people would be ignorant, naked, starving, and dying in the streets. However, as the above chart shows, **since 1962, payments to individuals (which do not include Social Security or Medicare) have increased by a whopping 2678.7 percent in constant dollars, while the U.S. population has only increased 175.8 percent over that time period.** Ironically, infrastructure spending (which is one of the few areas where most people agree it is acceptable to borrow) has stayed relatively constant. This does not count the myriad of other federal domestic spending programs that paid

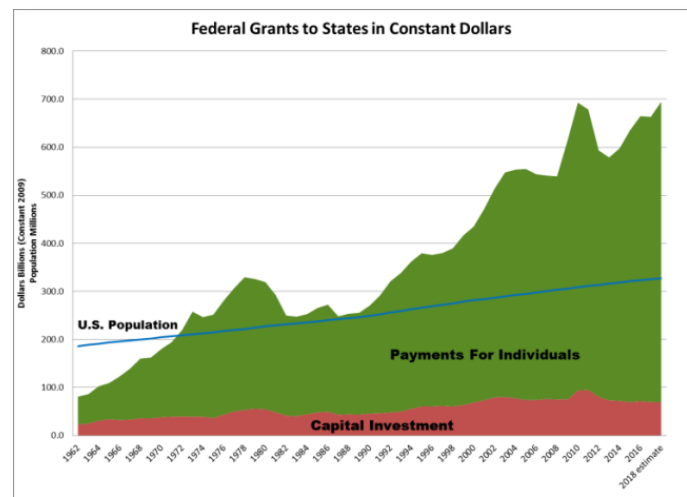


Figure 4 - Data from OMB Historical Data Table 12.1

directly from federal agencies.

Of course, that does not mean 1962 was the optimal spending year, but the suggestion that a modest reduction in benefits of one percent for a few years would be Armageddon is nothing short of fearmongering. However, there will eventually be an Armageddon when it comes to these programs if Congress maintains its cognitive dissonance and keeps using debt to affect trade on the public good.

As Figure 5 shows, interest on our debt is projected to increase from 7 percent of the federal budget to 19 percent over the next 30 years. This means programs that are supposedly underfunded now will get significantly less funding tomorrow because of the borrowing today.

This also will not happen gradually, the way it is in the chart. Instead, Congress will keep increasing funding for everything and borrowing to make up the difference, including interest. That is essentially taking out an advance on one credit card to pay the bill on another.

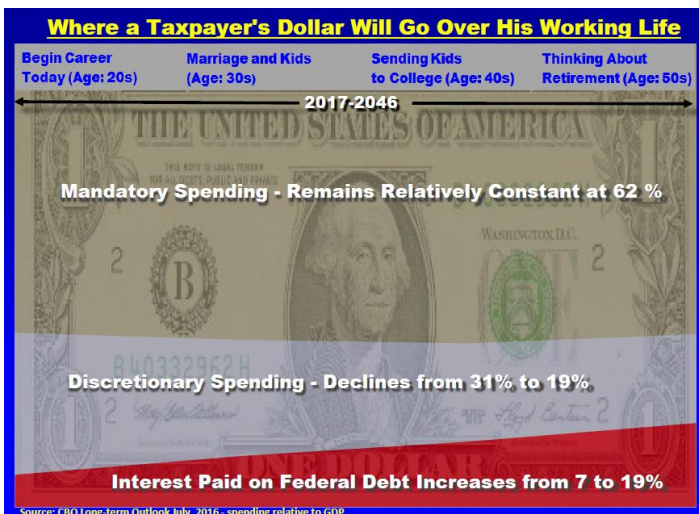


Figure 5- Data from <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52480-ltbo.pdf>

they promised or took credit for a few percentage point increases in funding today, they said, “There will be a 20 percent cut to this program tomorrow”? That is exactly what every federal politician says when they support new spending that is not paid for or oppose spending reductions.

Worst of all, this is a completely avoidable problem. There is a lot of room to save money without doing harm to beneficiaries. Unfortunately, instead of controlling spending and working to improve program effectiveness, big spenders in the butter camp continually call for more spending on existing programs, expanding such programs, and creating new ones.

For example, every year, the Government Accountability Office publishes a report of duplicative federal programs. Some popular examples include over 200 Science, Technology, Engineering, and Math (STEM) education programs, 47 job training programs, and 160 housing assistance programs.

These programs highlight exactly what is wrong with the current budget process and the incentive to spend. Only in government would it make sense to create 47, 160, or 200 entities to tackle a problem, and the only reason it makes sense in government is politics. It might be warranted to have two or three different approaches to a problem, but **politicians will get much more accolades from the butter camp if they create a new program than if they direct a constituency to an existing one. Even modifying a program is less palatable than a shiny, brand-new one. So, 200 programs get created.**

Those who have banked political success on spending will continue to ignore the warnings until interest rates rise beyond control. At that point, our creditors will say enough, and that will start dominos falling just as could eventually happen with a military adversary. Eventually the easy credit music stops for everyone.

At that point, it will not be a one percent cut to programs; it will be massive cuts to pay for interest that will be made worse as the overall American economy collapses and revenue plunge.

Moreover, this will not happen to our kids and grandkids; it will happen to us. How politically successful would most big spenders be if every time they promised or took credit for a few percentage point increases in funding today, they said, “There will be a 20 percent cut to this program tomorrow”? That is exactly what every federal politician says when they support new spending that is not paid for or oppose spending reductions.

There is no question that duplication creates unnecessary overhead costs and breeds inefficiency. As costly as this is, our government has grown so large and politicians so addicted to spending that even when programs are blatantly wasting money, Congress pays little mind.

As David Muhlhausen points out in his 2013 book, *Do Federal Social Programs Work?*, the federal government spends millions of dollars to hire credible policy evaluation firms to study the effectiveness of the programs taxpayers fund. **Generally, if the results of such studies show the program is working, it gets more money. If the study shows the programs do not work, the studies get buried and programs get funded (or expanded) anyway.**⁴⁰

Take the Upward Bound program, for example. This program was created in accord with the Higher Education Act of 1965 (yes, 53 years ago) to help at-risk high school students complete school and pursue higher education. A study done by Mathematica in the late 1990s found less than impressive results with Upward Bound. The study, published in 1999 and updated in 2004, found that **“the program failed to have statistically measurable impacts on 20 of 21 outcome measures.”** As for college attendance, the ultimate goal of Upward Bound, the study found only a three percent difference between program participants and a control group, and there was no statistical difference in college performance among the two groups.⁴¹

So, what action was taken? **Well, by 2008, a second study was already in progress, so Congress canceled the study.**⁴² President Trump has proposed phasing out the program, but President Bush did as well, and it still exists and spends more than \$300 million annually.⁴³ Ironically, many of the same congressional big spenders have rightly criticized private companies for burying studies and not taking action to rectify problems with their products. Apparently it is OK if government does it.

Isn't that this program is necessarily unique. There are countless programs that have problems that result in wasting taxpayer money. However, even programs that aren't working have constituencies and anecdotes. Few people are passionate about ending or even reforming Upward Bound (it even has a nice-sounding name), while those who utilize the program likely perceive it to be helping them, even if statistically it is not. If Congress tried to end this program or make it work better, even with evidence on their side, program participants would rally against the cuts. Thus, maintaining the status quo and/or expanding the program have upsides, while eliminating it has a political downside.

All this works well as long as Congress keeps borrowing, but it cannot do so forever. Imagine if Ford kept producing the Edsel simply because it did not want to upset the small number of their customers who enjoyed the car. Instead of ending the line, they made up for low sales with debt. Eventually, the money-losing, deficit-financed line of cars would pull down the whole company. When the company failed, it would also mean the end of the F-150, which is continually popular.

Eventually, protecting the failing and inefficient does harm to the good. Of course, there is no doubt that if the government produced the Edsel, we would



Flickr/free photos & art

⁴⁰ Muhlhausen, D.B. *Do Federal Social Programs Work?* Denver, CO, (2013).

⁴¹ *Ibid.*

⁴² Kreighbaum, Andrew, “Cutting College Prep,” *Inside Higher Ed*, March 28, 2017.

<https://www.insidehighered.com/news/2017/03/28/questions-about-efficacy-college-prep-programs-white-house-vows-evidence-based-cuts>

⁴³ U.S. Department of Education, “Fiscal Year 2019 Budget Summary and Background Information.” U.S. Department of Education, 2018. <https://www2.ed.gov/about/overview/budget/budget19/summary/19summary.pdf>

see a 2018 model...that few people would buy.

Though the government's size and scope are much larger, Congress cannot, like Ford, keep every program and still remain sustainable. **Duplicative and failing programs will be cut one day**, either in part or in whole because we simply will not be able to borrow any more. **But successful programs will be cut, too, because for political gains today, failing programs were protected and expanded.** The F-150s are sacrificed tomorrow (along with the Edsels) to avoid displeasing Edsel buyers today.

How do programs get protected? One way is to make programs mandatory entitlements. Even though these programs do not have dedicated revenue streams like Social Security and portions of Medicare, they are guaranteed funding whether they are working or not. And in many cases, they are never looked at again by Congress, unless a politician is seeking credit for expanding them.

A similar way of avoiding a discussion of program effectiveness and need is to just keep funding programs even after they have expired. Annually, the Congressional Budget Office publishes a report identifying generally over 1,000 programs totaling more than \$300 billion of spending for programs that are no longer authorized.

Many programs have not been reauthorized in decades, meaning their effectiveness and structures have not been reevaluated. Again, the automobile industry annually updates their products, improving them, changing them for the times, and eliminating ones that do not work. Government does not want to do that, so they just keep funding it all without real reviews. Why? Looking too close at a program might expose skeletons and cost their champions reelections. So we are left with a government with tail fins and manual transmissions (shifted on the column), getting just eight miles to the gallon.

The big spenders do not want people to know this. They want you to believe borrowing is fine. After all, it pays for "investments" and "emergencies" - that we can have guns and butter, and that not funding these programs is worse than being in debt. **And they count on retiring before the bubble bursts. But it will burst, and we will have neither guns nor butter – unless we take action to right the fiscal ship now.**

Health Savings Accounts

Reforms to Health Savings Accounts (HSAs) are critical to ensure that individuals are better able to afford health expenses. Furthermore, they offer one of the few mechanisms for a free market to exist in our health care system. Congress should increase HSA contribution limits, allow for premiums to be paid with HSA funds, remove or expand the high-deductible health plan requirement for establishing an HSA, and expand the range of goods and services that are HSA-eligible.

HSAs are tax-advantaged accounts used to pay for out-of-pocket medical expenses in conjunction with health insurance. HSAs were created in 2003 as part of the Medicare Modernization Act to allow individuals with an HSA-qualified, high-deductible health plan (HDHP) to save for expenses like meeting their deductible. The money contributed to HSAs comes off of taxable income directly, reducing the amount of money owed the IRS for that taxable year.

Despite the challenges Obamacare has presented to all health insurance markets, HSAs remain a great option for Americans to cover more of their health care costs, as has been recently noted, with advantages that include the accounts not only growing tax-free, but account holders also not having to worry about state or federal taxes on their contributions.⁴⁴

⁴⁴ WillisTowers Watson, "Employees Fail to Take Advantage of Health Savings Accounts." Press Release. December 12, 2017. <https://www.willistowerswatson.com/en/press/2017/12/employees-fail-to-take-advantage-of-health-savings-accounts>

Both consumers and their employers fund HSAs. A 2017 survey found that 73% of employers offer HSA plans to their employees, with 62% of large employers in the U.S. that offer HSAs also contributing to those accounts on their employees' behalf. In fact, the survey also found that, last year, 43% of employees enrolled in HSA plans did not personally contribute to the HSA.⁴⁵

While an HSA's balance can carry over, there are limits on contribution levels.⁴⁶ In 2018, the contribution limits to HSAs are \$3,450 for individuals and \$6,850 for families.⁴⁷ However, the maximum allowable out-of-pocket amounts under Obamacare are \$6,650 for individuals and \$13,300 for families.⁴⁸

It is undisputed that health insurance premiums are continuing to rise under the (un)Affordable Care Act. Unfortunately, deductibles have also sharply increased under Obamacare. On average, deductibles for the "most popular" Obamacare plans are almost \$4,000.⁴⁹ However, under the ACA, options for consumer-directed health care are limited. As of 2016, "only 19%" of Obamacare plans, despite featuring a high deductible in the majority of the plans, were eligible for HSAs.⁵⁰ If consumers are able to obtain an HSA-qualified plan, they cannot save the full amount necessary to cover their potential out-of-pocket costs in their HSA, and those enrolled in lower-premium bronze plans often have deductibles upwards of \$5,000.⁵¹ The gap between the out-of-pocket limit and the contribution limit for HSAs clearly makes the case for increasing the contribution limit for HSAs. At a minimum, individuals should be able to cover their costs prior to meeting the deductible with tax-free HSA funds.

One of the fundamental flaws in our current health insurance system is that insurance does not move with the individual from job to job, welfare to work, or into retirement. However, the individual owns their HSA, so it stays with them regardless of life changes, and there's no expiration date on the funds. In order to better leverage the portability of HSAs, we should remove the high-deductible plan requirement so that individuals can not only possess an HSA throughout their life but continue to contribute to one.

In order to pay for its new programs, the ACA made a number of changes to consumer-directed health care accounts, including stopping non-prescription over-the-counter (OTC) medications from qualifying as a medical expense.⁵² In the current environment of increasing health care costs, we should be empowering people to save for wellness in addition to health care.

Therefore, it is imperative that Congress allow HSA funds to be used for purposes such as purchasing dietary supplements, OTC medications, gym memberships, and other activities that promote wellness and reduce the potential for costly chronic conditions.

While ultimately it will be up to the authorizing committees to make policy and put forward legislation to implement this budget, the Finance Committee is provided a reconciliation instruction to reduce revenue by \$18.6 billion over the budget window. This instruction could be used for any revenue matter, but one possible approach that this budget encourages the Finance Committee to consider is to expand Health Savings Accounts.

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ Miller, Stephen, "IRS Sets 2018 HSA Contribution Limits," Society for Human Resource Management, March 6, 2018. <https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/irs-sets-2018-hsa-contribution-limits.aspx>

⁴⁸ United Healthcare, "Out-of-Pocket Maximum," United Healthcare, 2018. <https://www.uhc.com/united-for-reform/health-reform-provisions/out-of-pocket-maximum>

⁴⁹ Pearson, Caroline F., and Elizabeth Carpenter, "Plans with More Restrictive Networks Comprise 73% of Exchange Market." Avalere, November 30, 2017. <http://avalere.com/expertise/managed-care/insights/plans-with-more-restrictive-networks-comprise-73-of-exchange-market>

⁵⁰ O'Brien, Elizabeth, "Why 80% of Obamacare Plans are Ineligible for this Tax Break," MarketWatch. March 29, 2016. <https://www.marketwatch.com/story/why-80-of-obamacare-plans-are-ineligible-for-this-tax-break-2016-03-29>

⁵¹ *Ibid.*

⁵² La Couture, Brittany, "Health Savings Accounts and the Affordable Care Act." American Action Forum, December 17, 2014. <https://www.americanactionforum.org/insight/health-savings-accounts-and-the-affordable-care-act/>

These would certainly help improve health care in America, foster greater competition and consumer engagement, and ultimately help bend the cost curve.

Senior Benefits

One thing that needs to be made clear is that this budget does nothing to Social Security. Social Security is “off-budget,” which means no budget can make or assume making changes to that program.

That is directly contrary to the rhetoric of those who have previously opposed fiscally responsible budgets and will undoubtedly oppose this one.

Any suggestion that this budget does harm to Social Security is fake news. However, **pretending that all is well with Social Security and Medicare is deceptive and does harm to the people that depend on these programs.**

Recall from Figure 5 that mandatory spending remains relatively unchanged as a percentage of the budget, holding steady at about 62 percent. This is not because demand for resources ebbs. It is because Social Security and Medicare Part A make up more than half of mandatory spending.

These programs are funded through trust funds, which include failsafe measures that prevent benefits from exceeding revenue in the event the trust fund is exhausted.

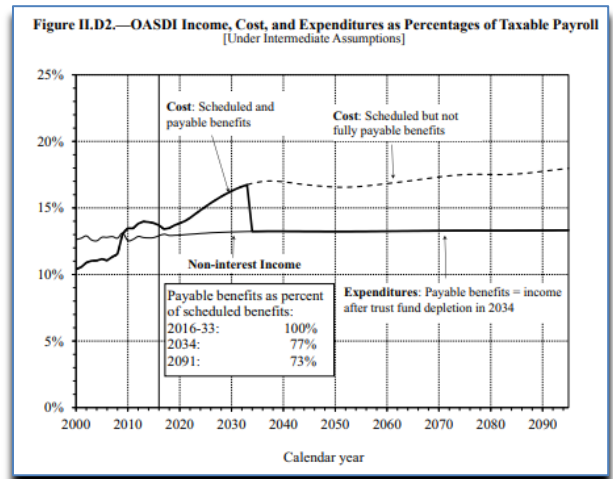


Figure 6 - <https://www.ssa.gov/oact/tr/2017/tr2017.pdf>

As Figure 6 shows, in 2034,

the Social Security Trust Fund will run out of money and will **reduce or delay benefits by 23 percent immediately.**⁵³

TO BE CLEAR- if NOTHING is done, anyone 51 years old or younger TODAY will never collect full Social Security under the current model as projected. They will experience a 23 percent reduction in benefits to maintain the program’s solvency. Anyone over 51 that plans to be alive in 16 years will also experience such cuts, INCLUDING CURRENT BENEFICIARIES.

Anyone opposing making any change to the current structure of Social Security is in effect advocating for a 23 percent cut to Americans’ benefits.

As troubling as this may seem, the Medicare trust fund goes bankrupt in the last year of the budget window, 2029. **To quote from the most recent Medicare Trustees’ Report:**

“After trust fund reserve depletion, continuing income is sufficient to support expenditures at a level of 77 percent of program cost for the rest of 2034, declining to 73 percent for 2091.” – Social Security Trustees’ Report 2017

⁵³ Social Security Boards of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, “The 2017 Annual Report.” Social Security Board of Trustees, July 13, 2017. <https://www.ssa.gov/oact/tr/2017/tr2017.pdf>

“[N]o provision exists to use general revenues or any other means to cover the HI deficit. ... Actuarial balance could also be reached by reducing benefits by 14 percent every year immediately, or by making no change until 2029 and then reducing benefits by 17 percent.”⁵⁴

So why is Congress ignoring this issue, and, worse, why are some saying there is nothing to worry about? Why are we told grandma is being thrown off the cliff whenever modest reforms are proposed?

Failure By Design

Structurally, budget resolutions under the Congressional Budget Act have fit similar molds. Much like a new model year for an automobile, there have been some new styles and features added to budget resolutions, but the basic structure has remained remarkably unchanged. In fact, the community and culture of budgeting has become resistant to change. There is a formula and a model to follow - ridged adherence to tradition and custom are considered paramount to innovations derived from the actual letter of the law. As a result, budgets fit in a few basic models.

The budget, of course, is a plan for spending, and as most people know, few plans ever work perfectly. However, the federal government’s fiscal imbalance is not because of failed plans. It is because these plans from the outset are never serious. They serve just two real objectives: 1) to send a message to voters that the majority party (of either party) is fighting for fiscal responsibility while protecting favored programs, and/or 2) to enable the majority party (again of either party) to bypass the minority party’s ability to filibuster signature legislation. However, this paradigm is far from a requirement, and the circumstances are far from unsalvageable. **This budget identifies and resolves many of the problems that preclude the budget resolution from being a more effectual tool for fiscal discipline by implementing a host of process reforms.**

The actual spending plans in most budget resolutions are just a show, as Congress has few incentives in enforcing the resolution it has passed upon itself. While the spending levels in the budget may correspond to some assumptions about policy proposals, the only proposals ever discussed are those that budget writers want highlighted. Unpopular policies are not discussed, or, even worse, numbers are arbitrarily set to meet a targeted level to fit a narrative, and there are no underlying policies.

As part of this fiscal theater, the minority party is given their due via an unfettered opportunity to offer amendments. However, through backroom negotiations, the hundreds of amendments offered are whittled down to perhaps one or two dozen which actually see the light of day. But as the underlying document being amended is not serious, neither are the amendments the minority party chooses to offer. Often, they are designed for messaging purposes and to force members of the opposition party to take a stand on controversial but ineffectual provisions, known as “gotcha” legislating.

Nowhere is the farce of the congressional budget process more evident than in the use and abuse of Deficit Neutral Reserve Funds (DNRFs). In general, budget rules prevent congressional committees from raising taxes to pay for new spending. A DNRF creates an exception to this rule; if you pass a bill to take the action articulated in the DNRF, you may pay for it with a revenue increase. So one might wonder why the FY 2018 budget contained DNRFs for “modifying statutory budgetary controls,” “to prevent the taxpayer bailout of pension plans,” or for “implementing work requirements in all means-tested federal welfare programs.” If each one of these DNRFs were read as they mechanically work, they would be read as, “to increase spending to/for

⁵⁴ Social Security Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, “The 2017 Annual Report.” Social Security Boards of Trustees, July 13, 2017. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2017.pdf>

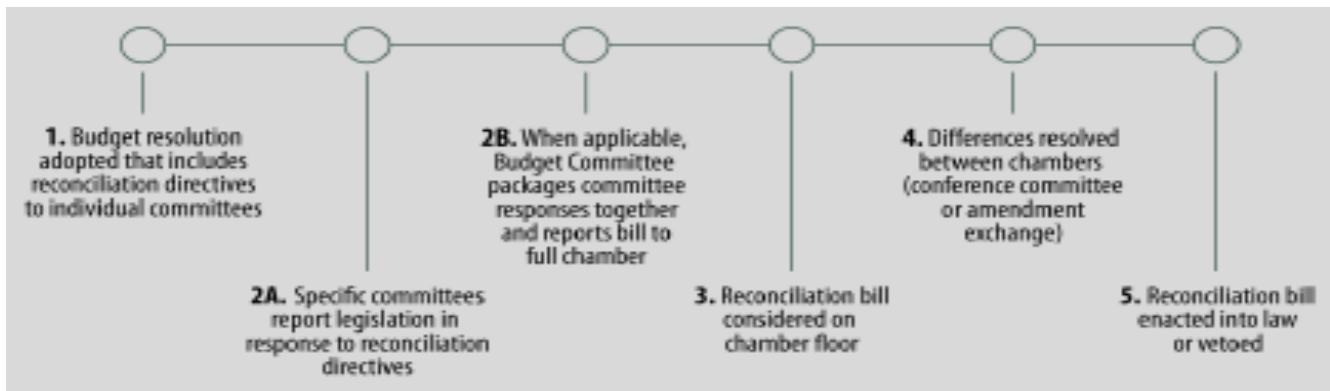
[whatever messaging point a senator wants to make] as long as taxes are increased to offset the cost.” It would make no sense. Yet, many such DNRs are included in each budget resolution.

In the end, while both sides may disagree on a plan neither expects to follow, they do agree on preventing the plan from being enforced. The only point of consequential disagreement is when there is a deep divide on one policy. Then, whichever party happens to be in the majority wields the budget process’ reconciliation mechanism to squelch a filibuster in the Senate. But even that is limited to passage of one bill.

Reconciling the Reconciliation Process with its Original Purpose

The original purpose of budget reconciliation, as enacted by the Congressional Budget Act, is to supplement Congress’ ability to bring existing spending, revenue, and debt-limit laws into compliance with the budget resolution’s articulation of fiscal priorities. In recent years, this privileged process has morphed from reconciling current law to a tool both parties use when in the majority to quell minority rights in order to achieve whatever policy preference the majority desires (meanwhile, both parties, when in the minority, deride its use for such a purpose).

Major Stages of the Reconciliation Process



Courtesy of the Congressional Research Service

In theory, reconciliation works like so: Congress provides reconciliation instructions to each committee in the budget resolution that instruct each to take action. Each committee then takes up these instructions and amends existing law or passes new laws that bring its jurisdictional authority into adherence with the budget resolution. The Budget Committees then package the legislation without any substantive changes and send it to the full chambers for consideration. The respective reconciliation bills are then amended and passed, or not.

As is too often the case, that which works in theory is corrupted in practice. **Rather than reserving the reconciliation process (and its privileged status as immune to Senate filibuster) for its original purpose, members of leadership of both parties have used it to pass legislation enacting various policy preferences of each party over the objections of the other.** Though the Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272) was the first instance in which Congress abused the reconciliation process, using it to implement various changes to the health care market, it was done so in a bipartisan manner. A Democrat majority in the House and Republican majority in the Senate under President Reagan ensured that one party did not hijack the process. However, the first unified government to use the process for purposes extraneous to spending, revenue, or debt legislation occurred in March 2010, when a Democrat government used reconciliation to pass Obamacare, as well as to expand federal involvement in student loans.

And unfortunately, both parties have strayed from this original purpose at one time or another. Most recently, in H. Con. Res. 71, a Republican-controlled Senate offered reconciliation instructions to just two pairs

of House and Senate committees. Federal Spending Oversight Subcommittee Chairman Paul, however, offered an amendment, S. Amdt. 1294, to H. Con. Res. 71 to expand reconciliation instructions included in the resolution to include instructions for each committee, as the authors of the Congressional Budget Act intended - seeking to preserve the original purpose of reconciliation - but every Democrat and the overwhelming majority of Republicans opted to dispose of this amendment by a vote margin of 4-94.

Though reconciliation can be a venue for good policy, use of the reconciliation process exclusively for policy “wins,” rather than incorporating each committee with mandatory spending in its jurisdiction, shows a lack of seriousness in addressing the budget itself, regardless of the party using it in such a manner. Use of the budget and reconciliation processes to enact singular or limited policy objectives waves the white flag for that fiscal year on addressing debt and deficit. It would be a mistake to allow this to become accepted practice, rather than an episodic abuse of the system.

Though use of the reconciliation process to pass a wide variety of topics is rightly prohibited, among those prohibitions is, oddly, a change to discretionary spending limits. The rationale given is that there is an insufficiently close nexus between altering discretionary spending limits and changing spending or revenues. But how can one make the argument that imposing a limit upon spending does not inform spending? Surely the Appropriations Committee and Subcommittees responsible for discretionary spending would make decisions differently were they to have either larger or smaller amounts to dispense. Further, if the purpose of reconciliation is to reconcile existing spending, revenue, and debt ceiling law with the budget resolution, for what purpose is a committee prohibited from including discretionary spending programs that are within its jurisdiction in its package of reforms submitted to the Budget Committee?

As is so often the case, such a question finds its answer in Senate precedent. During consideration of H. Con. Res. 448 in the 96th Congress, the concurrent resolution on the budget for fiscal year 1981, the Senate gave authorizing committees reconciliation instructions amounting to approximately two thirds of the savings required under reconciliation. This realization sparked a debate regarding how reconciling discretionary programs could be in order given that authorizations of appropriations for programs did not actually change spending, and the programs authorized would be funded through later appropriation. The staff of the Budget Committee and then-Majority Leader Byrd’s counsel advised that, upon consultation with the Senate Parliamentarian, the original instructions on discretionary spending would be out of order as a result of the inclusion of the phrase “to modify programs.”

The phrase was seen as too broad, as programs can be modified without resulting in changes to their future appropriations. In order to rectify this violation, the Budget Committee reported S. Con. Res. 9 (97th Congress), revising the congressional budget for FY 1981-83 to include reconciliation, which revised the language in the reconciliation instructions to change entitlement law and “to report changes in laws within the jurisdiction of that committee sufficient to reduce appropriations levels so as to achieve savings.” That language was understood to mean that changes in authorization language of discretionary programs would be permissible under reconciliation procedures, provided such changes in law would result in affecting a change in later outlays derived from future appropriations. Further, it was understood that a change in authorization that caused a change in later outlays was considered to be a change in outlays for the purpose of reconciliation. With this in mind, the Senate adopted S. Con. Res. 9, with 88 in favor and 10 opposed.

A Revolutionary Approach

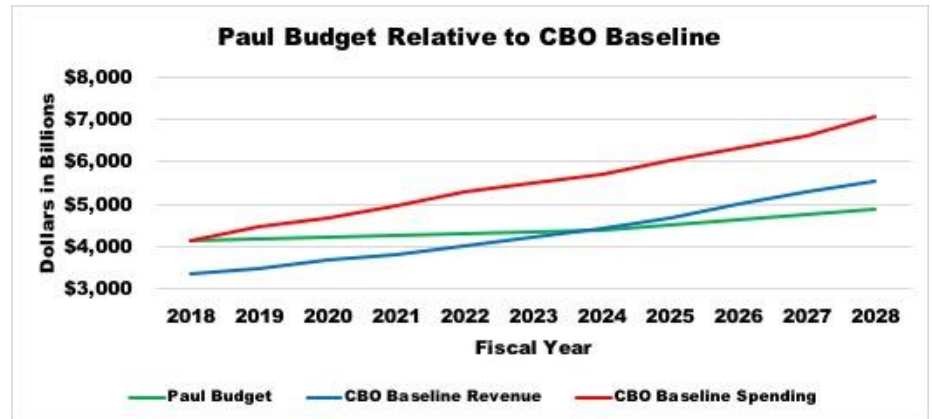
This budget is designed to succeed in controlling spending. It makes no specific policy assumptions. Rather, it sets a top-level spending goal and provides the requisite tools and flexibility for the committees of Congress to apply their expertise toward achieving fiscal targets goals. Every committee and every on-budget

dollar is on the table – thus every member of Congress will be able to play a part and have skin in the game in reaching the goals set out in this budget.

Unwillingness to balance the budget, a long history of process failures, and entrenched powers-that-be have resulted in a system in desperate need of reform. In addition to providing a plan to balance the federal budget in 5 years without touching Social Security, this budget includes a number of eminently reasonable process reforms that would improve the budget process itself and allow Congress to begin to see more positive results in the future. Among these are strengthening and enhancing the budget functions, scoring, enforcement mechanisms, reconciliation, and debate procedure.

GOALS

- An important part of any budget resolution is its bottom line. Does it balance? How many years does it take to do so? This budget balances in just five years without taking a single penny from Social Security. Congress can achieve these savings by first repealing the Bipartisan Budget Act of 2018 and then instituting what is known as the Penny Plan. The Penny Plan simply says that for every dollar the federal government spends on discretionary spending in a fiscal year, it must spend one penny less in the next year.
- This budget is a particularly effective implementation of the Penny Plan, because rather than making nebulous policy assumptions that will never happen, it sets out one common goal: balance. That is the one key assumption in this budget. Above all, Republicans and Democrats should both aspire to one fiscal goal: a balanced budget. In order to achieve this goal, **this budget simply requires Congress to make a one-percent cut for five years.** Rather than holding hands and agreeing to the common gluttony, this plan requires Congress to do the opposite: hold hands and sacrifice for the common good.



TOOLS FOR IMPLEMENTATION

- There are a wide variety of opinions and viewpoints in Congress, and it is for this reason that, rather than prescribing particular policies, **this budget includes reconciliation instructions for every committee with jurisdiction over mandatory spending to simply achieve savings in accordance with the Penny Plan.** In this way, Congress can exert its will and can decide for itself, through the committee structure, how to achieve the goals of this budget. **The savings are found under a new budget function entitled “New Efficiencies, Consolidations, and Other Savings.”**

BUDGET ENFORCEMENT

- A key concern with previous budget resolutions is that the means of enforcement are either disregarded or are nonexistent entirely. This budget makes certain enforcement changes that will help to ensure the long-term fiscal health of the federal government. First and foremost, **it raises the threshold for waivers for every budget point of order.** Raising the threshold for the Senate to waive these rules will

simply make it harder for the Senate to pass bills that fall short in addressing long-term national fiscal stability, while holding the Senate to the agreement they made in the budget resolution.

- **Further, this budget also includes a new point of order, at the same raised threshold, against any piece of legislation that contains funding subject to more than three different 302(b) allocations.** This will effectively prohibit the use of omnibus appropriations bills, as well as limit consolidated appropriations and continuing resolutions, in order to more easily avoid burying budget legislation in giant omnibus spending bills and forcing members to make binomial choices.
- **This budget includes a requirement that in years in which Congress does not adopt a budget resolution, such as FY 2010 through FY 2016, the funding levels in the out-years of the most recent budget resolution adopted would be enforced.** This would be a significant improvement from current practice. In practice, more often than not, budgets spend in the first year and then save money in the out-years so that it looks fiscally responsible over the budget window. **This is a gimmick of budget procedure,** made even more gimmicky given the reality of Deem Resolutions. Annual adoption of budget resolutions is important, but should Congress fail in this regard, there is a ready-made solution: enforce the budget levels of the most recent resolution for the corresponding year. Congress has haggled over these spending levels. It has agreed to these spending levels. Why not make them enforceable? **This budget establishes a point of order to make functional totals enforceable for the duration of the budget year and all other years contained in a budget resolution.** Perhaps the enforcement of the out-years will incentivize the senators in both parties who are more enthusiastic about spending today than avoiding financial ruin tomorrow to adopt a budget resolution each year.

HELP ELIMINATE DUPLICATION

- Fortunately for Congress, GAO publishes an annual report on ways the federal government can eliminate duplication, overlap, and fragmentation. Since the inception of these reports, the federal government has failed to address 115 recommendations for cost savings.⁵⁵ One can imagine that, despite particular policy preferences, eliminating duplication and fragmentation and ensuring the federal government's stewardship of taxpayer dollars is as efficient as possible would garner widespread bipartisan agreement. This is a goal to which all public servants, political and civil, should strive. GAO's most recent iteration of this report highlights billions of dollars in cost savings, which assuredly would help Congress adhere to the Penny Plan without compromising government services and effectiveness.⁵⁶
- It is for this reason that **this budget includes a directive to CBO to amend its legislative scoring procedures to include a duplication assessment in each cost estimate.** Though it is true that a portion of the duplication, fragmentation, and overlap comes from various presidential directives, Congress is not immune in this regard, often appropriating considerable funds to duplicative programs. Though often such duplications are enacted unwittingly, ignorance of the existence thereof is no excuse. Instituting this change is an easy way to ensure that members are at least aware that the bill on which they are voting is duplicative.

⁵⁵ U.S. Government Accountability Office, "2017 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and duplication and Achieve Other Financial Benefits." U.S. Government Accountability Office, April 26, 2017.

<https://www.gao.gov/duplication/overview>

⁵⁶ U.S. Government Accountability Office, "2017 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and duplication and Achieve Other Financial Benefits." U.S. Government Accountability Office, April 26, 2017.

<https://www.gao.gov/duplication/overview>

RECONCILIATION

- This budget includes a **Sense of the Senate that a change in discretionary authorization levels, such that they would result in a change in outlays, shall be considered a change in outlays.** Including this provision creates a precedent with effect beyond this particular resolution. A Sense of the Senate gives authorizing committees another tool in the reconciliation process to help reassert their jurisdictional authority over programs. Without clarifying each authorizing committee's role in reconciliation, the process becomes unnecessarily limited, to the detriment of the fiscal health of the government as a whole.

PERFORMANCE BUDGETING

- Any casual observer of government knows that federal dollars are a finite resource. A growing contingent of budgeteers has made calls to create portfolios to better weigh federal priorities in a fiscally responsible manner. Rather than re-creating portfolios for this purpose, why not use the 20 budget functions already in existence? This was clearly the intent of the authors of the Congressional Budget Act, who created a budget function-based process from the outset. **Further, making the apportioned functional totals enforceable against other priorities will force the Senate to consider the relative value of each function.** Budget functions allow for greater clarity in Congress concerning agency activity and limiting duplication and fragmentation, while placing an emphasis on results. In other words, make the decision whether or not to devote a greater portion of the pie to either Transportation or to Agriculture, to Commerce and Housing Credit, or to Community and Regional Development. Making these tough decisions is an overlooked aspect of budgeting, which is given due concern under enforceable functional totals. Further, rather than agreeing to plus up multiple priorities within one function, tradeoffs would need to be made, or a budget waiver would have to be issued.
- To aid in making functional totals enforceable, **this budget also includes language requiring CBO to include how much of the cost falls under each budget function in each score it produces.** One of the process reforms this budget includes is to force Congress to enforce the budget functions, otherwise known as categories of spending. If Congress does not know how much spending or savings in legislation would apply to a functional category, then enforcing functional totals would be impossible. Requiring CBO to include these percentages will assist Congress in ensuring it adheres to the spending decisions it made in the annual budget resolution.

EMERGENCY DESIGNATIONS

- One of the secrets of Washington is that whenever Congress wants, it can declare an emergency and throw the budget rulebook out the window. Section 403(a) of the Concurrent Resolution on the Budget for Fiscal Year 2010 (S. Con. Res. 13) grants Congress the authority to designate direct spending or tax legislation as a response to an emergency, exempting the effects from budgetary enforcement.⁵⁷ But importantly, there is no standard for what is determined to be an emergency. Though a budget point of order can be waived if 60 Senators agree to issue a waiver, the emergency designation is often baked into the legislation. This budget reverses that paradigm by **stipulating that an emergency designation shall not apply as an exception to budgetary constraints unless the designation is adopted as an amendment.** This will disallow the emergency designation from being baked into the base legislation, and, in so doing, forbid the Senate from arbitrarily declaring an emergency for the purpose of evading budget considerations.

⁵⁷ S. Con. Res. 13

Other Possible Reforms to Consider for the Future

DUPLICATIVE PROVISIONS

- **A surgical budget point of order against duplicative provisions.** Implementation of this point of order would provide senators with an additional tool to ensure that the Senate did not unknowingly duplicate an already existing government effort or service. Further, even were the Senate to be intent on considering a bill in which its authors knowingly or unknowingly included duplicative provisions, any senator could motion that those provisions be stricken.
- Discretionary spending put on autopilot, as discussed, often leads to wasteful and/or duplicative spending. **Creation of a point of order against providing appropriations to a program not already authorized in law, as well as against providing an appropriation exceeding its authorization level,** will assist Congress in reasserting control over spending practices that have, in recent years, been a self-inflicted pox on the Senate, sometimes resulting in funding programs and projects which authorizing committees explicitly de-authorize, such as the Next Generation Strategic Bomber.
- **The Office of the Air Force Chief of Staff did not request, nor did the Air Force have any desire for, the NexGen Bomber. The Defense Authorizing Committees did not authorize funding for the bomber, and yet somehow its appropriation ended up in the fiscal year 2012 conference report.** As Senator John McCain said: “This is money for the NexGen Bomber that was not requested by the Air Force, nor was there any testimony by Air Force leadership – either civilian or military – in support of this additional huge plus up in funding. It magically appeared in the Appropriations Conference Report – out of thin air. This morning, I asked my staff to find out if this money would be wisely spent. The answer was, to be blunt, ‘No.’”⁵⁸

RESERVE FUND REFORM

- In recent years, there has been a proliferation of reserve funds that serve to message rather than substantively legislate. These cumbersome messaging tools are out of place in budget resolutions if they are not actionable. **Therefore, the Senate should institute a point of order against the establishment of reserve funds that are designed to facilitate legislation that would not cause a change in spending and revenue or would cause changes that are incidental to the non-budgetary components of the legislation.**

RECESS PROHIBITION

- As has been expressed, Congress has found significant problems sticking to a timetable. **A point of order, at a 2/3rds threshold, against either chamber recessing after the start of a fiscal year for which there is a Cabinet-level agency or a major independent agency (defined as an entity with an operating budget of \$1 billion or more) that does not have an active full-year appropriation would be useful in enforcing the congressional budget schedule.** One of Congress’ most important functions is to exercise the power of the purse. Though achieving 67 votes is often seen as a prohibitively high standard, such a standard is necessary should Congress attempt to recess prior to fulfilling this fundamental responsibility. Creating a high threshold for either chamber to recess with this business unfinished would encourage the House of Representatives and the Senate to stay in session to fulfill this crucial constitutional function.

⁵⁸ McCain, John, “Remarks by Senator John McCain on the Conference Report of the FY2012 Omnibus Appropriations Bill.” Office of Senator John McCain, December 16, 2011. <https://www.mccain.senate.gov/public/index.cfm/press-releases?ID=48f0c068-a39a-0237-fb09-7faf7546fb90>

DEBATE REFORM

One of the tragedies of the budget process is that time becomes a practical limitation when the resolution comes before the Senate for amendments. Though the Senate has no time limitations on consideration of amendments, and could vote on amendments to the budget resolution until all of the amendments are either adopted or disposed, this never happens in practice. Political expediency and exhaustion demand otherwise. But this does not mean that there are not ways to incrementally improve the process. In short, effective reform would recognize flaws in “vote-a-rama” but also recognize its value to the minority and those who otherwise are denied votes on amendments.

- **When a debate enters its 25th hour, debate on amendments should be limited to 3 minutes each, and all votes, with the exception of final passage, should be taken by division unless the yeas and nays are ordered (though following the 25-hour mark, no vote will be recorded unless cast from senators’ seats).** This would allow the Senate to consider more amendments in a more orderly fashion. For what is often heralded by senators as the greatest deliberative body in the world, this reform, which would further expand deliberations, should be widely agreeable. This reform would strike a balance between limiting senators’ rights and ensuring efficiency in processing amendments.

RECONCILIATION

- Exempting a large chunk of federal spending from direct oversight limits Congress’ ability to do its job in so far as fiscal policy is concerned. **It is for this reason that expansion of that which is acceptable to put in reconciliation measures should include discretionary spending.** Discretionary spending represents approximately a third of all on-budget federal expenditures. How can Congress be expected to balance a budget while running \$1 trillion annual deficits and being \$20.6 trillion in debt without each and every tool in its arsenal? Granting Congress authority to include comprehensive spending reform in a process aimed at addressing spending, revenue, and debt ceiling legislation would not be a departure from traditional purposes of reconciliation as much as it would be strengthening the process as a whole.

UNAUTHORIZED SPENDING

- Each fiscal year, Congress appropriates roughly \$300 billion in unauthorized spending. It could be aided in reining in such irresponsible appropriations by **changing CBO’s requirement to produce a report on unauthorized spending from January each year to following the passage of the final full year appropriation for the fiscal year.** This would give Congress a fuller picture of the magnitude of this problem for the year.

The Ball Is In Congress' Court

The budget presented here balances and begins rectifying and warding off fiscal calamity. While we have discussed some specific areas of the budget that are wasteful and could be cut or reformed to save money, the overall purpose is to illustrate that balance is a necessary goal. We are not short on Guns or Butter.

This is clearly not the first budget put forward before Congress. However, prior budgets have all made specific assumptions about what to fund, what to cut, and what to change. Prior budgets have included targeted reconciliation instructions aimed at achieving a specific policy objective. This is not one of those budgets.

This budget makes clear that balance is the goal, and rather than making policy recommendations, this budget asks Congress, through the committee structure, to do its job. Let the expertise of the Chairmen, Ranking Members, majority and minority members, and staffs of each committee put their noses to the grindstone toward this goal.

If, for once, we all hold hands for fiscal responsibility, we might just surprise ourselves and the American People in the process.

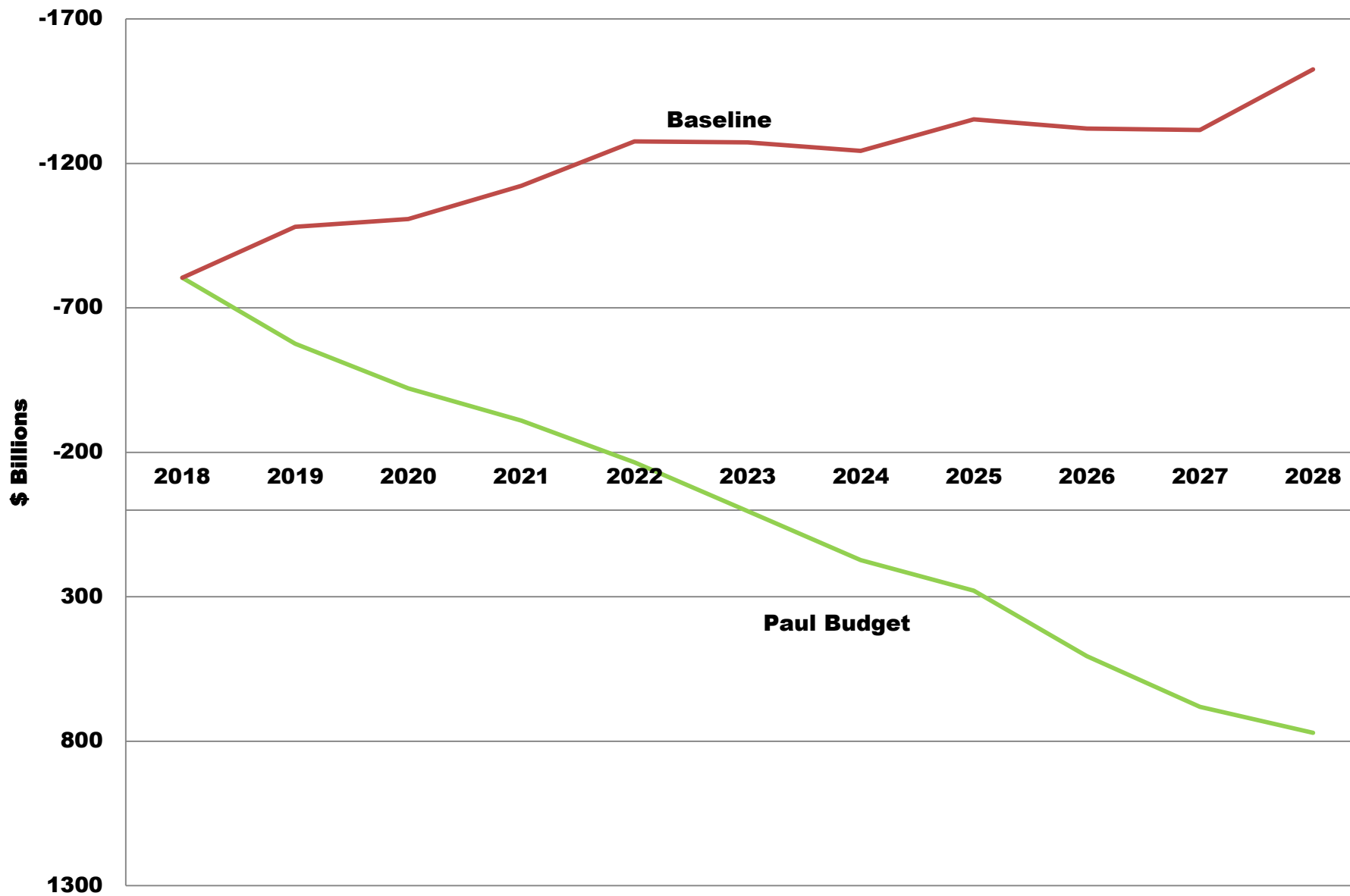
S-1 Budget Totals

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
Budget Totals In Billions of Dollars:													
Receipts	3,338	3,490	3,678	3,827	4,012	4,228	4,444	4,663	5,002	5,299	5,520	19,234	44,162
Total Outlays	4,142	4,066	4,099	4,137	4,178	4,224	4,271	4,384	4,496	4,618	4,749	20,703	43,222
Off-Bud Outlays	853	915	980	1,048	1,120	1,197	1,274	1,357	1,439	1,531	1,631	5,259	12,492
On-Bud Outlays	3,288	3,151	3,120	3,088	3,058	3,027	2,997	3,027	3,057	3,088	3,118	15,444	30,730
Deficit-Surplus	804.23	576.21	421.74	309.91	165.49	3.80	173.30	278.66	505.45	680.87	771.08	1,469.54	939.82

S-2 Assumed Outlay Effects By Budget Function cont.

500- Education, Training, Employment, and Social Services	0	0	0	0	0	0	0	0	0	0	0	0
550- Health	0	0	0	0	0	0	0	0	0	0	0	0
570- Medicare	0	0	0	0	0	0	0	0	0	0	0	0
600- Income Security	0	0	0	0	0	0	0	0	0	0	0	0
650- Social Security	0	0	0	0	0	0	0	0	0	0	0	0
700- Veterans Benefits and Services	0	0	0	0	0	0	0	0	0	0	0	0
750- Administration of Justice	0	0	0	0	0	0	0	0	0	0	0	0
800- General Government	0	0	0	0	0	0	0	0	0	0	0	0
900- Net Interest	5	9	12	18	21	27	35	43	50	60	66	280
920- Allowances	0	0	0	0	0	0	0	0	0	0	0	0
930- New Efficiencies, Consolidations, and Other Savings	404,830	586,342	812,538	1,110,423	1,275,999	1,417,269	1,631,301	1,826,034	1,996,465	2,297,589	4,190,132	13,358,790

Deficit: Paul Budget vs Baseline (2018-2028)



Paul Budget Relative to Baseline

