

ISSUE BRIEF

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7 Priorities for the 2016 Congressional Budget Resolution

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The new 114th Congress has a responsibility to address growing spending and debt. This is especially true following the post-election pledge made by House Speaker John Boehner (R-OH) and Senate Majority Leader Mitch McConnell (R-KY) to address “a national debt that has Americans stealing from their children and grandchildren, robbing them of benefits that they will never see and leaving them with burdens that will be nearly impossible to repay.”¹ In acting on its pledge, Congress should adopt a joint budget resolution that reveals to the American people just how Congress intends to put the budget on a path to balance.

The Role of the Budget Resolution

The budget resolution is a key tool in Congress’s arsenal. Congress sets spending and revenue targets in the budget resolution, which guide congressional committees in proposing legislation. The budget committees can enforce Congress’s targets by blocking legislation that would exceed them with “points of order.” Unlike ordinary bills, a concurrent budget resolution can go into effect without the President’s signature. It only requires a majority vote to pass, including in the Senate, where it is filibuster-proof. Congress should fully leverage this opportunity to

reveal its plan to address growing spending and debt next year, and in the long run.

The budget resolution enables Congress to use another important tool: reconciliation. Reconciliation directives instruct committees to devise legislation by a specific date that meets Congress’s spending and tax targets. Like the budget resolution, a reconciliation bill is filibuster-proof in the Senate, meaning it requires only a majority vote to pass. But unlike a budget resolution, a reconciliation bill can enact legislation through an expedited voting process, assuming the President signs its components into law. Congress should target full Obamacare repeal using reconciliation, especially since most of Obamacare was enacted using reconciliation in 2010.

7 Priorities for Congress’s FY 2016 Budget Resolution

- 1. Prioritize Defense Spending.** After six years of cuts to the defense budget, maintaining defense spending at the sequestration-cap level enforced by the Budget Control Act of 2011 would cause undue harm to the U.S. military and put the nation’s security at risk. At this low funding level, the military would not be able to meet the national security requirements as outlined in the Defense Strategic Guidance.² Congress should prioritize defense spending in the budget and allocate \$584 billion to defense spending for fiscal year (FY) 2016 in the 050 function.³

Moreover, the U.S. should devise a budget based on a national security strategy and military capability requirements, not one driven almost

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exclusively by budget considerations.⁴ The President's approach of holding hostage the defense budget in order to increase domestic discretionary spending or to avoid tackling the real spending problem of entitlement spending, represents a failure in conducting the federal government's core duty—to provide for the common defense. Current policy severely limits the military's ability to meet its national security mission and puts the United States' status as a global power at risk.

2. Repeal Obamacare. Congress's 2016 Budget Resolution should repeal Obamacare in its entirety. This would eliminate the \$2 trillion in new spending created by the law's exchange subsidies and Medicaid expansion,⁵ as well as the \$771 billion in increased revenue from the law's 18 new or increased taxes.⁶ In addition, full repeal would alleviate the burdens caused by Obamacare's costly and onerous federal insurance regulations that have caused massive disruption in the insurance market. Repeal is essential to getting the nation's health care entitlement spending under control, and necessary for laying the groundwork for market-based and patient-centered health care reform.⁷ Reconciliation offers the best option to accomplish this goal.

3. Reform Medicaid. As a part of repealing Obamacare, the law's enhanced federal funding and eligibility expansion for Medicaid would be repealed. Beyond Obamacare's repeal, federal Medicaid spending should be put on a budget. This change would help reduce the perverse incentives created by the open-ended funding model. Furthermore, there are policy changes that should accompany the fiscal reforms.⁸ In particular, Congress should allow able-bodied enrollees to use Medicaid dollars to purchase private health coverage of their own choosing. This would allow them to escape the failing government program and provide greater flexibility to the states so that other Medicaid enrollees can have more control over the care and services they receive.

4. Reform Medicare. Congress's 2016 budget resolution should include immediate and long-term structural reforms to Medicare. Ultimately, the program should be transformed into a premium support program that uses a defined-contribution model of financing. This would move Medicare in a fiscally responsible and patient-centered direction, benefiting both taxpayers and seniors. Implementation of premium support should take place within five years of the budget's enactment.⁹ In the years before premium support

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 2. Department of Defense, "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense," January 2012, http://www.defense.gov/news/Defense_Strategic_Guidance.pdf (accessed March 5, 2015).
 3. Diem Nguyen Salmon, "A Proposal for the FY 2016 Defense Budget," Heritage Foundation *Backgrounder* No. 2989, January 30, 2015, <http://www.heritage.org/research/reports/2015/01/a-proposal-for-the-fy-2016-defense-budget>.
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 6. Joint Committee on Taxation, "Estimated Revenue Effects of a Proposal to Repeal Certain Tax Provisions Contained in the 'Affordable Care Act' ('ACA')," June 15, 2012, and Congressional Budget Office, "Table 2: CBO's May 2013 Estimate of the Budgetary Effects of the Insurance Coverage Provisions Contained in the Affordable Care Act," <https://www.cbo.gov/sites/default/files/cbofiles/attachments/43900-2013-05-ACA.pdf> (accessed February 20, 2015). The total amount of tax revenue collected from the individual mandate, employer mandate, and 40 percent excise tax on high-cost health plans comes from the CBO's May 2013 estimate. For all other taxes, the amount of tax revenue totaled comes from the Joint Committee on Taxation's June 2012 estimation.
 7. Edmund F. Haislmaier et al., "A Fresh Start for Health Care Reform," Heritage Foundation *Backgrounder* No. 2970, October 30, 2014, <http://www.heritage.org/research/reports/2014/10/a-fresh-start-for-health-care-reform>.
 8. Nina Owcharenko, "Medicaid Reform: More than a Block Grant Is Needed," Heritage Foundation *Issue Brief* No. 3590, <http://www.heritage.org/research/reports/2012/05/three-steps-to-medicaid-reform>.
 9. For an overview of Heritage's Medicare reform proposal, see Robert E. Moffit, "The Second Stage of Medicare Reform: Moving to a Premium Support Program," Heritage Foundation *Backgrounder* No. 2626, November 28, 2011, <http://report.heritage.org/bg2626>.

implementation, the budget should include smaller structural reforms that ease the transition by making the existing Medicare program more compatible with premium support. These reforms include permanent repeal and replacement of the sustainable-growth-rate formula that governs Medicare physician reimbursement, increasing the age of Medicare eligibility, modernizing the Medicare benefit, and means-testing Parts B and D premiums for higher-income enrollees.¹⁰

5. Reform Social Security. The Social Security Disability Insurance (DI) trust fund is projected to be exhausted before the end of 2016, threatening 11 million beneficiaries with drastic and sudden benefit cuts of nearly 20 percent. The Social Security retirement program is also already running cash-flow deficits, thereby increasingly contributing to annual deficits. Congress should take action in the FY 2016 budget resolution to protect Social Security's most vulnerable beneficiaries in the retirement and disability programs from sudden, indiscriminate cuts without burdening younger generations with tax increases or a higher debt burden. Lawmakers should immediately replace the current cost-of-living adjustment with the more accurate chained consumer price index, raise the early and full retirement ages gradually and predictably, and focus Social Security benefits on those who need them most by phasing in means testing.¹¹ To improve incentives for those disabled individuals who are able to work, Congress should adopt a needs-based period of disability and reduce incentives for using DI as an early retirement program.¹²

6. Reform the Tax Code. Properly done, tax reform lowers marginal tax rates for families and businesses. It eliminates the double taxation of investment by eliminating capital gains and dividends taxes, and does not tax savings. It should also eliminate the death tax. The tax code should not pick winners and losers; as such, tax reform should abolish all provisions that confer special benefit to particular industries or activities. Tax reform should insure that businesses only pay tax on income they earn domestically. It should only maintain those deductions that are necessary to prevent taxes from influencing economic decisions.¹³

7. Cap Welfare Spending. Since the War on Poverty began in the 1960s, means-tested welfare spending has cost taxpayers \$22 trillion.¹⁴ Under President Obama's current plan, means-tested welfare spending will cost \$13 trillion over the next decade alone. To put welfare spending on a more prudent course, aggregate means-tested welfare spending, for the approximately 80 federal programs that provide cash, food, housing, medical care, and social services to poor and lower-income Americans, should be scaled back to pre-recession (FY 2007) levels plus 10 percent, and capped at the rate of inflation going forward. This proposal would save \$1.9 trillion between FY 2015 and FY 2024.¹⁵ Furthermore, means-tested welfare programs must be reformed to encourage work. The vast majority of government welfare programs fail to include any type of work requirement. Programs like food stamps, for example, should be reformed to include a work

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 13. Curtis S. Dubay, "How Tax Reform Would Help American Families," Heritage Foundation *Backgrounders* No. 2963, October 20, 2014, <http://www.heritage.org/research/reports/2014/10/how-tax-reform-would-help-american-families>.
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 15. The Heritage Foundation, "No. 90: Cap Total Means-Tested Welfare Spending," in *The Budget Book: 106 Ways to Reduce the Size & Scope of Government*, 2015, <http://budgetbook.heritage.org/income-security/cap-total-means-tested-welfare-spending/>.
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requirement for able-bodied adults to work, prepare for work, or look for work in exchange for receiving assistance.

A Path to Balance and Prosperity

The national debt exceeds \$18 trillion and, absent spending reforms, will continue to grow. As a share of the economy, the national debt already exceeds the nation's gross domestic product, with the part that is borrowed in credit markets making up nearly three-quarters of this debt.¹⁶

Massive and growing debt hinders economic growth and opportunity by discouraging investment and threatening higher future taxes to pay

interest on the debt. Congress should put the budget on a path to balance with health care, retirement, and welfare reforms, while prioritizing national defense in the budget, cutting inappropriate and wasteful domestic spending, and reforming America's tax code to unleash economic growth.

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16. Romina Boccia, "Federal Spending by the Numbers, 2014," Heritage Foundation *Special Report* No. 162, December 8, 2014, <http://www.heritage.org/research/reports/2014/12/federal-spending-by-the-numbers-2014>.