National Small Business Network

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Budget Policy Reform Recommendations for the 118th Congress

These recommendations are suggested as part of a balanced program of both tax policy and budget policy recommendations (https://www.NationalSmallBusiness.net) **to restore a sustainable Federal fiscal process and stable economic growth.**

There is a clear need for both tax system reforms and for added tax revenue to reduce fiscal deficits and the unsustainable growing debt. Because of the tight distribution and split control of the 118th Congress, any effective fiscal policy changes will also need to be very balanced, bi-partisan, and evidence based.

We support the current, and too long ignored, effort to control annual budget deficits and the growing $31.4 Trillion National Debt. We agree with GAO and most economic advisory groups that our current fiscal path is "unsustainable" and will result in significant economic harm if not corrected. We believe that the Budget and Appropriations Committees, and the 118th Congress can start to re-establish fiscal sustainability.

To effectively and firmly control the spiraling annual deficits we recommend three key action areas for this Congress and the Budget Committee. We are making related recommendations to the revenue committees that they provide the balanced, but adequate, tax revenue necessary to properly fund approved federal expenditures.

- **Do not make the problem worse by threatening to default on US financial obligations!** Allowing the world to believe that we might not stand behind our obligations by failing to quickly pass an expanded borrowing resolution, is the worst possible action. Even a 2% risk based increase in borrowing costs on our current debt would add an additional $640 Billion cost to each annual budget with no benefit from it. If the world loses trust in our financial obligations, it will also weaken trust in our other international agreements, defense alliances, and our currency. We cannot let that happen.

- **Assure that a deeply divided Congress, and a highly political process, can actually stop the growing debt, and allow time for budget process improvements, by adopting a bi-partisan Deficit Control Surtax Act!**
  Because of the very high level of division and partisanship that exists in Congress, it will be very difficult for either party to take any leadership in balancing the budget by increasing taxes or reducing major expenditure programs. If Congress really wants to control deficits, the only possible way to get agreement to increase revenue may be through a bipartisan <u>pre-agreement</u> on an "automatic" deficit control process similar to prior "pay-go" and budget sequestration legislation. They weren't perfect, but they helped control deficits without either party having to take the political "blame" for the necessary actions. Congress should always first try to balance expenditures with adequate tax revenue using regular order, but that will take time. As a "Fail-Safe" to prevent increased deficits, except in times of true national economic emergencies, we suggest the Congress adopt a provision which would provide for an <u>automatic income tax surtax necessary to offset any budget deficit.</u>

The Congress would require the Congressional Budget Office to determine the amount of any net budget deficit for the prior fiscal year. Congress would then have one year to pass legislation for the current year either reducing expenditures, or increasing tax revenue which, by CBO projections, would be adequate to offset the prior year's deficit. When special economic conditions justify a budget deficit for stimulus, Congress could override the requirement for a year by a majority vote of both the House and Senate. If Congress failed to act, CBO would be required to calculate a surtax rate, which when applied to all income tax categories, including corporations, pass-throughs, individuals, trusts, etc., would raise the amount of income needed to offset the prior year deficit. This surcharge would then be added onto the following year's net tax due. Congress would still remain in complete control of the process, but as a last resort, the surtax would provide the needed revenue without members of Congress having to vote for any specific tax increase. The surtax would not change, or complicate, the initial tax calculation for any taxpayer, but would simply apply a percentage to the final net tax owed. To let taxpayers, adjust to the potential surtax, it could be phased in over 5 years.

- **Reform the current ineffective Federal Budgeting and Appropriations process to better focus on key long-term national priorities, and greater efficiency of expenditures and agency programs. As a start, we have outlined below a series of budget and appropriation process reform suggestions to get greater value out of necessary expenditures, and provide better Congressional information and management of all Federal programs. The current process is neither timely enough, nor compete enough, to provide good long-term program and expenditure control.**

We share the general goals of the last, and apparently now forgotten, Commission on Fiscal Responsibility and other deficit reduction research groups for progressively returning to a sustainable federal fiscal policy. Most suggested an initial 10-15 year plan to progressively eliminate annual deficits and to reduce the federal debt by 2035, while keeping maximum total Federal expenditures below 22% of GDP. They were 25.1% of GDP in FY2022. This will now be difficult, if not impossible, without reversing the effects of previous tax reductions and large 2016-2022 budget expenditures. We share the conclusion of most other groups that <u>deficit reduction will require both spending reductions and significant corrective revenue increases</u>.

The recommendations which follow include both budget reform issues and broader policy decisions which have budget impacts, as well as some related tax policy and revenue reforms. We believe that building sustainable economic growth and reducing the debt will require action by the Congress in all these areas.

Specific Budget and Fiscal Policy Reform Recommendations:

1. Budgeted Program Expenditure Control

The purpose of government is to provide a stable structure in which people can live and work, and to provide important services collectively that individuals cannot effectively provide for themselves. Unfortunately, the federal budget has grown so large and complex that it is difficult for even the Congress to properly evaluate program effectiveness, or understand the long-term economic impacts of spending policies. Realistic budget decisions are also made more difficult by a lack of transparent and consistent accounting standards, as required of private sector organizations. This includes the tendency of both Congress and the Administration to present expenditure and revenue estimates with time frames and baselines most favorable to their policy preferences. To assist Congress in making more realistic and sustainable budget decisions, we recommend these changes to the Federal budget process.

A. Develop a <u>performance-based</u> budgeting process similar to successful businesses and several state governments which have "re-invented" their budget processes. Congress should regularly re-evaluate program expenditures and agency budgets in relation to the value and efficiency of the services delivered. This approach rewards the program's current importance to citizens, rather than historical expenditure levels. Multi-level prioritization based on clearly defined performance measures should occur at the program level, the agency level and finally between agencies. The process should focus on minimizing "non-value-added costs" that do not significantly improve service delivery, and on identifying programs that provide the greatest benefit to taxpayers in relation to their cost. Prior to each appropriation cycle, agencies should be asked for detailed recommendations on how they can achieve their objectives with less funding. Current service level, "use it or lose it" budgeting, or "across the board" percentage reductions such as sequestration, often waste resources on in-efficient or unneeded programs, and under-fund more beneficial programs.

B. Convert to a two year Budget and appropriations cycle to allow better evaluation of agency programs and appropriations. It has been more than 25 years since the Congress has completed the appropriations process prior to the start of a fiscal year. This means decisions are often rushed and agencies often don't know what their budget is until well into the program year. Changing to a biennial process would allow more time to review agency programs over an 18-month period and still have time to complete the adoption process prior to the start of the next fiscal period.

C. Stop using intentionally misleading 10 year impact scoring. Put a greater emphasis on analyzing the broader long-term economic impacts of all legislation and budget allocations prior to adoption. Too often legislation is crafted to look revenue positive during the 10-year scoring period without considering longer term revenue consequences. A perfect example was Congress using the short-term tax revenue from allowing the conversion of taxable IRAs to Roth IRAs to "pay for" the Bush era tax cuts, without considering the long-term loss of tax revenue. Revenue scoring also often focuses only on estimated federal tax revenue changes, without adequate consideration of the direct governmental program and administrative costs and additional private sector compliance costs which reduce economic productivity. We support legislation that also requires analysis of long-term 10, 25, and 40-year budget impacts on major tax and expenditure legislation.

D. Develop stronger and more detailed 10 year and 25 year running budget and revenue plans for the federal government with a congressionally adopted policy to keep expenditures below projected revenues over the periods. The goal should be to reduce the national debt below 60% of GDP by 2035. This is a better way to control expenditures than "Balanced budget Amendments" or borrowing limitations that restrict deficit spending recovery options in true economic emergencies.

E. Using the 10-year budget plan as a base, assure that budgets and appropriations are evaluated by the Congress and approved <u>prior</u> to the start of each two year fiscal year. This would allow agencies to more efficiently make transitions needed for future funding and program changes and prevent future government shutdowns. Doing this will require catching up on the budgeting and appropriations process and making it a top priority at the start of every new congress. The failure to pass agency budgets until well after the start of a budget year demonstrates a basic lack of proper control over the budget and expenditure process, and encourages wasteful spending and program disruption. The government should also search for and reclaim unused prior year grants and revenue sharing expenditures and reapply the funds in current budgets.

F. **Develop a bi-partisan <u>strategic</u> National Economic Growth Plan** identifying the best potentials for future domestic and international <u>traded sector</u> economic growth. Identify, and invest in, the kinds of education and training programs needed to develop the workforce skills to successfully compete with other countries in the future. Use the analysis as a base for reform of our immigration policies to balance needed workforce skills. The Congress should then support government programs, regulatory policies, and tax policies to encourage and support future economic growth in these key economic sectors, within the legal limits of international trade agreements.

G. **Expand the roles of the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and the Government Accountability Office (GAO), to help the Congress better evaluate the comparative performance and cost efficiency of agencies and programs.** Detailed and unbiased evaluations of program performance and value are necessary for a successful performance-based budgeting process.

H. **Replace, intergovernmental and private contractor "cost plus" reimbursement agreements, which reward <u>in-</u>efficiency, with fixed price contracts that reward cost reduction** and have penalties for poor performance.

I. **All joint Federal–State programs should require participating states to use <u>standardized</u>, jointly developed, reporting and data standards and software programs** for administration and reporting, to take advantage of economies of scale in development, and facilitate easy exchange of program data for administration and benefit evaluation.

2. Off- Budget Expenditure Control:

There should be <u>no</u> continuing off budget expenditures, for military activity, disaster assistance, or any other purpose. <u>There is no value to having a budget for fiscal control unless all significant expenditures are included.</u> Congress should review and approve supplemental budget authorizations for any non-budgeted expenditures at least every year, including off-setting adjustments to other budget items, or providing additional revenue if necessary. Recurring "emergency" spending needs, such as disaster assistance, should be budgeted for, based on realistically expected expenditures.

When short-term economic stimulus or "emergency" deficit spending is needed to help the economy through cyclical downturns, wars, or emergencies such as Covid , Congress should provide a source of offsetting revenue later in the 10-year budget planning period.

Congress must also prevent the growth of hidden unfunded future budget needs such as federal employee retirement benefits, veteran's benefits, or other programs, by properly accounting for estimated future liabilities in bill scoring and providing **commitments** adequate reserves in current program budgets for the future payments. For example, the

VA indicates that almost 45% of the 1.6 million veterans from the Iraq and Afghanistan wars have sought disability compensation. When possible, convert new federal employee and military retirement benefits from defined benefit programs to currently funded defined contribution plans which will automatically prevent the growth of unfunded pension obligations.

3. Regulatory Agency Cost Control:

Regulatory programs are an important function of government, but also result in both regulatory agency expense, and significant non-value-added compliance costs for businesses and individuals. The Federal government should expand, and make part of the regulatory process, an ongoing "Regulatory Efficiency Initiative" building on prior efforts by multiple Administrations and Congresses. Much of the non-value-added cost of the current regulatory structure results from poor regulatory design and poor coordination of new regulatory legislation with the existing regulatory processes of other Federal agencies, and with state regulatory processes. The result is overlapping regulatory responsibilities and duplicate administrative costs, as well as duplicate reporting and compliance costs for businesses. Unfortunately, regulatory agencies, like other organizations, inherently seek to enlarge their responsibilities, personnel, and budgets. Without careful Congressional oversight, regulatory programs can grow beyond their original need, adding to governmental cost and private sector burden.

A. **When budgeting for regulatory agencies, Congress should demand increasingly efficient performance results**. Program funding, and state government, or private sector cost reimbursements, should be based on the use of the most efficient administrative processes and technologies. This should include improving economies of scale by combining existing agencies and administrative processes when possible and closely coordinating with state regulatory programs The non-value-added cost impacts on the private sector, on state governments, and on the economy, must also be considered in evaluating the need for, and performance of, all regulatory programs.

B. **Develop a more coordinated and economically efficient Federal-State regulatory structure**. State government program partners and private service providers to federal programs should be required to use standardized electronic reporting and accounting software to reduce duplicate development costs and improve program transparency and accountability. The process should also include continuation and expansion of initiatives to work more directly with State regulatory agencies and reduce duplication of overlapping programs.

4. Continue to reduce the national cost of health care:

The direct and indirect costs of health are a major issue for national fiscal stability. Direct federal costs include federal employee health insurance, veteran's health care, ACA subsidies and Medicare programs. Indirect costs include the impact of poor health on the economy, reducing tax revenue and increasing the need for other social welfare programs. Although the ACA increased insurance coverage to over 91% of the population through mandates and public subsidies for low income individuals, it has not adequately reduced the growing total cost for health care. The US still spends almost 17% of GDP on health care compared to the second highest country, Switzerland at 11.5%, yet ranks well below the median of all OECD countries on life expectancy, infant mortality, obesity, and the percentage of population living beyond age 65. This is due to higher health care delivery system costs and unequal access of low income individuals to basic health services. Further changes are needed to make basic health care more affordable and accessible.

5. Make Social Insurance Programs Sustainable:

Making these programs sustainable is technically simple, as any insurance actuary knows, and should have been done many years ago. There are only 3 options to restoring stability – increase the payroll tax rate or maximum wage limit; further limit benefits to those most in need; or provide additional funding for the programs from other revenue sources. In selecting a balanced solution from those alternatives, it is important to remember that the programs were originally intended to be "social insurance" safety nets for those who need them most, not pre-paid benefit programs for every citizen. People buy many kinds of insurance every year; even though most never collect any actual benefit from them. If current benefit levels are going to be continued with projected participant levels, payroll taxes would have to increase on current wage earners, with potential negative economic impacts. The current payroll tax base limits for social security are also regressive by limiting the tax contributions from higher income wage earners, while taxing all the wages of lower income workers.

A. **Increase the Social Security early retirement, and full retirement, ages** to better reflect current life spans and working patterns. Revise the Cost of Living Adjustment formula.

B. **Continue the current method of taxing Social Security benefits to reduce the net after tax benefit** to those with other income. The estimated value of the taxes paid on social security benefits should be credited from general revenues to the Social Security program.

C. **Remove the Social Security taxable wage limitation so it matches the Medicare program provisions** to increase contributions from higher income individuals**.**

D. **Investigate and reduce fraudulent Medicare reimbursement billings and invalid claims against the Medicare disability system and other government disability programs.** Require states or other agencies who administer federal programs to use the same reporting software and communication systems to process claims to help enable rapid detection of duplicate or fraudulent claims.

E. **Limit covered Medicare services to those with high long-term value to the recipient's health and quality of life in relation to the cost of the procedure.**

6. Research Workforce, Education, Population, and Immigration Impacts:

The root cause of any long term governmental deficit is a cost of governmental services that exceeds the economic productivity and tax revenue contribution of its citizens. As a result, an important factor in restoring economic sustainability is the composition and average economic productivity of the US population. Two hundred years ago we had a vast continent, with seemingly unlimited resources and a great need for people to develop it. That world has changed!

We now face a different world where technology advances in agriculture, manufacturing, and most other types of businesses, have reduced our need for human labor in relation to our GDP. The McKinsey Global Institute forecasts that half of all current work activity could be automated by 2055. This has been compounded by a "flatter world" which has caused many of our lower skill middle income manufacturing jobs to be "out sourced" to lower cost foreign workers in foreign economies. This reduces the domestic economic multiplier effect of our domestic consumption expenditures. Machines have replaced manual labor, computers and AI have replaced administrative and managerial employees, and now intelligent robots are replacing many remaining domestic manufacturing, distribution and even personal service jobs. The standard unemployment statistics greatly understate the true level of under-employment and long-term un-employment.

The percentage of our population, who are unemployed, under-employed, unemployable, or prematurely “retired”, continues to grow. It is now estimated that over 40% of our total working age population is not employed. Many citizens simply do not have the skills needed for higher skill, higher economic value, jobs. This results in lower per capita productivity and personal income, and a greater need for governmental social program subsidies, but with less income tax and payroll tax revenue available to pay for the government programs. Efforts to shift increased benefit costs onto employers, such as in the PPACA health care requirements, only increased the incentive to eliminate jobs wherever possible, and replace low skill, high benefit cost, employees with technology, robotic machines, off-shore production, or increased use of part-time workers. This would further compound the long term under employment problem

A. Develop a more comprehensive national economic and workforce redevelopment plan. Target Federal tax incentives and education programs toward workforce skill areas needed in the economy, and that will be needed for the US to compete in the future world economy. Reduce federal programs and tax incentives which promote population growth, and provide budgeted support for individual family planning decisions. If government is going to force women to have more unwanted children, government is also going to have to pay for their health, education, and potential lifetime assistance.

B. Provide stronger incentives, in unemployment and social welfare programs to get more recipients into retraining and work experience programs. Partner with private businesses, trade groups, colleges and state employment departments to develop training programs to match specific regional workforce needs.

C. Provide significant, coordinated, and consistent incentives for businesses to hire and train military veterans, the disabled, the under educated, and other displaced workers.

D. Adopt strategic, 21st century immigration policy reforms. Review and update US immigration laws to resolve long standing issues such as the quantities and skills of both permanent immigrants and short-term “guest workers” who are truly needed for the current economy, and the process for admitting them. Resolve the status and citizenship options of existing long-term illegal alien residents and their children. We must understand that much of the world’s population would like to live in the US and benefit from our economy, governmental system, and social benefit programs. Climate change disasters, famine, and religious and nationalistic wars could soon create millions, or even billions of new refuges seeking a better life. The US economy and social infrastructure probably cannot survive this level of immigration. We need instead to help other countries both financially, and with our leadership, to solve their national problems so they can meet the economic and security needs of their own citizens.

7. Sustainably Correct the Infrastructure Deficit:

The last Congress provided significant one-time funding for infrastructure improvements, but did not establish adequate long-term tax and fee funding to assure continued maintenance and revitalization.
Much of the infrastructure needed to sustain and grow our economy, such as roads, bridges, ports, the electrical grid, and other transportation systems is not being adequately maintained and improved. The Federal government, in coordination with the states, needs to develop a prioritized program of infrastructure repairs, replacements, and improvements along with long-term sustainable funding programs to pay for them.

8. Stop the growing Environmental Deficit:

The largest unfunded future cost for the US and other nations is the massive potential cost of trying to overcome the increasing effects of carbon based climate change.
To help consumers make better long-term decisions on carbon based fuel use, Congress should enact a <u>revenue neutral</u> Carbon Emission Adjustment (CEA) fee on all fossil fuels produced in, or imported into, the United States, to provide a simple market based economic incentive for reducing carbon emissions.

Just as borrowing against the future is bad fiscal policy, compromising the country's physical environment and future economy for short term gain is bad national policy. Failure to protect the environment and climate would not only be a failure of our responsibility to future generations, but could also present a very real treat to our economy and the lives of our citizens. Unless we act soon to identify and reduce potential damage, the long-term costs of climate change mitigation, disaster recovery, food shortages, and massive population migrations will be even greater and more economically damaging than the consequences of our Fiscal Deficit. Unfortunately, the problem with our "Environmental Deficit" is that there is no agreed, or comprehensive, accounting system to measure the growing future economic costs of short term environmental decisions.
It is also important that a CEA adjustment, or any US carbon reduction program, be done at the <u>Federal</u> level, not by individual states, to prevent wasted duplication of administrative costs, and disruption of free interstate commerce. A CEA adjustment on imported fuels is also practical to collect only at the US customs port of entry, not after fuels are distributed throughout the states. A predictable and transparent carbon content adjustment fee is also likely to be more effective, and more equitable, than carbon emission trading schemes that encourage speculation and reward the large existing carbon polluters, not energy consumers.

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The NSBN is a nonprofit group that evolved from the 1995 White House Conference on Small Business Regional Tax Issue Chairs and does not represent the interests of any other organization or business.

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