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Qualitative Meta-analysis on Three Aspects of the Federal Budget: The Process, Politics and Policies

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Introduction

Over the last few years, policymakers and the media have paid special attention to the federal budget, deficits and the national debt as the recent recession plunged the nation into the red. In response, some called for fiscal tightening while others simultaneously advocated for further stimulus spending to accelerate the recovery. Beyond the debate on how to respond to the short-term deficits caused by the recession and a sluggish recovery are discussions of looming budgetary struggles. The medium to long-term budget concerns are driven primarily by the United States' rapidly aging society and rising health care costs. These two factors are of chief concern because Medicare, Medicaid, and Social Security comprise a large portion of annual federal spending. Some respond to these warnings by emphasizing the unreliability that inevitably results when one attempts to project into the future. Others counter that the recent recession has led to historically high levels of debt and the United States must proactively reduce the level of debt relative to the economy in order to provide flexibility for additional debt accumulation should these programs or another unforeseen event strain the nation's finances.

Qualitative meta-analysis is the methodology utilized because of its ability to provide a thorough portrayal of a phenomenon. As explained in the methodology section, the Literature Review is a main component in a meta-analysis because it synthesizes research on three aspects of the federal budget: the process, politics, and policies. The advantage of a qualitative meta-analysis is that the reader gains a well-rounded understanding of the topic because the researcher provides a variety of evidence on the topic's development, context, interdependencies, and complexities. While the

Literature Review opens with a brief overview of budgeting in early American history in the Literature Review, the thesis focuses on budgetary developments since 1974. This protects against the risk of shallow research which could stem from engaging in a meta-analysis of a topic. The Analysis interprets the research and offers implications for the short, medium, and long-term. The Conclusion recaps the discussions on the process, politics, and policies and offers final thoughts on their implications for the future. Lastly, it suggests further areas of research that would complement this discussion.

Review of Literature

Process

The Constitution does not mention the concept of a federal budget or a role for the president in financial matters beyond signing or vetoing legislation. The Constitution does grant Congress the power to levy taxes and ensure that money is spent only in accordance with appropriations made by law (Schick, 2007). *The Federal Budget* by Allen Schick breaks down the history of federal budgeting into three categories: dominant legislature, dominant executive, and Congress versus the President. During the early part of American history, 1789-1921, the federal budgeting process was characterized by a dominant legislature. In fact, many agencies submitted their appropriations request directly to Congressional committees without review by the President (Meyers & Rubin, 2011).

The Civil War produced great financial costs for the government and necessitated more work from the House Ways and Means and the Senate Finance Committees. As a result, the House and Senate created committees that would deal specifically with appropriations. As Congress became more fragment and as government spending increased, especially during World War I, Congress sought a strong executive leader that would help curb the large deficits (Schick, 2007).

The Budget and Accounting Act of 1921 required the President to submit an annual budget to Congress and established the Bureau of the Budget (now the Office of Management and Budget) (Schick, 2007). Sharp increases in revenue to pay for World War II remained after the war was over. Schick proposes that the larger amount of revenue led to a shift in the President's priority from "spending controller to program planner." He bases this on the 1950s and 1960s, in which the President often formed legislative programs that corresponded with his annual budget (Schick, 2007).

The President's dominance diminished in response to the Watergate scandal and spending on the Vietnam War and entitlements which were escalating deficits (Schick, 2007). Congress responded by passing the Congressional Budget and Impoundment Control Act of 1974 which authorized Congress to form its own annual budget resolution and created the Congressional Budget Office (CBO). The CBO provided members of Congress with economic and budgeting data independent of the President's OMB. Schick argues that the result has been greater conflict between the President and Congress not just over the details but also over the broader policy goals of the budget (Schick, 2007).

The Gramm-Rudman-Hollings Act of 1985 (GRH) set in place a series of deficit targets for each of the thirteen appropriation areas. Each year, the target was to move closer to budgetary balance. If the targets were not met, sequestration of discretionary funds would occur to bring the budget under the targets. The initial goal was to reach balance after 5 years, but was extended by two years in 1987. Because entitlement spending was not subject to sequestration, the cuts to discretionary spending to achieve balance were extreme and so Congress abandoned the approach (Krutz, 2012).

In 1990, the Democratic controlled Congress and President Bush sparred over how to reduce the deficit and so a group of moderate Democrats and Republicans joined President Bush for a summit. Their agreement formed the Budget Enforcement Act of 1990 (BEA). President Bush conceded to tax increases and Democrats agreed to domestic spending cuts. They also agreed to spending caps for discretionary spending and PAYGO requirements. PAYGO states that any future tax cuts and spending increase, including entitlement spending, ought to be offset so that it is revenue neutral (Krutz, 2012). To enforce this measure, a tax increase or new entitlement spending not offset required 60 votes in the Senate to move forward (White, 2009). When a policy was proposed, the CBO calculated its budgetary impact from that point until the end of fiscal year 1995, five years from when the rules went into place. A CBO testimony from 1993 suggested using a rolling five year period instead (Reischauer, 1993). The CBO rejected the idea of estimating effects over a ten year period due to increasing uncertainty the farther into the future one attempts to project (Reischauer, 1993).

The Budget Enforcement Act of 1990 attempted to overcome the shortfalls of the Gramm-Rudman-Hollings Act. For example, it set separate budget authority and outlay ceilings for defense, domestic, and foreign discretionary spending. If one category had savings, Congress was prohibited from transferring the savings to another category as Congress had done under GRH (Rubin, 2010). Compared to GRH, the BEA was less rigid because it allowed for exceptions in cases of emergency or a poor economy. Unlike GRH, the BEA did not set a date when deficits were to be eliminated but rather made the costs of policy proposals more apparent. The incentive to offset the costs of all future policies was to lead to budge balance in the long-term. This new process was perceived by Congressmen as more realistic, causing greater adherence to the rules (Rubin, 2010). Under the BEA's discretionary caps and PAYGO requirement, the first question asked of proponents of new spending became "How will you pay for it?" (Joyce, 1996, p. 321).

The constraints of the Budget Enforcement Act, tax increases, and a surging economy led to a budget surplus in 1998. Congress reacted to the surplus by ignoring the spending caps and PAYGO requirements. In 2000 and 2001, Congress spent over $200 billion more on discretionary spending than the caps allowed. In 2002, Congress allowed the BEA to expire as it was scheduled (Rubin, 2010). With the expiration of the BEA, the budget process reverted back to the process of the 1974 Act. However, in the last decade, Congress has not followed these requirements either, largely because they have been unable to reach an agreement on acceptable spending and revenue targets (Rubin, 2010).

Rubin characterizes budgeting since 1998 as improvisational (Rubin, 2010). The processes under the Budget Enforcement Act were designed to reduce deficits; when the country experienced a surplus, the process could not adjust quickly to deal with surpluses (Rubin, 2010). With irrelevant budget rules, Congress succumbed to the temptation to abandon the tough choices of the formal budget process (Rubin, 2010). Politicians with power used their influence to push through their agenda, regardless of its effects on the budget process or deficit level. When stalemates ensued over controversial policies, members of Congress found ways to circumvent the obstacle. One such tactic was the use of omnibus appropriation bills. At the start of fiscal year 2005, only four of the thirteen appropriation bills had passed. Due to the time crunch, Congress hastily put together and passed a 3,000 page appropriations bill which included some pet projects and programs (Rubin, 2010).

Rubin references Allen Schick who explained that when the budget process produces results that the public disapproves, such as large deficits, politicians tend to distance themselves from the process and create new ways to pass the budget (Rubin, 2010). Absent a formal agreed upon process, rules on how to count spending, project the size of the deficit, or calculate revenue increases or decreases are made up by each of the committees of both houses and can change from one year to the next. A mismatch between revenues and spending often results in this environment. Moreover, when the country continues to incur large deficits, politicians reject any remaining remnants of a formal process. Rules change when it is politically beneficial to do so. The consequences of an informal budget process are that the public receives conflicting information about the effects of policies, the truth gets obscured, and the public becomes increasingly cynical (Rubin, 2010). Moreover, without a process to manage conflicts, "time and energy are consumed on policy disputes, leaving participants with no time or inclination left to fix the process itself" (Rubin, 2010, p. 120).

While Rubin believes the United States should have retained the constraints of the Budget Enforcement Act, Joseph White (2009) criticizes the spending caps as "substantively irresponsible" because the caps do not consider the consequences on valuable programs and he sees the sequester process as simply ineffective. Furthermore, White believes the PAYGO requirement had mixed merit. The two chief issues are that it is fundamentally prone to inaccurate estimates and timing manipulations including phasing out, phasing in, sunsetting, and ignoring predictable trends.

Philip Joyce (1996) writes that while the BEA rules worked well most of the time, there were three issues. First, the main question asked of a policy proposal is its effect on taxes and spending over the next five years. Joyce states that this is a valuable question in many cases, but that for some subjects it distracts from the more important non-budgetary impacts. He gives the example of health care reform in the 1990s which he believes should be judged in terms of its long-term effects on the economy and health care quality and access. The CBO examined the proposals in terms of their effects on the budget in ten years, overall health spending, administrative feasibility, and employment. Nevertheless, the health care proposals had to be scored by the CBO as deficit neutral through 1998 to comply with PAYGO. Joyce questions whether the modifications to the proposals to meet the budget rules could produce bad health policy.

Second, the BEA separation of Social Security, mandatory spending and revenues, and discretionary spending does not allow tradeoffs among the categories. For example, revenue increases cannot be used to increase discretionary spending beyond the discretionary caps. If Congress wanted to increase discretionary spending in one category, it had to decrease discretionary spending by the same amount in another area. Neither can tax cuts be paid for by decreases in discretionary spending. The only way to overcome this was to pass a budget reconciliation bill that amended the tax code and provided additional constraints on discretionary spending. Additionally, discretionary spending savings cannot be counted towards offsetting an increase in mandatory spending. This jeopardized a proposal in 1993 which reduced discretionary spending on the salaries of federal workers by offering early retirement to some workers. The cost of paying early retirement was considered mandatory spending and so the savings in the salaries could not be counted as offsetting the early retirement costs.

Third, an enforcement mechanism, points of order, which was designed to block legislation that would violate the law or congressional rules has been used by the minority party to block unwanted legislation. Points of order have been strengthened by GRH and the BEA requiring 60 votes in the Senate to overrule. Only ten points of order were considered in the Senate between 1975 and 1986 but between 1987 and 1994, over

120 were considered. The effect has been that legislation has to be drafted to protect against a point of order. Joyce concludes that the increased complexity of the budget process, diminished credibility in the budget process, and the impact on policy development is a consequence of attempting to use the process to control deficit spending.

Congress reinstituted PAYGO in 2010 as part of a deal to increase the debt limit by $1.9 trillion to $14.3 trillion (Committee for a Responsible Federal Budget, 2011). The revised and now permanent PAYGO process states that if any future mandatory spending or revenue legislation is projected to increase the deficit it must be fully offset by cuts in mandatory programs or revenue increases (“The Statutory,” 2013). If Congress fails to adhere to this principle, then an automatic across-the-board cut will occur to nonexempt mandatory programs. Programs exempt include Social Security, Medicaid, veterans’ benefits, and most unemployment benefits. The remaining programs subject to sequestration are “most Medicare payments, farm price supports, vocational rehabilitation basic state grants, mineral leasing payments to states, the Social Services block grant, and many smaller programs” (“The Statutory,” 2013). The exemptions were broad enough to exclude the $858 billion tax stimulus bill passed in 2010.

Additionally, Congress passed the Budget Control Act of 2011 which instituted ten year discretionary spending caps, increased the debt limit by at least $2.1 trillion, created the Joint Select Committee on Deficit Reduction, and imposed sequestration as an enforcement mechanism (“Fact Sheet,” 2011). The caps sharply curve the growth of discretionary spending to about 2 percent per year. If Congress adheres to the caps, discretionary spending will make up less than 8 percent of GDP in 2022 (Wessel, 2012).

This would be its lowest level in forty years. The Joint Select Committee was tasked with recommending $1.5 trillion in deficit reduction to Congress but ultimately the members could not reach agreement. The act provided that if the committee failed, sequestration of funds split halfway between domestic and defense spending would take effect January 2, 2013 (“Fact Sheet,” 2011). Through the “fiscal cliff” deal, Congress lowered the size of sequestration from $109.3 billion to $85.3 billion and delayed it until March 1, 2013 (Kogan, 2013a).

Process proposals. The Concord Coalition, a nonpartisan organization devoted to educating the public about the need for fiscal discipline, also cautions against being overly optimistic about the capabilities of budget process proposals, pointing out their mixed track record (“Process Reform,” 2011). In order to be effective, proposals must affect all federal expenditures and revenues, set realistic goals that have bipartisan support, and avoid exemptions and loopholes. The organization believes the best approach is for Congress to set certain fiscal targets and if it does not meet the targets, automatic actions, affecting both entitlement programs and revenue, will bring the government’s spending levels in line with the targets.

Roy Meyers and Irene Rubin, authors of “The Executive Budget in the Federal Government” (2011), argue for a joint budget resolution process. The joint resolution would have the force of law and require the President’s approval. This contrasts with the existing concurrent resolution which is a budget blueprint for Congress but is not a law and so it does not require the President’s signature. The authors believe that a joint resolution would promote greater negotiations between the President and Congress. The authors believe that for serious fiscal reform to occur the public must be educated so that they will not tolerate candidates who promise more benefits without any tax increases or spending cuts (Meyers & Rubin, 2011).

Paul Posner (2009) also discussed the need for budget process reforms. He sees it as a valuable way to shield politicians from the backlash that occurs when they make difficult decisions. He argues that the media and mobilized interest groups heavily scrutinize politicians' actions making it nearly possible for them to propose hard choices. His suggestions include requiring the OMB and CBO to compile annual reports on the long-term costs of commitments such as Medicare as well as mandating that the CBO estimates the long-term costs of legislative proposals which have long-term effects. He also supports greater use of broad fiscal goals that can garner bipartisan support. The idea is that a broad fiscal goal could reframe and narrow debates. In other nations that utilize this, political leaders work hard to present themselves to the public as meeting or exceeding the goal (Posner, 2009).

While many scholars agree that the budget process is "too complex, too rule-bound, and too biased" forming a good budget process has proven near impossible (Joyce, 1996). The problem is that:

> the budget process is expected to achieve a large number of diverse (and sometimes contradictory) goals simultaneously, including 'preventing insolvency, making efficient allocations of the government's limited financial resouces, approaching intergenerational equity, contributing to financial stabilization, and being responsive to public demands'. (Joyce, 1996, p. 324)

Joyce states that the key to resolving the numerous conflicting goals is to prioritize the goals and develop a process that facilitates the chief goals.

Politics

Aaron Wildavsky published a book in 1964 entitled *The Politics of the Budgetary Process*. His book identified the mutual expectations, rules, and strategies that contributed to budgets on time and roughly balanced budgets, with the exception of recessionary or war years. Since the publication of his book, many of the conditions that facilitated the success of the budget process have changed. First, there is no longer a consensus in Congress that a balanced budget is necessary. Up until the New Deal, even depressions failed to persuade the government to deficit spend because depressions were believed to have been caused by too much government spending that crowded out capital needed for the private sector to grow (Posner, 2011). This began to change with the rise of Keynesian economic thought which taught that government spending could help minimize the effects of an economic recession (Rubin, 2010). Additionally, Reagan's push for increased defense spending while simultaneously reducing tax rates dramatically reduced the conviction that in peaceful and prosperous times, the government ought to enact a balanced budget and fervently pay down any outstanding national debt.

Second, entitlement spending, which is not subject to the annual appropriations process, has increased. Third, Congress has reduced the power of senior congressmen (Niskanen, 1989). This began under the 1974 Budget and Impoundment Control Act which transferred some of the power of the Appropriations Committee to the newly created budget committees. It continued under the Republican controlled House in 1995 which set term limits for committee chairs and increased the power of the party leadership in determining committee assignments (Peters, 2012). The final factor is the erosion of consensus regarding the role of the federal government (Niskanen, 1989).

Wildavsky characterizes the new politics as "direction without order," pointing to the frequently missed deadlines in a context that has devoted increased time to the federal budget (Niskanen, 1989). One could add that Congress has also devoted increased human and financial resources through the establishment of the Congressional Budget Office. Wildavsky's chief point is that the missed deadlines and increases in debt have not been the result of different budget processes, but rather the lack of consensus on the role of the federal government. When consensus exists in some areas, a good process can facilitate a budget agreement, but not even the best of processes can foster a balanced budget when consensus is lacking (Niskanen, 1989).

Allen Schick further describes the shift from the old politics of budgeting to the new politics. He references Wildavsky's description of the old process as "closed, shut off from the outside world" (Schick, 1994, p. 136). When the appropriations committees convened, only its members and one or two clerks were admitted. The process opened due to the rise in entitlement spending because recipients had a direct and significant stake in the outcome. The entrance of new participants to the process brought demands, rights, and conflict to a formerly placid process. The new participants focused on the authorizing committees as opposed to the appropriating committees because the authorizing committee's priority is programs, not budgets (Schick, 1994).

Schick states the Congressional Budget and Impoundment Control Act of 1974 increased the number of participants through the creation of budget committees for each house (Schick, 1994). Additionally, the Act heightened conflict because of its requirement that Congress agree on budgetary total and priorities in the concurrent budget resolution. Formerly, the conflict between appropriators and authorizers would occur in private, but the Act brought the discussion to the floor of Congress (Schick, 1994). Furthermore, the growing size and scope of entitlements as a portion of the budget meant that the budget was increasingly subjected to uncontrollable and unpredictable economic conditions (Schick, 1994).

Schick argues that some of the order was restored as a result of the Budget Enforcement Act of 1990 which laid out separate rules and processes to govern discretionary and mandatory spending. Under the Budget Act, discretionary spending was limited by annual caps. Schick states that although appropriations under the Old Politics were not subject to caps written into law, there were de facto caps that were a part of the president's budget. Thus, he makes the case that the de jure caps on annual appropriations under the Act were an equivalent to the former de facto caps under the president's budget, aligning the annual appropriations process closer to the style of the Old Politics while mandatory spending continues to be characterized by the elements of the New Politics (Schick, 1994).

During the period of the Old Politics, Wildavsky believed that budget decisions were right if they were reached through due process. By due process he meant a process of "bounded competition for resources, of conflict held in check by building on past decisions and not beginning from scratch" (Schick, 1994). To Wildavsky, one should not judge the process in terms of outcomes, but outcomes in terms of the process. He refused to support a theory of budgeting that dictated what results were acceptable, instead stating that whatever resulted from a due process of budgeting was better than imposed or predetermined policies. Schick argues that this belief rests on the assumption that every major interest has representation at some critical point in the American political system, but that was not the case when his book was first published in 1964. Women, minorities, environmentalists, and others who garnered increased representation after 1964 demanded that they receive their fair share and they evaluated success not in terms of the process but outcomes (Schick, 1994).

The increased popularity of entitlement spending led to three tiers of success: discretionary grant, entitlement status, and entitlements with a built in cost of living adjustment (Schick, 1994). The three different levels led to enhanced attention paid to the outcomes a given group gained from the process. Conflict exacerbated as differences over the appropriate level of spending and taxing became interconnected with disagreements over how benefits and burdens should be distributed (Schick, 1994).

Aaron Wildavsky and Joseph White (1989) provide an insight into the rationale behind the partisanship of the 1980s:

> Partisans would argue that the deficit arose from the sins of their opponents…. If you blame the deficit on somebody else's error, the deficit should be solved by correcting that error. Democrats who believe the deficit was created by raising defense and cutting taxes think it only fair that the shortfall be eliminated by cutting defense and raising taxes. To eliminate the deficit by cutting domestic spending seems, to them, to endorse the original mistake…. Thus dissensus about the cause adds to the belief that how we eliminate the deficit is a question of justice, of right and wrong, and thus not easy to compromise. (p. 564)

Paul Posner points to the primary system as one of the reasons that consensus has eroded over the last 30 years. He states that individuals who turn out for primary elections are primarily from the ideologically extreme faction of the parties and members of Congress have to appeal to these voters if they want to move forward to the general election. This is compounded with the current practice of drawing congressional districts which produces many ideologically pure districts (Posner, 2011). Posner claims that the emphasis on appeasing the median primary voter increases the likelihood for gridlock (Posner, 2011). Additionally, Posner portrays the current political system as a "virtual fishbowl of media and interest group coverage" which makes it politically detrimental for Congressmen and the President to make concessions in order to reach agreement (Posner, 2011). Instead, budget issues are used to appeal to a party's core constituents. Today, it is more politically expedient for a leader to show that they are on the "right side" of an issue than it is to convey collaboration to reach certain goals (Posner, 2011).

The Joint Select Committee on Deficit Reduction, commonly referred to as the Supercommittee, was given extraordinary scope and power to meet a goal of reducing the deficit by $150 billion per year over one decade, or about 5% of current federal spending (Peters, 2012). The committee was allowed to work outside of the budget, appropriations, and authorizing process. The members of the Supercommittee had incentive to reach agreement because if they failed, spending was to be automatically cut by $1.2 trillion. Nevertheless, the Supercommittee failed to reach an agreement. One scholar suggests that it failed due to seemingly non-existent presidential and party leadership, divided public opinion, interest group pressure for the status quo, and ideological polarization (Peters, 2012).

Joseph White (2009) believes that budgeting standards have not been upheld because there is not a centrist establishment of political elites who is willing and able to enforce the standards. He attributes the decline to: a change in the political activism of elites, the rise of conservative think tanks which has made knowledge creation partisanship, and the conservative message that the media is inherently liberal. According to White, relying on the public to hold politicians accountable to budget standards would be “absurd” because there are too many other issues that influence their vote.

Matt Andrews, a Harvard public policy professor, does not believe that voter education on budget issues will result in the public demanding better coordination and compromise between Congress and the President (Andrews, 2011). Andrews argues that our budget challenges reflect our deeply held views about government. He focuses particularly on the principles of separation of powers and limited government and how these clash with the values of assertiveness and competition, American exceptionalism, and the American dream. To support his first point, he references voters polls in which the public acknowledges that the deficit is an issue and blames big government, yet simultaneously call for more government services and lower taxes. Thus, he is skeptical that any amount of education can alter the public’s conflicting views.

Our emphasis on separation of powers results in a fragmented budget process, which reduces accountability. The belief that government ought not to intrude in people’s lives leads to a restriction on the amount the government can tax. Our value of political competition can be seen in the fragmentation of appropriations powers across several congressional committees and executive agencies. The message that America is better leads to high demands on government and government spending. He references demands for powerful responses to natural disasters, provocation from enemies abroad, and economic disasters. Moreover, belief in the American dream leads the public to demand government support of small businesses, first-time home buyers, students, and more. The public believes that "an exceptional country needs an exceptional government that can do all these things—and still be limited" (Andrews, 2011, p. 347). Andrews concludes that only a crisis can produce the transformational change that is needed.

Policies

Running on Empty discusses the implications of previous policy decisions to expand federal benefits. These decisions began in the early 1950s and the federal benefit system has continued to grow exorbitantly to the point that the current system is 50 percent larger as a share of GDP than the entire federal government at the peak of the New Deal (Peterson, 2004, p. 110). The increases began in the 1950s with a doubling of Social Security benefits and accelerated under President Johnson's Great Society. After creating Medicare, Congress pushed through four hikes in Social Security benefits between 1967 and 1972. Additionally, in 1972, Congress created Medicaid and annual Cost-of-Living-Allowances for Social Security. Between 1966 and 1976, benefits rose from 27 to 49 percent of federal spending (Peterson, 2004).

Between 1974 and 2003, Congress did not create a single major benefit program. But neither did Congress eliminate a benefit program or engage in structural reform to a program other than two modifications to Social Security (Peterson, 2004). Yet, federal benefit spending levels, left untouched, continue to grow slightly every year. Benefit levels will continue to rise due to the retiring of the large Baby Boom generation which began in 2010 and will accelerate over the next two decades. Peterson notes how the nation's financial situation was complicated further by large tax reductions during the Reagan administration which forewent around $1 trillion in future revenue, the Bush tax cuts, and the addition of prescription drug coverage to Medicare in 2003 (Peterson, 2004, p. 131). Over the following 75 years, this new benefit is estimated to cost $8 trillion (Peterson, 2004).

Joseph White critiques a 2007 article by Rubin in which she states that it is "fundamentally undemocratic" to create long-term spending commitments without prefunding them (White, 2009). White uses the example of trying to control long term health costs and states that we cannot reliably estimate the purchasing power of the dollar or the political desires of the public twenty years from now. He argues that anything beyond a three year estimate is unreliable. White states that the only way the country could control entitlement spending beyond roughly three years would be to eliminate the entitlement, yet this would leave millions of Americans in misery (White, 2009).

Much of the current literature on the federal deficit focuses not on the short-term deficit caused by the Great Recession, but the medium-term structural deficit caused by our aging population and growing health care costs. While the actual burden on the federal budget in 30, 40, or 50 years cannot be projected with certainty, the Census and measures of health care costs over the last several years point to two unmistakable truths: the percentage of Americans aged 65 or older is increasing each year and the cost of health care is growing faster than the economy. Private and public spending on health care grew from 4.7% of GDP in 1960 to 15.2% in 2007 (Manchester & Schwabish, 2010). Moreover, between 2000 and 2010, the population under the age of 18 grew at a rate of 2.6 percent compared to 31.5 percent for the 45 to 64 age group. Over the next two decades, these individuals in the latter group will become eligible for Medicare (U.S. Census Bureau, 2011). Aging alone accounts for 56% of the estimated growth in federal spending on Medicare, Medicaid, and Social Security by 2035 (Manchester & Schwabish, 2010).

While health costs have risen dramatically since 1960 as Manchester and Schwabish acknowledged, a recent report found that in 2011 health spending grew only 3.9 percent. Moreover, health care spending grew slowly in 2009 and 2010 as well. In 2011, Medicaid spending decreased while Medicare, private health insurance, and out-of-pocket spending increased. It is unclear whether the slower growth will remain after the economy fully recovers. In past economic recessions, health care spending has increased as the economy improves (Hartman, Martin, Bendon, & Catlin, 2013).

The National Tax Journal highlighted a study that focused on how much taxes would have to increase if no spending cuts are made to lower average deficits over the years 2015-2019 to 3 percent of GDP, the target of the OMB. The study finds that it would necessitate an additional $579 billion annually in taxes. (Altshuler, Lim, & Williams, 2010). Martin Feldstein addresses the proposal of a tax surcharge on individuals earning over $1 million as a means to reduce the deficit. In 2007, there were 391,000 individuals with an adjusted gross income over $1 million. The total taxable income from this group equals $1.245 trillion. A 10% surcharge would produce $124.5 billion in “static” revenue. Of course, this estimate does not account for any deadweight loss. It is evident that a millionaire tax surcharge would only bring the United States about 1/5 of the way to raising the $579 billion in annual revenue needed to lower the deficit to 3% of GDP over the years 2015-2019 if spending cuts did not occur.

The Peter G. Peterson Foundation asked six organizations from across the political spectrum to compile a comprehensive budget plan. The participating organizations were the American Enterprise Institute, Bipartisan Policy Center, Center for American Progress, Economic Policy Institute, The Heritage Foundation, and Roosevelt Campus Network, which represents young Americans. While the partisanship and disagreement over the budget is rampant, the organizations were able to reach consensus on the following issues: current policies are unsustainable, preserving a social safety net is essential, wealthier Americans ought to bear a larger burden, and tax expenditures should be targeted for reform. The projected public debt as a percentage of GDP in 2035 for the proposals varied from a high of 81.7% (Economic Policy Institute) to a low of 30% (The Heritage Foundation) with a median of 51%. Comparatively, the projected baseline lists debt to GDP at 91.5% in 2035. Each plan reflects different choices regarding their political, economic, and social priorities. The Peterson Foundation states that this project "proves that our fiscal challenges are solvable- all we need to do is decide how" (Peterson, 2011, p. 15).

White and Wildavsky make the case that while the United States would be better off without a deficit, it would also be better off if national defense remains strong, Americans receive the health care they need, and the roads and infrastructure are improved (White & Wildvasky, 1989). Thus, a balanced budget is just one of many valid objectives and Congress must decide the extent to which it will uphold fiscal discipline when faced with other competing values. When balancing the budget is treated as the absolute value, harmful decisions may result, such as a loss of essential services, a deterioration of infrastructure, and spending cuts that can harm organizational capacity and may even cost the organization more in the end (Meyers, 1999).

Balanced budget amendment. Since the mid-1970s there have been occasional calls for a Constitutional amendment requiring the federal budget to be balanced (White & Wildavsky, 1989). Several proposals have emerged with varying levels of strictness, comprehensiveness, and prominence of revenue increases to close a deficit (Meyers, 1999). Some proposals allow for exceptions in time of war only while others include exceptions for economic recessions so long as a supermajority, typically three-fifths of the members, votes for the waiver. At various times, the idea has gained considerable public support, but the idea of a balanced budget is more popular than any particular proposal to attain the goal (White & Wildavsky, 1989).

Even if Congress could reach consensus on the measures to reduce the deficit, actually realizing and maintaining balanced budgets is inherently difficult. This is because of the large portion of federal spending that is mandatory for all who qualify. Safety net programs including the refundable portion of the earned income and child tax credits, Temporary Assistance for Needy Families, low-income housing assistance, and unemployment insurance make up 13% of the budget. Additionally, federal health care spending account for 21% and Social Security accounts for 20% ("Policy Basics," 2012). The amount spent per year on these categories, which make up 54% of the budget, fluctuates based on demographic and economic factors.

In 1995, there was widespread agreement to balance the budget by 2002 yet there was debate regarding whether the administration or CBO assumptions should be used. The differences appeared miniscule, 0.1 percent in inflation and 0.2 for economic growth. Yet these discrepancies joined with differences over the allocation of income between employee compensation and corporate profits over a period of seven years led to a $400 billion gap between the two assumptions in their projected deficit figures (Meyers, 1999). How would Congress respond when actual deficits exceed the projections? Should there be automatic, across the board spending cuts in current year spending to make up for the deficits? This approach could be disruptive to federal agencies whose budgets are suddenly reduced. If Congress is only required to adopt a balanced budget and is not mandated to correct for actual deficits that may result, then Congress will simply use optimistic assumptions when drafting the budget (Peterson Foundation, 2012).

One must also consider the possibility of a stalemate in Congress that leads to an insufficient number of votes to waive the balanced budget requirement during a recession. Similarly, there could be a standoff between Congress and the President in which the President vetoes the recession waiver and Congress does not have enough votes to override the veto. Given the divisive partisanship among our leaders, either scenario is a real possibility. The outcome of such a situation is readily known. A tightening of fiscal policy during a recession would heighten the effects of the recession and could prevent the delivery of benefits to the most vulnerable populations in our society at a time when the economy is weak (Peterson Foundation, 2012).

Furthermore, if there was a Constitutional amendment then presumably the federal courts would ensure compliance. As a result, the courts would be placed in the position of deciding political and economic matters, which contradicts the American tradition of separation of powers (Meyers, 1999). One version of the amendment attempted to resolve this matter by including that “the judicial power of the United States shall not extend to any case or controversy arising under this article except as may be specifically authorized by legislation adopted pursuant to this section" (Meyers, 1999, p. 240). The constitutionality of the legislative branch declaring that the judicial branch cannot fully enforce a Constitutional amendment is suspect and would weaken adherence to the amendment.

Our leaders currently utilize accounting and budgeting gimmicks to minimize or enhance the fiscal effects of a favored policy. There is no inclination that this tendency would end under a balanced budget amendment. Leaders would continue to find creative ways to meet the letter of the balanced budget requirement while evading the spirit of the amendment. The only way to attempt to combat this tendency is to increase the rigidness of the budget rules. This ultimately diminishes the flexibility of our public policies which respond to our nation's evolving needs. In times of peace and good economic conditions, deficits exist because of a lack of consensus on the role of government and the nation's priorities. A balanced budget amendment in itself is incapable of overcoming these obstacles. Moreover, its failure could diminish the public's perception of the credibility of the Constitution.

Methodology

The methodology employed is qualitative meta-analysis, also known as meta-synthesis. The aim of qualitative meta-analysis, to offer a comprehensive portrayal of a phenomenon, is achieved by analyzing and synthesizing research on various aspects of the phenomenon through qualitative means. The advantages of a qualitative and holistic approach to a topic "are that greater attention can be given to nuance, setting, interdependencies, complexities, idiosyncrasies, and context" (Patton, 2002, p. 60). The Literature Review describes research from three areas related to the federal budget: the process, politics, and policies. The fields play essential roles in the formation of the annual federal budget. Therefore, to provide a thorough understanding of the federal budget one must examine these interrelated aspects. While some discussion of the federal budget in early American history exists, the thesis focuses on budgetary developments since 1974. The Analysis section includes an interpretation of the research and its implications for the future of the federal budget in the short, medium, and long-term.

Analysis

Since the foundation of the United States, the American economy and society have evolved dramatically and consequently the role, priorities, and policies of the federal government have shifted throughout the decades. The changing context has shaped and continues to shape how our leaders approach raising revenues and allocating spending. Schick's brief history of the federal budget process highlights key turning points in the development of the budget process. The 1921 Budget and Accounting Act and the 1974 Congressional Budget and Impoundment Control Act govern the process today. One of the changes that Schick documents that has the greatest implications for how the process works today is the increased conflict between Congress and the President as a result of the 1974 Act. As he explained, the Act did not remove power from the President and give it to Congress. Instead, it effectively added another layer onto the budget process by giving Congress an equally prominent role in the budget process.

The Gramm-Rudman-Hollings Act of 1985 (GRH) and its counterpart the Gramm-Rudman-Hollings Act of 1987 (GRH II) showed the importance of setting realistic fiscal goals. Two years after the original legislation, Congress extended the initial deadline of achieving a balanced budget in five years by an additional two years. The law required that if the targets were not met, sequestration of discretionary funds would occur. Congress protected mandatory spending from reductions but because mandatory spending makes up a large portion of the federal budget, the cuts to discretionary spending bore a disproportionate share. Unwilling to allow the slashing of discretionary spending, Congress disregarded the sequestration. In determining what classifies as a realistic fiscal goal, Congress should consider the context of the period. Economic conditions and the politics of the moment will affect what Congress can realistically achieve, particularly in the short-term.

Budgetary scholars Schick, Posner, Wildavsky and White described the marked increase of gridlock in the budget process. As Schick, Wildavsky and White described, conflict escalated when the rise of entitlement spending merged with the entrance of interest groups gaining new representation in the political process. These groups not only added conflict due to the inherent diversity of ideas and interests they brought but also because these groups demanded that the budget process provides substantive outcomes, not just substantive representation.

Posner's characterization of the political system as a "virtual fishbowl of media and interest group coverage" proposes that gridlock exists in part because leaders fear that if they make concessions in public, their concession will resurface in the next campaign. This theory would seemingly lend credence to the use of private negotiations between a few key leaders as a means of reaching agreement. Private deliberations between the President and congressional leaders have succeeded in the past, yet recent budget negotiations between the President and Republican leaders over debt limit increases, the fiscal cliff, and sequestration tend to only provide a very short-term solution that merely postpones genuine addressing of the problem.

According to Rubin and Joyce, the Budget Enforcement Act of 1990 successfully raised awareness to the cost associated with a policy proposal. Additionally, the spending caps could be temporarily breached in certain circumstances. The flexibility and emphasis on future policies made it easier to follow. The caps were extended in

1997 to last until 2002 but once the budget went into surplus in 1998 and the Congressional Budget Office was predicting a $138 billion surplus in 2008, Congress ignored the caps (Congressional Budget Office [CBO], 1998). In light of the optimistic budget and economic outlook, it is understandable that Congress responded as they did. Congress could never have known that in the coming decade there would be a terrorist attack leading to two wars and a severe recession that would plunge the budget into the red.

Yet, Congress and the President were not without fault. They chose to expand Medicare in 2003 to include prescription drug coverage and to sharply reduce taxes in 2001, 2003, and to extend expiring tax cuts in 2004 and 2005. Excluding the initial round of tax reductions in 2001, these policies were made after the United States entered into a war with Afghanistan in 2001 and had begun a war with Iraq in March. A recession in 2001, lower tax revenues, and increased defense spending had already begun to take its toll when Congress voted to continue to lower taxes and expand Medicare. In October 2002 the Bush administration announced a $159 billion deficit for the 2002 fiscal year (Milbank, 2002). Just five years earlier, the CBO had predicted a $69 billion *surplus* (CBO, 1998).

When President Bush assumed office federal tax revenue as a proportion of the economy was at 20.9 percent of GDP. The only other time in US history it has been that high was in 1944. The historic average is between 17 and 19 percent. The Bush tax cuts drove revenues down to 16.3 percent of GDP by 2004, the lowest level in 45 years (Gale & Harris, 2008). Given the optimistic economic projections and the historically high tax revenues, a tax cut in 2001 was a reasonable policy goal. What was not wise fiscal policy was enacting large reductions while simultaneously increasing government spending from 18.4 percent of GDP in 2000 to 20.3 percent of GDP in 2006 (Gale & Harris, 2008).

The deficit soared in the second half of the decade as the United States entered into a recession in December 2007 which officially ended in June 2009, but has been followed by a meager recovery. The combined impact of previous fiscal decisions and the recession produced a situation in 2009 in which when Congress convened, every dollar of revenue was committed to some form of mandatory spending (Wessel, 2012). As of December 2012 the total outstanding federal debt was $16.4 trillion whereas just ten years earlier it was 6.4 trillion (The Bureau of the Public Debt, 2012).

How much of a concern is our current level of debt in the short, medium, and long-term? In the short-term assisting the recovering economy is of greater importance than reducing the deficit. Aggregate demand has not recovered from the drop over the last few years. Direct public spending, tax cuts, and transfers increase demand, thereby partially offsetting the decline in the private sector. By maintaining aggregate demand, the government can minimize further unemployment and loss of income. The Committee for a Responsible Federal Budget (CFRB) notes that the CBO does not believe the economy will fully recover until 2018 (Committee for a Responsible Federal Budget (CRFB), 2013). Thus, reducing government spending and increasing taxes now would hamper economic growth.

In the medium term, the Center on Budget and Policy Priorities (CBPP) and the Committee for a Responsible Federal Budget (CRFB) agree that $1.4 trillion in deficit reduction will stabilize the debt through 2022. Policymakers actually only need to find $1.2 trillion in spending cuts or tax increases because the remaining $200 billion in deficit reduction will result from reduced interest payments (Kogan, 2013b). Both organizations project that this amount would result in a debt to GDP ratio of 73 percent for 2022. This new figure includes the deficit reduction that Congress has already taken in the last two years. Through the 2011 Budget Control Act, Congress found $1.5 trillion in appropriations cuts, combined with $200 billion in interest savings through the reinstatement of annual spending caps. The “fiscal cliff” compromise, the American Taxpayer Relief Act, which was enacted on January 2, 2013, secured $563 billion in additional revenue.

The other variable that cannot be underestimated when making budget projections is the economy. In August 2012 the CBO revised their March 2012 projections because of improved economic indicators. The result was that over a ten year period deficits are forecasted to be $750 billion lower than the CBO initially projected just five months earlier. One cannot underscore the impact of economic growth on the federal budget. Even the slightest increase or decrease in economic growth will impact the federal budget by hundreds of billions of dollars over several years. This is why scholars like Joseph White (2009) state that budget estimates beyond a three period are unreliable.

The federal budget is subjected to the whims of the economy by design. The federal government moderates the effects of the business cycle on individuals by allowing tax revenues to go down during recessions so individuals can keep more of their income during difficult times while concurrently aiding individuals through programs such as unemployment insurance, the Supplemental Nutritional Assistance Program, and Medicaid. The effect is that the risk is transferred from individuals onto the federal government and consequently, onto the federal budget. One of the reasons this is done is because the federal government is in a better position to take on the additional risk.

There are people and organizations that attempt to compare the federal government's budget to a family's budget. The aim is to allow the average person to understand the size and implications of the deficit and debt, but the comparisons are ultimately misleading because the two are not the same. The United States government can borrow money at low interest rates and technically never has to repay all of its loans. So long as it keeps its debt at a manageable level, it can continue to borrow. The United States has seen its debt skyrocket in the last few years, yet interest rates still remain low. One scholar describes in detail why the current supply and demand in the bond market have contributed to the low interest rates. He sums his findings by declaring, "empirically, it is nearly impossible to find an effect on budget deficits on interest rates after controlling for Federal Reserve monetary policy and economic conditions" (Palley, 2011, p. 18). Borrowing is cheap for the United States government because there are few other economies that can compare to the strength and stability of the United States economy. Thus, for risk-averse lenders, the United States government is one of the safest places to invest.

An individual family, on the other hand, cannot continuously hold onto debt nor does it have the same access to financial resources as the federal government. Every person's life ends but stable governments are treated as having a continuous existence. When a job loss hits a family it may be able to access other financial resources such as savings, other employment, or loans. Yet, their access is limited if they do not have sufficient savings, cannot find another job, or cannot obtain a loan. Moreover, a family, especially low-income families, could almost never recover from debt as high as 90% of their annual income while the federal government has overcome debt to GDP levels even higher.

Recently, the federal debt limit statute has garnered additional attention as some call for the modification or elimination of this element of the budget process. The debt limit has its origins in the Second Liberty Bond Act of 1917 (Krishnakumar, 2005). Before this statute, Congress approved each issuance of debt individually. The act allows the Secretary of the Treasury to issue debt without Congressional approval up to a defined dollar amount. The original statute and its early modifications provided caps for the different categories of debt, (e.g. Treasury notes vs. war savings certificates). In 1941, Congress abolished the separate categories, creating one aggregate limit instead (Krishnakumar, 2005).

The debt limit statute did not create tensions between Congress and the President until the 1960s during which time Southern Democrats and Republicans used the vote on the debt limit increase as an opportunity to assail the Kennedy and Johnson administration's fiscal policies (Krishnakumar, 2005). During the 1970s, Congress voted 18 times to raise the statutory limit as the federal government's expenditures grew dramatically during this time period. Many members of the House disliked having to frequently vote for the increase. Some had a fiscal objection to the frequent deficits while others did not want their 'yea' vote brought up by challengers in the next campaign. The House responded with the Gephardt Rule. Whenever the concurrent budget resolution passed by Congress sets a higher limit than the current statutory limit, a bill providing for the increase to match the budget resolution is automatically crafted and sent to the Senate (Krishnakumar, 2005). The Gephardt Rule was utilized four times but was recently repealed in 2011 (Committee for a Responsible Federal Budget [CRFB], 2011).

Perceptions of the role of the debt limit have changes as public attitudes have evolved. According to Krishnakumar (2005), “The ceiling has gone from being viewed as a statutory fixture to be raised only in times of war or economic depression to being considered more of a legal index that *must* be raised every year or few years—in response to requests from the Treasury or the President—in order to sustain general, unspecified government spending” (p. 157). Changing times and attitudes have led some to call for its abolition. The Center on Budget and Policy Priorities declares, “Ideally, policymakers would eliminate the debt limit altogether because it serves no useful purpose and, as recent events make clear, provides opportunity for political mischief while putting the nation’s financial standing at risk” (Ruffing & Stone, 2013, p. 1). The CBPP states that in raising the ceiling, Congress is simply agreeing to pay for the fiscal decisions the federal government has already approved and failing to raise it would have detrimental consequences.

Congressional debates leading up to debt limit increases in 2002, 2003, 2010, and 2011 fueled uncertainty and actually led to slightly higher interest rates. The Government Accountability Office estimated that the higher interest rates on Treasury securities resulting from the extended debt limit disagreement in 2011 cost the federal government $1.3 billion that year. The Bipartisan Policy Center estimates that over the life of the securities, it could cost $18.9 billion.

The CBPP acknowledges that the need to raise the ceiling may have convinced policymakers of the need to reduce deficits. Between 1990 and 2010, 6 out of the 23 increases in the ceiling included major policy changes (CRFB, 2011). On the other hand, the CBPP includes a statement by the CBO in 1993 that Congress already has ample opportunity to assess its policy decisions through the regular budget process. In times when Congress is not adhering to the budget process, some cling to the debt limit as one of the sole remaining tools to reinstitute fiscal discipline. Yet, because a default on the federal debt would have disastrous consequences and even uncertainty has led to higher interest payments, holding the debt ceiling vote hostage to calls for fiscal changes is an irresponsible approach.

Congressional focus should be on restoring a functioning budget process and improving the link between the debt limit and the taxing and spending decisions that necessitate the additional borrowing. No other developed nation except Denmark has a statutory debt limit, but abolishment of the statute in the United States would raise constitutional concerns. Article 1, Section 8 of the Constitution grants Congress the roles of paying the debts and borrowing money on the credit of the United States (U.S. Const. art. I, § 8, cl. 1, 2). The debt ceiling is the last remnant of congressional oversight which allows the Treasury Department to largely manage the nation's borrowing while still complying with the Constitution. Removing the debt limit without replacing it with another form of congressional control would violate the Constitution.

Our federal government's budget is difficult to project beyond three years because its revenue and expenditures are tied so closely to the performance of the economy. The federal government can bear the ebbs and flows of the economy more easily than individuals because of their access to financial resources and ability to maintain debt. The risk cannot be removed but can only be shared. Whether there are areas that the federal government has assumed too much risk on behalf of certain individuals or organizations is not a focus of this paper, but research in this area could shed light on the optimal value of risk-sharing. However, efforts to dramatically reduce the amount of risk-sharing by the federal government would increase the number of Americans in poverty.

One might reasonably question whether policymakers ought to focus on the medium and long-term if even the best estimates can change by hundreds of billions of dollars. Some scholars warn that the retiring Baby Boom generation which recently began but will accelerate in the coming years combined with health care costs that have generally increased faster than the economy will produce significant strain on the budget as Social Security and Medicare expenditures absorb a larger portion of the federal budget. Yet, as noted earlier, the rate of growth in health care spending has slowed in the last three years.

It is difficult to determine whether costs will return to high levels after the economy improves because of the current and coming market reforms of the Affordable Care Act. While some of the provisions have been implemented some of its landmark provisions take effect in 2014: employer and individual mandates, no annual limits on coverage, guaranteed issue and renewability, and the health insurance exchanges ("Implementation Timeline," 2013). These provisions will cause upheaval in the health care market for several years as it adjusts to the new rules and the numerous first-time entrants, who are expected to obtain health insurance with the assistance of the premium tax credits and cost sharing reductions.

The CBPP agrees with the uncertainty of future health care costs but points out that the answer has significant implications on the size and scope of the long-term fiscal problem and the measures needed to constrain health costs. The CBPP argues that policymakers should wait until later in the decade when greater knowledge on health care growth is available before taking major policy action. CBPP also warns that “if the political obstacles facing a much larger deficit-reduction package are too great, then insistence on a package that goes well beyond stabilizing the debt could lead either to failure … or to a package that provides false security because it is dominated by budget gimmicks” (Kogan, 2013b, p. 6).

While the Committee for a Responsible Federal Budget agrees that based on current information, a $1.4 trillion deficit reduction package would stabilize the debt through 2022 they raise several concerns (CRFB, 2013). It would not leave a margin of error if the economy grew slower or interest rates were higher than estimated. Neither does it allow for additional spending that is not included in the baseline but Congress is likely to spend such as the continuation of unemployment benefits or Hurricane Sandy disaster relief.

More importantly, the CRFB argues that their estimates show that the debt would only remain stable until 2023 at which point it would rise again. The CRFB advocates more savings now to keep the debt stable through the second decade while maintaining benefits for individuals near retirement. The Policy Director at the Concord Coalition describes how policymakers should evaluate the level of debt:

> Getting caught up in exactly when the debt-GDP-ratio stabilizes, or whether we might miss that goal by a few percentage points at the end of the 10-year window, assumes a precision in economic and technical estimating that no entity actually possesses…. Our main emphasis should be putting more focus on ensuring long-term stabilization of the growth rate of the debt rather than the specific level at which it stabilizes. Ensuring that the level is generally stable over a broad period of time and is not projected to dramatically grow at a later point should be the top priority. (Gordon, 2013)

Before the Great Recession, the debt to GDP ratio was 36 percent which provided flexibility to respond with deficit spending. If our debt to GDP had been 73 percent at the time, the CRFB questions whether that would have impaired our ability to respond to the financial crisis. Responding to the CBPP point regarding a lack of knowledge on controlling health care costs, the CRFB references almost 100 policies which experts believe have a strong likelihood of lowering health costs without negative consequences (CRFB, 2012).

Since the CBPP and CRFB provided their recommendations, the CBO has released an updated report on the budget and the economy. The report states that under current law, deficits will decline between now and 2015 before steadily rising again. The declining deficits partly stem from an increase in revenue—from 15.8 percent of GDP in 2012 to 19.1 percent in 2015 at which point revenue is expected to remain throughout the next decade. By comparison, the average over the last 40 years is 17.9 percent. Outlays over the same period are estimated to decline from 22.8 percent of GDP to 21.6 percent, still slightly higher than the average of 21 percent. If Congress abides by the annual caps on discretionary spending, non-mandatory federal spending will fall to its lowest share of the economy since this data began to be recorded in 1962. Thus, there is a strong possibility that Congress will loosen the strictness of the annual caps, thereby adding additional debt. The increasing deficits after 2015 is attributed to the aging population, larger interest payments, and increased spending on health care, including spending on the Medicaid expansion and new federal subsidies for health insurance (CBO, 2013).

CBO's economic calculations and current law would lead to a debt to GDP ratio of 76.3 percent at the end of 2015 which continues to decline, reaching a low of 73.1 percent in 2018 before climbing again to 77 percent in 2023 (Congressional Budget Office [CBO], 2013). Because the estimates are based on current law, it assumed savings from the sequestration about to take effect, the reduction in Medicare's payment rates to physicians that begins in 2014, and Congress will allow certain tax provisions to expire. If these events did not occur, CBO projects it would increase the debt burden to 87 percent of GDP in 2023. Even the lowest debt burden of the coming decade which occurs in 2018 is higher than any year between 1951 and 2012 and significantly higher than the 39 percent average between 1973 and 2012 (CBO, 2013).

While the debt as a share of the economy under current law is projected to remain stable throughout the next ten years, the CBO warns that these already historically high levels of debt will grow rapidly in the following decades unless Congress takes additional measures. Since the medium to long term concerns revolve around health care spending, Congress' focus should be on monitoring the health care market and ensuring that the recently slowed growth in costs continues. Congress cannot continue to slash the discretionary portion of the budget in order to lower the debt to GDP levels without eventually jeopardizing the delivery of valuable federal services. Reducing discretionary spending is a beneficial way to counteract increased spending in mandatory spending, but only to a certain extent. Currently, discretionary spending is on track to hit historically low levels. It is highly unlikely that Congress will allow it to hit such record low levels because that would mean a substantial reduction in valuable areas such as defense, education, veterans' benefits, housing, transportation, and science. Additionally, Congress should not approve any other deficit-financed measures, such as the ones in the alternative fiscal scenario, unless they are offset. This is because a debt to GDP ratio of up to 87 percent in 2023, under the alternative fiscal scenario, leaves little flexibility for additional deficits if spending accelerates after 2023 as the CBO and others believe.

Conclusion

The nation's deficits and debt have garnered extensive attention in the last few years, yet what one hears is oftentimes confusing or contradictory. A desire to gain a more complete understanding of the federal budget has led to the focus on three of its elements: the process which guides its development, the political context it is crafted within, and the fiscal policies that comprise it. The discussion of the budget process highlighted how the evolution of the United States' economy required adaptions to how the nation finances its expenditures. Prior to 1921, the United States did not have a formalized budget process. As the government assumed more responsibility, however, a process to manage the public funds was needed. Initially, Congress granted the responsibility of forming the budget to the President but in 1974 Congress re-asserted its prominence by designing its own annual budget.

At various times since, policymakers have disapproved of the large deficits and attempted to modify the process to reach their desired outcome. Yet, disagreements on acceptable levels of debt, the proper role of the federal government, and budgetary priorities block agreement and even the best budget process cannot overcome the lack of consensus. This is represented in the Supercommittee's failure to reach a compromise even though it was allowed to negotiate outside the budget process. In the current political context, most of the representatives of a given party view the deficit as a consequence of the other party's decisions and so only accept solutions that correct for the original mistake.

Unless the partisanship in Congress can be scaled back, one can continue to expect gridlock that has led to continuing resolutions instead of budgets, last-minute and short increases in the debt limit, and an absence of a long-term solution to ensure that debt as a share of the economy remains stable against projected increases in health care and Social Security spending. While this thesis described some of the factors that contribute to gridlock, methods to achieve beneficial compromises are not as plentiful because they are not as readily apparent. Certainly, a necessary component to ending the gridlock and uncertainty are new leaders who effectively balance holding true to one's principles and negotiating with other leaders particularly when refusing to do so impinges the public welfare.

The remainder of the research focuses on spending and taxing policies and the economy. Within the policies framework, attention was raised to the desirability of a balanced budget, the reasons for entitlement programs, and the volatility that mandatory spending brings to the federal budget. Another primary subject was health care spending which many scholars believe will greatly strain the federal budget in the coming decades. The upcoming implementation of the remaining provisions of the Affordable Care Act will either improve or compound the federal government's budgetary standpoint over the next few decades. Projections are subjected to increasing uncertainty every year beyond a three year period, yet the federal government cannot simply leave the debt at its current level and wait to see if the concerns materialize. This is because our currently high level of debt does not allow for additional significant debt accumulation should spending rise sharply.

While this thesis attempted to provide a synthesis of research on the federal budget's process, policies, and politics, one cannot address all of the aspects related to the federal budget. Future research on an acceptable level of debt relative to a nation's gross domestic product would complement this discussion. Specifically, is there a ceiling on a debt to GDP ratio that is tolerable for the United States? Along the debt to GDP continuum, are there identifiable tradeoffs at various levels? Moreover, what conditions could increase or decrease the permissible percentage? A second area of research pertains to the direction of health care costs under the Affordable Care Act. The response of the market over the next decade to the Affordable Care Act will greatly influence the validity of long-term budget concerns.

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