ECONOMIC PERSPECTIVES

Dysfunction in Federal Budgeting: Structural Factors and Selected Reforms

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Both major US political parties want to avoid the responsibility of reducing projected future budget deficits, which are expected to persist indefinitely. Having stronger leaders would help, but the primary causes of ongoing fiscal deterioration run deep and will not be easily addressed. Multiple federal laws govern budget decisions, but there is no regularized pathway for Congress and the president to agree on binding fiscal plans. Further, the budget is now dominated by benefits paid directly to individuals, which has changed the candidate-voter relationship. Finally, the United States' unique approach to health care makes identifying bipartisan cost-saving reforms challenging. Policymakers must think strategically about changes that account for these structural factors. They should focus on the statutory facilitation of legislative-executive budgetary agreements, long-term fiscal stability rather than fleeting near-term objectives, automatic solvency adjustments in Social Security and Medicare, stronger price competition in health care, and sustained funding increases for critical military accounts.

The 118th Congress wrapped up its budget work in December 2024 by mostly avoiding its responsibilities. Instead of setting full-year funding levels for the government, it pushed those and other key decisions into calendar year 2025. The main exceptions to this general pattern were its approvals of two costly measures that further eroded the fiscal outlook.[1] The overall impression of Congress's budgetary approach was of a chaotic and directionless process with no one in charge and no objective other than exiting in time for the holidays.

It would have been a dispiriting display even if the nation's fiscal affairs were otherwise in good order, but the opposite has been the clear reality for many years. The US is running continuous and historically wide deficits even during periods of strong economic growth—which was not the norm during most of American history. And yet neither party is offering a

1 Congress approved emergency spending for hurricane relief as part of a continuing resolution measure that pushed final appropriation decisions into 2025. There is a broad consensus that emergency funding was required, but it is nonetheless a costly add-on that will increase borrowing in 2025. Separately, Congress approved the Social Security Fairness Act, which was entirely discretionary and highly controversial, given the weak arguments made in favor of passing it. The CBO estimates the expansion will increase federal outlays by $196 billion over 2024–34 (CBO 2024a). This new spending also will move forward the date of insolvency for Social Security's Old-Age and Survivors Insurance Trust Fund by about six months (CBO 2024b).

realistic course correction or is even willing to acknowledge that a problem exists that demands sustained political attention.

Looking ahead does not inspire confidence either. Donald Trump's second administration may bring a renewed commitment to budget cuts, but that stated intention has yet to surface changes that would produce more than minor savings from current projections. While it is possible to reduce expenditures by reversing some Biden administrative decisions, the few new ideas Trump officials have embraced, such as replacing top federal civil servants with political appointees, would weaken executive branch agencies' competency but not necessarily their costs (Capretta and Rowing 2023). Narrow majorities in Congress also will make approving any controversial law changes, such as reforms to entitlement programs, challenging and perhaps impossible. Simultaneously, emerging plans for new tax cuts are specific and real and much likelier to gain legislative approval. If passed, they will add trillions more to a rapidly rising pile of federal debt.

Meanwhile, some accounts—namely, those affecting national security—have strong claims for enhanced fiscal support. Yet with global threats escalating rapidly, Congress adjourned in December 2024 without approving resources above current funding levels for the US military. It will be at least a few months into 2025 before Congress can correct this mistake.

It is tempting to blame both parties' leaders for this collective dereliction of duty, but that does not square with the historical record. Sadly, the fiscal deterioration and frayed and dysfunctional budget processes that the outgoing Congress consistently chose to ignore have been a part of the political landscape for at least the past quarter century. And yet neither party has come close to unlocking a stabilizing solution. Evidently, the problem has deep roots.

Budgeting in America

The Constitution assigns control over the federal government's finances to the nation's elected legislative representatives. Congress writes tax laws that pay for public endeavors, and it must appropriate funds for specific purposes before the executive branch can administer its responsibilities. Congress also has the constitutional authority to determine and limit how much the US Department of the Treasury can borrow to meet commitments that go beyond available incoming revenue.

Separating legislative and executive roles in budgetary decisions is fundamental to America's conception of self-government because it satisfies two competing objectives. First, it prevents the chief executive from accumulating excessive political power by wielding unfettered control over public resources, which the founders believed was a glaring defect of European monarchies. Simultaneously, the Constitution makes room for an energetic, and thus effective, executive by distancing the administration of public responsibilities from the legislative process that authorizes spending on these activities. Congress can meddle in matters properly reserved for the executive branch, but the president can resist excessive micromanagement, including through threatening vetoes of spending bills.

This arrangement has served the country reasonably well, especially during the long period when the federal government's role in domestic matters was mostly limited, as was the case throughout the 19th century. Congress was ascendant during this era and often worked directly with federal departments on their budget requirements.

Parallel Laws and Processes

With the dawn of the Progressive Era, the national government's responsibilities expanded, as did expenditures and public debt. Congress and the executive branch responded by embracing budgeting as an important source of information and discipline. Deliberately planning spending levels, and the revenue needed to pay for them, would allow policymakers to set priorities and consider the total burden on taxpayers beyond the current year, helping the government manage and limit its debt accumulation.

What gradually emerged from this embrace of budgeting was a dual-track process tied to two statutes governing the executive and legislative roles. While both laws have proved historically consequential, their combined effects have not created a coordinated approach to fiscal planning that leads to meaningful budgets that both elected branches honor until amended.

The modern era of budgeting commenced in 1921 when Congress approved the Budget and Accounting Act, which created the institutional structure for the executive branch's internal budgetary procedures. Most importantly, the president was tasked with transmitting to Congress an annual budget request covering the full executive enterprise and overseeing and revising agency funding requests while developing this fiscal plan. The president's annual submission would be a budget in the full sense of the term, but strictly from the president's perspective. Congress would neither develop it nor be bound by it. The Bureau of the Budget, now the Office of Management and Budget, was created to provide the staff required for the president to fulfill this new responsibility.

The Budget and Accounting Act is often credited with expanding executive power (Feld 2009). Among other considerations, presidential control over developing agency budgets enhanced control over the respective departments' key personnel. They were now obligated to work through the president and the president's budget advisers when seeking funds from Congress.

Half a century later, Congress created its budget development framework largely to counterbalance the president's annual submission. In the Congressional Budget and Impoundment Control Act of 1974, Congress created the House and Senate Budget Committees and the Congressional Budget Office (CBO). It also initiated a new process for developing congressionally specified fiscal plans and considering follow-on implementing legislation (called "budget reconciliation").

With these two landmark laws, the federal government has an extensive procedural construct in force that theoretically allows for setting fiscal priorities and carefully monitoring debt and projected deficits. However, it does not permanently and readily allow the elected branches to coordinate their budgetary decisions.

Instead, it remains possible, and indeed is the normal state of affairs, for the federal government to never operate under anything that might be reasonably called a "budget" that both Congress and the president support. Instead, the president submits a budget to Congress, and Congress may or may not produce an alternative framework. With no budget, Congress and the president work together on appropriations and other budget-related bills on an ad hoc basis, but not necessarily with a view toward satisfying larger fiscal goals.

With this arrangement, the two branches rarely discuss a full and binding budget plan. When they do, it is generally under special circumstances that are not a by-product of statutory budgetary procedures. An example of an extraordinary budget process was President Barack Obama and House Speaker John Boehner's negotiation in 2011, which led to enacting the Budget Control Act (CRS 2019).

Without a regularized and familiar process for hashing out differences over fiscal priorities, the federal government can drift for extended periods with no forcing event pushing policy decisions toward more discipline. Congress proceeds with appropriations bills and desired changes to other tax- and spending-related laws, but these decisions often do not conform to a previously agreed overall budget plan that the president also supports. The result is the kind of fiscal neglect that was on display during the 118th Congress.

There is an exception to this general pattern in current law, but its ineffectiveness reinforces the view that not having a coordinated budget development process is limiting. Since 2010, federal law has required all new entitlement spending increases and tax cuts approved by Congress to be paid for with offsetting tax hikes or entitlement spending cuts—the so-called statutory pay-as-you-go rule.[2] Failure to comply supposedly triggers across-the-board spending cuts in some unprotected areas of mandatory spending. But the law passed with just Democratic support (when the party had a supermajority in the Senate) and has not secured bipartisan backing in the intervening period.

With multiple laws gaining congressional approval since 2010 with no offsets (including 2017's large tax cuts), the "unpaid-for" balance that the law calls for eliminating through automatic cuts (called "sequesters") has grown and is now $2.4 trillion when assessed over the coming decade and $1.7 trillion in 2025 alone. These sums far exceed anything that Congress would find acceptable for automatic cuts (CRFB 2024). With all sides agreeing that they must not be triggered, the only question is how these sequesters will be turned off.

An additional important trend is an emerging bipartisan perception that the congressional process is

2 Statutory Pay-as-You-Go Act of 2010, Pub. L. No. 111-139.

only useful to the degree it allows major legislation to pass when one party controls Congress and the White House. That is because both a budget resolution and budget reconciliation can pass in the Senate with simple majority support (and thus no need for 60 votes to break a filibuster). In recent years, using the process in this way has significantly influenced policymaking, allowing the passage of health care reforms in 2010 (which facilitated final approval of the Affordable Care Act), tax cuts in 2017, and the Inflation Reduction Act in 2022. With these successes (as viewed by their advocates), both parties now are disincentivized from making stable fiscal compromises when they don't fully control both branches because they might be just one election away from having the power to unilaterally pass ambitious bills.

This warping of the budget process into a partisan tool is one reason that elected leaders generally don't think the current legislative and executive processes can facilitate a fiscal course correction, which would almost surely require bipartisan cooperation. Rather, the common view is that, if fiscal discipline is ever going to return as a force in national politics, leaders will need to create a special process that runs outside of current law. An example would be the Simpson-Bowles commission, which President Obama charged with developing a debt containment plan (White House 2010).[3] The belief that the problem is now so big that something extraordinary is required to address it has also become an excuse for current policymakers to evade responsibility for addressing the problem through normal legislative channels.

A Changed Relationship with Voters

While procedural matters partly explain current fiscal policymaking, even more important is how the government's role has transformed in the modern economies of rich democracies. Successive congresses and presidents have found it hard to agree on budget terms mainly because it is immensely challenging to convince the electorate of the wisdom of planned reforms.

This dynamic is not limited to the US experience. The 20th century saw every advanced Western democracy build social welfare support programs that forced the central government to provide direct financial support to individuals. The aim was to protect against various economic and health risks, such as unemployment and disability, and establish a public system of income replacement in retirement (often on an intergenerational pay-as-you-go basis, with current workers paying for current retirees).

Some sound economic arguments favor maintaining reliable social support programs. Among other things, Western democracies have prospered because they are mostly open to operating with market economies, which always entail a degree of business failure and employment disruption. By limiting the downside risks of economies built on these principles, democracies can maximize their citizens' long-term welfare.

But directly providing financial support changes politics and thus creates fiscal challenges. With governments in unmediated financial relationships with voters in ways that were not typical in earlier eras, the nature of partisan competition has evolved, as have the style and intensity of voter engagement with the political process. As an example, during the 1980s, the Reagan administration signaled interest in reforming various aspects of the nation's social welfare system, including Social Security and Medicare. Research shows that, in response, voters age 65 and older became much more active than they were previously in voicing their views to perceived threats to their benefits (Campbell 2003). An additional factor is the emergence of organized interest groups that were formed explicitly to increase program beneficiaries' political clout.[4]

Elections in the period immediately after World War II were often fought over competing plans for expanding government benefits. In time, however, these promises began to outpace the revenue produced by the economies supporting them, but with the commitments already written into law, politicians found it difficult to sell voters on retrenchment. Simultaneously, collapsing birth rates in developed democracies and continued

3 That effort produced many recommendations, some of which were eventually adopted, but it fell short of leading to a lasting budget settlement.

4 Organized support of public policies that favor retirees' economic interests grew after World War II with the advent of significant membership organizations, reflected most especially by AARP (formerly the American Association of Retired Persons), the National Active and Retired Federal Employees Association, and the National Council on Aging (Pratt 1974).

improvements in expected lifespans made the promises implicit in state-run pay-as-you-go pensions less and less affordable. A new era dawned, with elected officials grappling with how to square public opposition to benefit reforms with the reality that social welfare programs require significant recalibration.

In many cases, procrastination became the norm. In the US, after a heated debate, Congress passed a bipartisan Social Security reform in 1983 that delivered solvency for multiple decades, but not permanently. As aging has gathered pace, the fiscal stresses from devoting so much of the budget to old-age support have grown, and Congress has been unable to offer a sustainable, agreed-upon remedy.

The US also has become a more sharply polarized society, with some of the most heated divisions centering on what, if anything, should be done about the size and sustainability of major social support programs. Long gone is the consensus that these programs should be reliably financed mostly by program participants, with trust funds serving as accounting devices to enforce cross-generational discipline and equity (Capretta 2023). Now, one side of the political spectrum suggests taxing the rich is the answer (even though that has not been a major source of entitlement financing in the past), while the other increasingly denies there is a problem at all that demands corrective legislation.

With both parties disinclined to even discuss benefit reforms, the budget-cutting focus for nearly two decades has been on trying to squeeze savings from appropriated accounts, even though spending on this slice of the budget has not caused widening fiscal deficits. The Obama-Boehner agreement of 2011 put tight caps on these accounts, including for defense, but they were quickly overtaken by decisions to push spending above the specified limits through various emergency designations and gimmicks. In the end, benefit programs have not significantly changed, and savings from appropriations have vanished and look increasingly ill-advised in the case of national defense due to rising global threats.

The Special Problem of US Health Care

To a degree, all advanced Western democracies struggle with keeping social welfare support programs affordable while their populations age and the global security environment deteriorates. The US, already burdened with its commitments as the leading Western democracy, has the additional problem of a health insurance system with public and private characteristics and yet also manifestly unsatisfactory results. It is the most expensive system in the Western world, but without delivering care superior to that in other high-income countries (although its more open rules for the private sector are an important source of product- and service-delivery innovation too).

To the degree that health care is part of the US fiscal challenge, which it very much is, there is a premium on changes to it that could produce savings within the federal budget and also improve the overall system of coverage and care provision, or at least wouldn't worsen it. Further, these changes, if considered in legislation requiring bipartisan support, must be acceptable to proponents of strong public control and those who lean toward market-oriented solutions. Satisfying all these concerns has proven to be a tall order and has vastly complicated the adoption of a durable fiscal course correction.

The two largest sources of federal budgetary pressure are Medicare and Medicaid, which are the United States' publicly sponsored insurance programs for the elderly and lower-income households, respectively. Both programs run on long catalogs of regulatory controls, including for calculating payments for services. These controls allow the programs to pay much less than do commercial insurance plans for the same services.

Debates over how to discipline federal health care spending inevitably become entangled with the overall system's deficiencies. On one side, advocates for expanded public coverage tend to argue that Medicare and Medicaid are, relatively speaking, somewhat restrained in terms of costs relative to private insurance, which pays much more per service rendered to covered patients. They argue the solution is therefore not the further cutting of Medicare and Medicaid but expanded public control over insurance coverage (through mechanisms like introducing a public option and using Medicare rates in commercial plans), which might reduce the diversion of resources toward unproductive middlemen and allow overall cost growth to slow.

These plans can be a hard sell in budgetary terms, as expanding public control often involves higher government costs in the near term. For instance, with a public option, it is possible that more individuals would end up in subsidized coverage that actually increases the net burden on the budget. In time, there might be fiscal benefits, but that is far from a certainty. This ambiguity around what more public control might mean for the federal budget is an important reason why these ideas face resistance.

Those who oppose full governmental control mostly dislike changes that would rely on extending the reach of federal payment restrictions to the private sector. They would instead prefer market-based solutions to the cost problem, but as implementing such reforms is technically complex, they have found it exceedingly difficult to coalesce around practical ideas that could deliver substantial savings for the federal budget. A further complication is that those who model budget outcomes are reluctant to credit market reforms with reliably reducing future costs.

Even though public control and market reform advocates tend to disagree on large-scale reforms, they do frequently agree on some changes within Medicare and Medicaid to lower costs that do not threaten their overall positions. Over the past 30 years, it is these changes, such as tightened payment rules for hospitals and other service providers, that now dominate many bipartisan budget exercises. There are still potential cost-reducing opportunities for policymakers to pursue in these public insurance programs, most especially in the case of coverage offered through private plans participating in Medicare (called Medicare Advantage). A growing body of credible evidence suggests that reforming the risk adjustment system for these plans could produce hundreds of billions of dollars in savings over the coming decade, although much of the reduction would be passed on to the beneficiaries in the form of reduced add-on benefits that the plans use to attract enrollment.

Simultaneously, there are real limits to how much payment restrictions can address the fiscal challenge. Medicare's payments for services are already below measured costs in many settings, and Medicaid's payments are even lower (Shatto and Clemens 2024). Further, while enrollment in Medicaid has escalated rapidly, changes that restrict Medicaid eligibility would likely increase the number of uninsured Americans, as those with low incomes have no other option beyond Medicaid for securing coverage.

Even so, these programs are so large that there is still some room for further savings because of payments that are deemed unreasonable based on various criteria. The savings from aggressively implementing changes, which service providers will still resist, would be significant but not sufficient to materially close the gap between overall federal revenue and spending.

Strategic Interventions

For perhaps numerous reasons, many officeholders do not acknowledge, or are not fully aware of, the powerful and complex structural factors pushing the US toward an increasingly adverse fiscal position. That is a problem, because it leads many policymakers to gravitate toward fiscal reforms that fail partly because they do not account for the formidable opposing forces they will encounter.

While no singular idea can solve the entire challenge, progress is possible if those leading the effort internalize a handful of strategic considerations. These concepts are salient both for the effectiveness of the processes in making fiscal decisions and for the policies that are particularly important to identify and implement.

Create a Regular Order Option for Legislative-Executive Budgeting

As noted, the Budget and Accounting Act of 1921 and the Congressional Budget and Impoundment Control Act of 1974 created parallel executive and legislative processes for developing fiscal plans covering the full range of federal programs and activities. However, current law does not have anything that, as a planned feature of normal budget procedures, allows Congress and the president to agree on overall and multiyear plans that would guide and direct subsequent tax- and spending-related legislation.

That defect can and should be corrected to allow the normal give-and-take of the legislative process, which on consequential matters almost always involves some level of executive branch involvement, to reach into fiscal planning as something to be expected rather than an extraordinary and infrequent occurrence. If that were done, elected leaders would have more opportunities to vote on meaningful budgetary matters and demonstrate their commitments to fiscal discipline in ways not possible today.

In recent years, as the current process has fallen into disuse as a source of fiscal discipline, numerous proposals have been offered, inside and outside Congress, to create more opportunities for fiscal agreements between the legislative and executive branches. One prominent idea has been to allow the process of approving the congressional budget resolution, now governed by the Congressional Budget and Impoundment Control Act, to become the vehicle for producing binding laws (requiring presidential approval or a veto override) as opposed to just internal congressional planning documents (Joyce 2011). The House and Senate Budget Committees would become the focus of new authority for developing these measures, which could be considered under normal legislative rules to foster more bipartisan dealmaking.[5]

As an example of what might be possible, the budget committees could be given explicit jurisdiction over setting annual upper limits on appropriated spending—so-called discretionary caps. These limits have been in place at various points since 1991 (including in 2024 and 2025), but they have been enacted through ad hoc negotiations rather than as a direct consequence of the regular order budget process in Congress. Discretionary caps have sometimes become irrelevant because the levels were set without most of Congress having a realistic opportunity to influence the final decisions. Changing current law to allow the budget committees to initiate new caps, or to amend those in place, would mark an important departure from current practice and set in motion more regularized and routine budget planning that involves the full Congress and president (Capretta 2015).

In addition to these caps, the House and Senate Budget Committees also could receive broader authority to pass binding savings targets for entitlement programs along with revenue objectives. To be effective, these targets would need to be coupled with enforcement mechanisms that would trigger automatic adjustments if Congress and the president failed to agree on subsequent legislation that modified the relevant laws to meet the savings targets.

Target Long-Term Fiscal Stability

When Congress does eventually turn its attention to fiscal consolidation, it should not focus on borrowing this year or even over five years. The real threat is persistent long-term debt escalation. The US has the capacity to borrow in public markets for the funds it needs to meet its obligations, but that source of financing could become exceedingly expensive if the markets conclude the government has passed the point at which it could reasonably pay back what it has borrowed. That line is a function of the required borrowing that is expected over the long term.

At the moment, unchecked spending on the major entitlement programs (Social Security, Medicare, and Medicaid) is expected to push federal debt up at a rapid rate, with no end in sight. Market participants are fully aware of these projections but expect public officials will eventually pass corrective measures because failing to do so would be catastrophic. In other words, elected leaders must start fulfilling what America's creditors have expected all along, which is reforms to slowly pull back on future commitments so that long-term borrowing remains within a sustainable range.

Embed Automatic Solvency Adjustments in Social Security and Medicare

When Social Security and Medicare were enacted (in 1935 and 1965, respectively), key policymakers presented them as fiscally responsible programs that would not burden the broader federal budget because trust funds would track their income and outgo over time and enforce discipline. Thus, the laws allow benefits to be paid only to the degree that trust fund balances are sufficient.

However, that limitation is only as certain as the political commitment to honor it is, and there is cause for concern in this regard. Many elected officials in recent years have signaled a stronger desire to preserve

5 In 2018, the Joint Select Committee on Budget and Appropriations Process Reform explored possible reforms to the contents of the congressional budget resolution as part of its deliberations, although the final report failed to produce a bipartisan consensus recommendation. See Office of Senator James Lankford (2018) for a list of amendments that three GOP senators serving on the joint committee offered, which point in a similar direction to what I suggest here.

all current law benefits (and perhaps even expand those benefits) than maintain the integrity of the original principles that the programs were built on. This implies that even if the trust funds run short of the reserves required to meet all their benefit obligations, Congress will likely step in to allow borrowing as needed to prevent any reductions in what program beneficiaries are scheduled to receive.

Blocking a move to preserve benefits with borrowing would be challenging if the alternative was deep and arbitrary cuts. At the same time, however, it is noteworthy that the trust funds are still politically salient constructs that cannot be ignored altogether. Elected officials remain sensitive to accusations of failing to prevent these trust funds from running through their needed reserves. That sensitivity could be leveraged to produce additional fiscal discipline through changes in how current law handles insolvency.

The most important and effective step that Congress could take toward this objective would be to write an automatic adjustment to key tax and spending program parameters directly into the Social Security and Medicare programs so that when reserves are projected to fall below agreed-upon thresholds, the shortfall will be eliminated through the mechanism embedded in current law. (The mechanism could be written to allow Congress to step in with alternative tax and spending changes to prevent insolvency.) With this one reform, Congress could simultaneously ensure the permanent solvency of the nation's two most important programs for the elderly and eliminate a substantial source of long-term fiscal instability.

In Social Security, the parameters that could be adjusted are limited and well understood. For instance, to stabilize spending, the normal retirement age could be adjusted by a number of months to slow expenditure growth. Further, the replacement rate for high-wage earners could be lowered, which also would cut spending without reducing benefits for most retirees. On the tax side, the payroll tax rate could be raised to match what is saved with spending-side reforms.[6]

Stabilizing Medicare would require a two-step process. First, it would be necessary to reform how the program's Supplementary Medical Insurance trust fund is financed, as current law allows it to tap into the Treasury's general fund as needed to pay for its growing obligations. These transfers are not backed by a dedicated revenue source and therefore directly contribute to escalating federal debt. Limiting how much the general fund annually transfers to the Supplementary Medical Insurance trust fund is essential to restoring long-term fiscal stability (Capretta 2024b).

The second step would be to implement automatic solvency adjustments that resemble what would occur in Social Security. Under current law, many key Medicare tax and spending parameters are already indexed with various methods to keep the program operating in ways that reflect current market realities. For instance, payments to hospitals are indexed to a measure of their input costs. This and other adjustment parameters could be modified as needed to prevent trust fund reserves from eroding below an acceptable threshold set by Congress. If elected leaders find that the automatic changes would be suboptimal, they could pass new legislation modifying the program in ways they would find more acceptable (Capretta 2024a).

Lower Health Care Spending in the Public and Private Sectors with Stronger Competition and Better Patient Incentives

The two major political parties cooperate frequently on relatively technical and low-cost corners of US health care, but they rarely see things similarly on big structural reforms because one leans toward stricter public controls while the other favors room for private initiative. The one recent exception was broad bipartisan support for price transparency in service provision. This convergence demonstrated that it is not possible to defend opaque pricing when patients are so often on the hook for the final bills.

That broad support for knowing what prices will be charged for services can be taken one step further by allowing patients to benefit fully when selecting lower-priced care. Today, that is often not possible because once a patient satisfies an insurance deductible, they are not incentivized to gravitate toward lower-priced options. Further, the lack of standardization in what is priced obscures the potential savings in many cases. Congress could foster much stronger price competition by allowing patients to always keep the savings from picking

6 For a discussion of automatic solvency adjustments in Social Security, see American Academy of Actuaries (2018).

lower-priced care and requiring providers to disclose specific pricing for common services based on standardized definitions (Capretta and Rowing 2024). These changes could apply to both the commercial market and publicly sponsored insurance (Medicare and Medicaid).

Plan for a Sustained Increase in Defense Spending

The federal government's first responsibility is to protect the country's security interests, and there is an emerging consensus that meeting this commitment will require a sustained increase in defense spending.[7] Instead of wishing away this obligation, Congress and the president should start a fiscal correction by planning for a robust investment in strategically important military accounts as needed for at least a decade. Planning for this expenditure increase will likely require adjusting other priorities or perhaps require Congress to approve a permanent tax hike. Nothing should be ruled out if policymakers are serious about meeting the demands of a deteriorating global security environment without jeopardizing long-term fiscal stability.

Acknowledging Current Realities

The laws governing congressional and presidential budgetary responsibilities were written in eras dominated by the annual appropriations process. The focus was to ensure executive agency budgets were appropriately scrutinized, by the president first and then Congress. The spending plans developed through these laws looked only a few years into the future.

That world no longer exists. Most federal spending is now directed toward benefit programs, which have become central to the financial well-being of tens of millions of Americans. As a consequence of this shift in the government's financial responsibilities, budget debates have been redirected toward obligations spanning multiple decades and generations. These programs do not fit well within the old construct, and yet they are far and away the most important factors in today's steadily deteriorating fiscal outlook.

Developing the federal budget is complicated further by a health system that is fragmented and undisciplined and yet remains so politically divisive that it has eluded effective cost-disciplining reforms. The United States' unique post–World War II leadership role in global affairs also adds financial obligations that its Western allies have not faced.

Many US elected leaders want to help restore fiscal discipline, but the current process makes it exceedingly difficult and complex to offer effective interventions. The problem is too big at this point for a solution to emerge from a determined coalition of like-minded rank-and-file legislators. Continued resistance to establishing a new fiscal commission to address these critical questions shows how difficult it will be to break the current stalemate.

But that reality is not a reason to accept the status quo. Those who do not accept it should focus their energy on a handful of the most strategic changes. That starts with addressing the projected insolvency of Social Security and Medicare through changes that automatically stabilize their trust funds in ways their participants will find acceptable, which likely means some tax hikes will be needed. Additionally, Congress must build an ongoing system of legislative-executive budgetary cooperation to make fiscal planning and discipline a normal feature of the process for officials in both elected branches.

After years of neglect, the US does not have much time for further procrastination. Staying on the current trajectory will steadily reduce the US economy's strength and resilience. Those who remain committed to avoiding such self-inflicted harm should step back from day-to-day budget fights to better focus on the big picture and the core reasons the federal budget has veered off a sustainable course—and then act accordingly.

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7 The difficulty Western allies have experienced in trying to provide military support to Ukraine while maintaining sufficient inventory for their own security points to an erosion in the capacity to scale the production of key military supplies. For a discussion of the needed changes in the defense industrial base, see Greenwalt (2024).

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