BIPARTISAN POLICY CENTER

Save-as-you-Go (SAVEGO)

The President and Congress should address the nation's looming debt crisis by immediately enacting policy changes, as was recommended by both the Bowles-Simpson and Domenici-Rivlin commissions. A first step, however, can be to create a new budget process to direct policymakers to achieve savings immediately and in the future. In light of President Obama's emphasis in his budget speech on the use of enforcement mechanisms, we strongly urge that such a process set goals in terms of ***policy changes***, which are under the direct control of policymakers, rather than specific ***deficit targets*** (as in Gramm-Rudman-Hollings), which are ***not*** under policymakers' direct control because they are influenced by movements in the economy.

The most successful past budget process was created in the **Budget Enforcement Act (BEA) of 1990**, part of that year's Omnibus Budget Reconciliation Act (OBRA), negotiated by President George H.W. Bush and a Democratic Congress. This process set separate targets for different parts of the budget. Annual appropriations (non-defense and defense discretionary spending) were limited by multi-year caps written into the law. Mandatory spending and taxes were constrained by a "pay-as-you-go," or PAYGO, limit. That law also enacted substantial deficit reduction; the discretionary spending caps and PAYGO protected and insured those already-enacted savings. Given today's much larger debt and deficits, however, if the President and the Congress cannot agree on actual budget savings up front, any new budget process must go much farther and actually mandate substantial future savings.

Fortunately, a modification of the 1990 budget process can mandate additional future budget savings:

- First, the Congress and the President must choose future debt (and corresponding deficit) targets (e.g., reducing debt to 60% of GDP by 2021) and a path to achieve it.
- Second, Congress must specify amounts of budget savings that achieve those targets through:
  - ***Appropriations spending caps*** for the next ten years (the Congress may choose to subdivide appropriations into separate categories, such as security and non-security); and
  - A ***save-as-you-go (SAVEGO) rule*** with required year-by-year amounts of deficit reduction in the rest of the budget (from entitlement programs and/or taxes). We recommend that the Congress create **two separate categories: *health care and other***.
- Finally, the budget process law will re-create the remedies – the ***"sequesters"*** – that will achieve any intended savings that Congress and the President fail to enact.
  - If Congress ***appropriates too much***, overall or in any separate category, there will be an ***across-the-board reduction in the offending discretionary spending category*** to bring the total back into line.
  - If Congress ***fails to comply with SAVEGO*** in any SAVEGO category in any year, there will be ***across-the-board reductions in entitlement spending and tax expenditures*** to achieve the mandated savings in that category (marginal tax rates ***cannot*** be increased through a sequester).
    - We recommend that each Congress adopt the necessary savings to meet the spending caps and SAVEGO for the following two years.
    - We also recommend that health care be exempt from sequester if Congress and the President achieve the required savings in the separate health care category.
    - We further recommend that Social Security be exempt from any subsequent sequesters if a law is enacted that the Social Security actuaries deem achieves sustainable solvency.
    - If the Congress achieves the SAVEGO target in a current legislative year, but the resulting savings are not sufficient in subsequent years, the Congress may achieve the remaining required savings in later legislative years to prevent a sequester.