



BIPARTISAN POLICY CENTER

SAVEGO: “Control the Controllable”

Targeting fixed deficits or debt as a percent of GDP is bound to fail

- The key problem with this type of mechanism is that you are **attempting to bind Congress to a metric that it does *not* control – the economy – and penalize them if they fail to meet those targets.**
 - Debt and deficits as a percentage of GDP fluctuate largely with movements in the economy, rather than specific policy decisions of Congress. Therefore, using one of these metrics forces Congress to chase moving targets that are beyond their control.
 - **If the economy grows faster than expected** (thereby making the target easier to hit), given Congress’ natural behavior, they likely would take the opportunity to have a **“spending party” or backtrack on previous action** so that they don’t “over-achieve.” Yet, this economic growth may turn out to be only temporary, and then Congress will have to go back with an even tougher job than before, forced to make additional cuts to offset the new spending that had since been implemented.
 - Alternatively, **if the economy grows slower than expected**, then suddenly, at the end of the year, Congress will find that they failed to meet the goals that they thought were achieved. Thus, they will have to revisit their actions to find additional savings. Many would view this task as difficult or unfair, meaning that **it might be overridden, and therefore undermine the credibility of the law.**
- This is **precisely what happened to the Gramm-Rudman-Hollings (GRH) approach in the 1980s.** That law set deficit targets for each year from 1986 to 1991. At the beginning of 1987, Congress enacted policies to save the amount of money that they thought (and were told by Office of Management and Budget) was needed to hit the annual deficit target. When the stock market tanked later that year, leading to an economic downturn and fewer revenues coming into the Treasury, the deficit ended up higher than expected. Congress, at that point, had two options: they could go back and find significant additional savings or they could waive the law – they chose the latter.
- Moreover, **market participants are well aware of GRH’s unraveling in the 1980s.** If Congress simply enacts a repeat of that scenario, the reaction may not be particularly positive. Today’s situation calls for a new mechanism.

Spending as a percent of GDP has an additional pitfall

- The major drawbacks detailed above would be equally applicable.
- **An additional problem would arise:**
 - In recent decades, a very **significant amount of congressional spending has been implemented through the tax code, summing to produce the complex and arcane system** we have today. For example, instead of attempting to enact a controversial direct spending

provision to benefit ethanol producers, Congress provided a more politically palatable tax subsidy (which the Senate just recently voted to repeal). There are hundreds of such exemptions and loopholes that have been tactically built into the tax code. Altogether, they are equivalent to **over \$1 trillion in annual spending**; this is **close to ¼ of all the federal government's non-interest expenditures**.

- **Tying debt reduction only to direct spending would entirely exempt programs run through the tax code, allowing them to continue growing at an unsustainable pace.** Under these circumstances, even if direct spending were drastically curtailed, the deficit could continue to increase dramatically, as spending programs would be increasingly converted to tax expenditures so as to avert the stringent limits imposed on spending as a percentage of GDP.
- ***Ironically, the result of this spending cap likely would be a failure to limit spending, as well as an even-more nonsensical tax system.***

SAVEGO is a strategy that addresses these concerns

- **SAVEGO is much more likely to be adhered to because it sets targets with specific amounts of annual budget savings** in different categories of the budget. Since Congress can control that objective, Members can be held responsible if they fail to meet it.

An additional advantage of SAVEGO is that the sequester mechanism hanging over Congress if it fails to hit the targets **puts everything on the table**. To achieve a bipartisan compromise on a comprehensive fiscal solution, **everyone must have skin in the game**. No individual will want to make concessions on his or her priorities unless others are forced to do the same.

Note: Congress will work its will when negotiating the eventual savings, but **nothing should be excluded before that process is set in motion**.

- **SAVEGO will explicitly force Congress to deal with the drivers of our debt and deficits.** With savings required from defined categories that include health care, other entitlements and tax expenditures, entitlement reform and restructuring of the tax code are strongly incentivized. Tinkering around the edges with discretionary spending alone will no longer suffice.

The U.S. must face up to its long-run debt problem. Eventually, specific policies will be required to substantially adjust the nation's expenditures and revenues, but the details require careful consideration. To guarantee that changes are made when the time arrives, however, we must tie the hands of future congresses with a forcing trigger. **There is no perfect way to do this, but we either can be informed by previous efforts, or be destined to repeat mistakes of the past.**