MEMORANDUM

TO:	Interested Parties
FROM:	Committee for a Responsible Federal Budget
RE:	Including Debt Targets in the JSC's Budget Process Reform Package
DATE:	October 30, 2018

The statutory deadline for reporting legislation is moving ever closer, and public statements show a notable portion of the Members of the Joint Select Committee on Budget and Appropriations Process Reform (JSC) are interested in adding some form of debt-to-GDP targets as part of the panel's recommendations. We strongly endorse including such debt targets as part of a consensus package of reforms; it would be one of the strongest steps the JSC could take. This memo lays out what debt-to-GDP targets are, lays out options to consider with debt targets, and explains why their inclusion in the JSC's reform recommendations are important.

In our recommendations to the JSC, we suggested Congress adopt multi-year debt-to-GDP targets designed to reduce debt as a share of the economy. A long-term debt target should be accompanied by intermediate targets, so Congress can stay on track. Congress could further establish expedited procedures to help meet the targets along with automatic budgetary triggers for enforcement.

A debt target is a type of fiscal goal that is a good first step in getting our nation's debt under control compared to the unsustainable upward path that is currently projected. Fiscal goals force policymakers to make the critical budget trade-offs necessary to reduce both current and future budget deficits, which in turn cause the debt to decline. An ideal debt target is a numerical benchmark over a long period of time that results in necessary changes in U.S. fiscal policy.

Without an effective and enforceable fiscal goal, policymakers can always choose to borrow for any tax cut or spending initiative. Policymakers are not forced to prioritize or determine if something is worth the cost. New spending and tax cuts are always popular, while spending restraint and tax increases are not. A fiscal goal can provide countervailing pressure to the political appeal of spending increases and tax cuts.

Having a goal – in this case, getting the debt to a specific level as a share of the economy in a certain amount of time – forces policymakers to show their preferred path to achieve that goal. In turn, goals would prompt the required debate of setting priorities and considering different approaches to reforming programs that are the primary drivers of our debt. Such a discussion is a core principle of effective budgeting and is one essential component the current budget process often fails to utilize.

A reasonable debt target would first and foremost stop the debt from growing unsustainably and then begin to reduce debt levels relative to the economy. However, there is no singular "right" level of deficits or debt, so there's no "right" debt target. It should be noted that numerous European Union countries have set their debt-to-GDP targets at 60 percent, and the U.S. average of debt-to-GDP over the past 50 years has been 41 percent. Even a goal that prevented debt-to-

GDP from rising would be a significant improvement from our projected trajectory. Under current law, debt is projected to rise to 96 percent of GDP within a decade. Holding debt at the current level of 78 percent of GDP would mean finding savings of around $5.4 trillion by the end of the ten-year budget window.

We can define some qualifications or parameters on what a good debt target should be. It should be aggressive enough to improve our fiscal situation and put the debt on a sustainable path but not so aggressive as to be unachievable. Establishing a debt target that requires more savings than policymakers are willing or able to enact will erode the credibility of the target. In other words, an unrealistic debt target is unlikely to be effective.

Ideally, procedures to require action on policy changes to meet the debt target should also be accompanied by a credible enforcement mechanism. However, setting any debt target – even one that may be strictly unenforceable – is better than the current budget environment where debt continues to grow unabated and without acknowledgement of a goal. Reaching a political consensus that debt go towards a certain level by a certain time is, a positive change in fiscal policy.

There has long been support for debt targets. We were part of the Peterson-Pew Commission's 2010 report "Back in the Black." The report made several specific recommendations on how best to design debt targets, including automatic triggers and other means of enforcement to both force and help sustain agreement on policies needed to meet the targets.

The Commission's specific recommendations included:

- Establish medium-term and annual debt targets in statute, to stabilize the publicly held debt at a specified level by a specified year.
- Set annual targets to provide a glide path to achieve debt targets and use the projections in a reformed budget process to guide enactment of a multi-year budget to meet the debt targets.
- Require Congress to pass, and the President to sign, a budget projected to meet each year's target.
- Require lawmakers to pass adjustments if re-estimates project missed targets.
- If all final legislation fails to meet the yearly target, use a trigger to automatically adjust spending and taxes to close at least part of the remaining gap.

The U.S. fundamentally needs an official and bipartisan fiscal goal. In the current budget process, one side picks a very aggressive goal but relies on handwaving and gimmicks to show it is possible, while the other side does not have a goal at all. Therefore, the overall goal should be setting a bipartisan debt-to-GDP target that is both reasonable and realistic, along with a "glidepath" that helps make the goal achievable.

There are many important benefits to getting our debt under control: higher income and wages, lower interest rates, freed up resources due to less government interest payments, the increased ability to respond to problems, and a reduced risk of fiscal crisis. The JSC should take the important first step of fiscal discipline by including reasonable and responsible debt-to-GDP targets as part of its recommended reforms.