Fiscal Lab
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Fiscal Lab Change Essay

America's Budget Crisis Isn't a Mystery. It is a Process Problem.

> **Government shutdowns** over discretionary funding are becoming increasingly common, but discretionary spending is shrinking as a share of the budget, and Washington's brinksmanship is about headlines not solutions.
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> **The budget process built for 1974 is failing in 2026.** Mandatory spending and interest are on autopilot, and Congress keeps governing by cliffhanger.
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> **Prior attempts**, such as deficit targets or PAYGO, lacked true enforcement and did not yield true fiscal reforms.
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> **Potential solutions** to break the deficit and political gridlock include a two-year appropriations cycle, a debt brake, TABOR-style spending caps, or a balanced budget amendment to avoid Congress waiving enforcement.

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Introduction

"Government shutdown, Congress leaves town without funding DHS." Headlines like this are becoming increasingly common. America's budget crisis is not a mystery. It is a process problem. The budget process used today was built for a different time and different budget.

The modern congressional framework largely dates to the Congressional Budget and Impoundment Control Act of 1974, which established the House and Senate Budget Committees and created the Congressional Budget Office (CBO) so Congress could write budgets with an independent scoreboard. It was an important reform, but it reflected the fiscal reality of its time. Annual appropriations, which deal with discretionary spending, were a much larger share of federal outlays, and net interest was not yet a dominant force crowding out other priorities.

Today the composition of federal spending has changed dramatically. Mandatory programs and interest are now the central drivers of the long-run fiscal outlook, while discretionary spending, the part Congress argues about most loudly each year, has become a smaller share of overall spending. Not only has the composition changed, Congress has also failed to follow its own process. Since fiscal year 2000, Congress has consistently failed to enact all 12 regular appropriations bills by the start of the fiscal year. Simply put, the process of the past no longer works today.

Concerning Fiscal Math

CBO's latest outlook shows a deficit of about $1.9 trillion in 2026 and publicly held debt rising to about 120 percent of GDP by 2036, a level that would have been treated as a national emergency in prior eras. The story underneath is even more disturbing. Mandatory spending and compounding interest costs drive the long-run trajectory while Congress repeatedly turns budgeting into a cliffhanger, manufacturing shutdown threats and continuing resolutions over a shrinking slice of the budget. By 2036, discretionary spending will make up less than 20 percent of total federal outlays, yet it will likely still dominate the public drama.

That mismatch is the reason why the appropriations process, which determines discretionary spending, feels like constant crisis without producing long-run control. Net interest costs are projected to surge from roughly $1.0 trillion in 2026 to roughly $2.1 trillion by 2036, rising as a share of the economy from 3.3 percent of GDP to 4.6 percent. Those numbers matter because they describe a government that is steadily losing fiscal room to maneuver. When interest becomes one of the fastest-growing items in the budget, policy choices start to narrow even before anyone votes for austerity.

Despite these warnings, Congress continues to spend a disproportionate amount of time and political energy on annual appropriations brinkmanship. Shutdown threats dominate coverage, agencies plan around continuing resolutions, and the public is told the budget fight is underway, as if the main drivers of long-run debt are being tackled. They are not. The annual appropriations brawl is increasingly a fight over a smaller component, while the larger forces keep moving in the background.

If this sounds severe, it is because the situation is severe. A country that runs trillion-dollar deficits in ordinary times and watches debt climb toward historic peaks is not choosing a stable future. The real danger is that deterioration can feel manageable for a time until it suddenly is not. If interest rates rise higher than projected, or growth becomes weaker than expected, the debt math worsens quickly. The margin for error shrinks as interest costs rise. The risk is not merely higher debt in the abstract. The risk is reduced capacity to respond to recession, to fund defense and preparedness, and to protect vulnerable households when policy flexibility is most needed.

So why can Congress not find a solution that will stick? The truth is that Congress has tried numerous solutions in the past with little success, in part because the enforcement mechanism has remained within Congress itself. Social Security commissions, deficit targets, PAYGO, and sequestration have all been used as tools to restrain spending. But when the same institution writes the rules, breaks the rules, and decides whether to enforce them, it should not surprise anyone that discipline is weak. The problem is not a lack of procedures; it is a lack of follow-through.

Modern Budgetary Failures

Social Security's insolvency has been expected for decades. The shortfall is not unexpected, and there is no shortage of credible reforms. If Congress had acted earlier, it could have phased in changes gradually and avoided the kind of abrupt disruption that comes from waiting until the last minute. Those easier days may be behind us now. After 40 years of commissions, the conclusion is hard to ignore. Social Security is not failing because we lack solutions; it is failing because Congress lacks the political will to act.

The most successful effort, the 1981 National Commission on Social Security Reform chaired by Alan Greenspan during President Reagan's term, worked because the trust fund was nearing exhaustion and poor economic performance put the system under immediate stress, with expectations of a shortfall in the following year. That made delay politically impossible. Congress enacted reforms that stabilized the program in the near term, including a gradual increase in the retirement age, payroll tax adjustments, and taxation of benefits for higher-income beneficiaries. But the package did not include a durable mechanism that could keep the program balanced as demographics and costs evolved. The crisis was postponed, not resolved.

Later commissions repeated the pattern. The 1993 Bipartisan Commission on Entitlement Reform during President Clinton's presidency offered serious options, but it did not produce a reform package that Congress could rally behind. Additional efforts under Clinton and Obama produced more proposals and more warnings, and still the same result followed: delay, deferral, and a refusal to take responsibility.

Social Security commissions are not the only attempt to improve the budget process. Over the past several decades, Congress has tried deficit targets, PAYGO, and sequestration as tools to restrain spending. The pattern is familiar. Tough choices are delayed until the last minute, and any rule requiring restraint can be voted around, waived, delayed, or rewritten when it becomes inconvenient.

Congress enacted the Gramm–Rudman–Hollings Act of 1985 during a period of rising deficits and debt limit pressure to bring down annual deficits. The targets ultimately proved difficult to achieve, but the effort shaped the fiscal debate and helped push Congress toward stronger budget enforcement structures. That framework was replaced in 1990 by the Budget Enforcement Act, which shifted away from pure deficit targets and relied on PAYGO requirements, requiring offsetting spending cuts or tax increases for any spending program, and discretionary spending caps. Over time those controls weakened, and Congress drifted back toward ad hoc budgeting.

The Budget Control Act of 2011 was the next major attempt to force discipline, and it was built around a simple wager. If Congress could not agree on a deficit reduction package, the fallback would be so unpleasant that compromise would become inevitable. The law created the supercommittee, made up of six Democrats and six Republicans, and it set automatic across-the-board cuts if lawmakers failed to enact a substitute plan. When the committee collapsed and Congress still did not act, sequestration took effect in 2013. In narrow budget terms, sequestration worked because it mechanically reduced discretionary funding relative to baseline, but it was not designed to reform spending. It was a blunt instrument that pushed agencies toward short-term operational moves rather than long-run restructuring, and it imposed measurable economic drag while the recovery was still fragile. Even with all the disruption, sequestration did not change the fundamental drivers of long-run debt because the largest pressures were coming from mandatory spending growth and rising interest costs.

The same dynamic shows up in PAYGO, which is designed to prevent Congress from expanding spending or cutting taxes without offsets. On paper, statutory PAYGO is enforced through a scorecard and automatic sequestration if Congress enacts legislation that increases deficits. In practice, Congress has repeatedly voted to sidestep enforcement when it becomes inconvenient, either by wiping the scorecard clean or by shifting costs forward so the required cuts never occur. We have seen this pattern after the 2017 Tax Cuts and Jobs Act, the 2021 American Rescue Plan, and the 2022 Inflation Reduction Act, followed by additional legislation that reset the scorecards to zero. More recently, the Federal Register notice for the 2025 statutory PAYGO annual report states that the scorecards began at zero because a law set the balances on both scorecards to zero for all years. Simply put, Congress keeps reserving the right to ignore the rules it creates, and that is why the problem persists.

The failure of these enforcement mechanisms comes down to political will. At its core, Congress has moved away from what many would call Hamiltonian norms, the idea that public credit must be protected, debts must be honored, and the federal budget must be managed in a way that preserves the nation’s creditworthiness, so obligations are paid on time. For much of our history, sustained deficits were treated as a warning sign that demanded reform before they became a threat to national strength.

That instinct has faded, and the consequences are now visible. Standard and Poor’s downgraded United States sovereign debt in 2011, Fitch followed in 2023, and Moody’s in 2025. Each agency cited a similar mix of concerns: repeated political standoffs that undermine confidence in governing capacity, weakened policy predictability and effectiveness, and a fiscal trajectory defined by persistent deficits, rising debt, and growing interest costs. These downgrades are not problems by themselves, but they are a clear signal that Congress is no longer operating with the discipline required to safeguard the long-run strength and credibility of the United States.

Potential Solutions

Given these continued failures, what would lead to actual change? There is little reason to believe that repeating the same playbook will produce different results. The fundamental problem is Congress’s movement away from fiscal discipline. New approaches must be designed to force action rather than assume Congress will choose sound fiscal policy when doing so may run counter to reelection incentives.

The continued fiscal brinkmanship that generates shutdown headlines is the result of political pressures and an annual appropriations cycle that rewards brinkmanship. Threatening shutdowns, or forcing one, has become the most visible tool for a determined minority to shape policy, even when the fight is over a shrinking portion of federal spending. Yet changes to appropriations alone will not solve the mounting pressures from mandatory spending and interest costs. Any serious reform agenda must create enforcement mechanisms that Congress cannot simply vote around when fiscal or political pressures rise. Congress needs a real opportunity and real incentives to work toward fiscal solutions.

A Two-Year Appropriations Cycle

One practical way to break annual appropriations gridlock and reduce constant shutdown headlines is to move from a one-year appropriations cycle to a two-year cycle. A two-year process does not guarantee Congress will pursue mandatory reforms, but it removes one of the most reliable excuses, that lawmakers are too consumed by annual appropriations drama to focus on the structural drivers of debt and interest. It would also give agencies more predictability and improve execution in areas where planning matters, from procurement to infrastructure delivery to workforce stability. Just as important, it would force Congress to confront a basic truth. If discretionary appropriations are no longer the main driver of long-run debt, then discretionary brinkmanship cannot remain the main event.

A two-year cycle would also help Congress move away from short-term governing. Our current fiscal situation is the result of decades of focusing on immediate headlines while long-term challenges were deferred. A disciplined two-year system can still allow for limited adjustments under strict rules. Congress would retain the ability to respond to genuine emergencies, but targeted technical fixes should not require reopening the entire appropriations framework and inviting another round of fiscal hostage taking. The purpose is not to freeze government in place. The purpose is to end the annual do-or-die sequence that rewards brinkmanship and punishes long-term planning.

The larger point is what a biennial appropriations cycle makes harder: avoidance. For decades, Congress has filled the calendar with short-term fights and endgame packages while the hardest issues were labeled too difficult.

Mandatory Spending Reform

Even so, a two-year appropriations cycle by itself will not relieve the mounting fiscal pressures from mandatory spending and interest costs. To achieve true reform, the country needs Congress to address entitlement spending directly. Under current law, when the Social Security trust fund reserves are depleted, benefits would be reduced relative to scheduled levels. That event is approaching within the terms of current and future elected officials, and it is the predictable result of Congress's inability or unwillingness to enact reforms that could have sustained the program for the future.

There are responsible options Congress can take to sustain Social Security. One approach is to slow benefit growth gradually by changing how the program measures inflation for annual adjustments, such as using chained CPI. That would reduce outlays over time and improve long-run sustainability, though it would mean lower benefits than scheduled for many retirees. A phased increase in the full retirement age would also strengthen the program's long-run viability, and it has precedent in the reforms enacted in 1983. Revenue options are also available. Increasing or removing the taxable earnings cap, or adjusting the payroll tax rate, would improve solvency, though those approaches raise taxes and would be felt in paychecks. None of these choices are painless, but gradual reforms are far preferable to waiting for a forced reduction that falls suddenly and leaves seniors with less time to adjust.

Medicare poses a similar challenge. As the population ages, enrollment rises and per beneficiary costs place growing pressure on the budget. Congress has postponed difficult decisions, and the math continues to worsen. Options include increasing Part B premiums, adjusting deductibles, and restructuring cost sharing to better align incentives and reduce unnecessary utilization, while protecting lower-income beneficiaries. Congress could also pair reforms with automatic adjustment mechanisms that take effect if spending growth exceeds defined targets. The purpose would be to ensure sustainability even when Congress cannot agree on an alternative, and to prevent repeated delays that push the burden onto future beneficiaries.

Across these programs, means testing is often proposed as a way to focus benefits more tightly. Higher-income beneficiaries could face reduced benefits or higher premiums, which could improve sustainability while preserving support for those who rely on these programs most. This approach is not a cure-all, but it reflects a basic principle of fiscal responsibility. Limited resources should be directed where they are most needed, and broad promises must be reconciled with the nation's capacity to pay for them.

3 Percent Deficit-to-GDP Target

A potential rule-of-thumb approach that is gaining traction again as the US faces consistent deficits of above 5.5 percent of GDP states that during a "normal" time no deficit should exceed 3 percent of GDP.[1] Since 2020 and COVID, the deficit has remained above 5 percent of GDP, which raises the question about how "normal" is defined. However, even absent the shock of COVID in 2020–2022, US deficits were on a trajectory to be at 4.4 percent of GDP for the 2020–2029 fiscal years based upon the CBO's 2019 *Budget and Economic Outlook*.[2]

Given the large and persistent deficits the US is facing today, getting deficits to the 3 percent target would require cutting the deficit almost in half, equaling almost $10 trillion in deficit reductions over the next 10-year window. This significant reduction would require cutting discretionary spending nearly in half for that 10-year window if Congress still refuses to incorporate mandatory spending reforms. However, even given the hurdles to overcome, this discussion has been renewed within the federal government with the House Budget Committee taking up a hearing addressing the feasibility entitled *The Best Metric to Reverse the Curse: A 3% Deficit-to-GDP Path to Fiscal Sustainability*.[3] Additionally, this measure has been taken up by a bipartisan group to address it as a potential path to fiscal sustainability, with a clear "achievable target to begin restoring fiscal discipline and confronting the nation's escalating debt crisis."[4]

The pathway to a 3 percent deficit target is not without its challenges, requiring an almost $900 billion reduction in the first year alone.[5] However, it would create a clear fiscal anchor that would push Congress toward fiscal reforms. Ensuring that fiscal restraint remains in place would require Congress to make the hard decisions around stabilizing spending and act as a cap on unchecked spending. It would also allow Congress to increase spending during periods of economic expansion; when GDP grows, Congress would be able to expand spending programs in line with economic growth. It could stabilize the consistent slide into deeper deficits, but could also create cyclical spending where spending grows during good times and contracts during

[1] *The Budget and Economic Outlook: 2026 to 2036* (Congressional Budget Office, February 11, 2026).
[2] *The Budget and Economic Outlook: 2019 to 2029* (Congressional Budget Office, January 2019).
[3] *The Best Metric to Reverse the Curse: A 3% Deficit-to-GDP Path to Fiscal Sustainability, Before the House Comm. on the Budget*, 119th Cong. (2026) (statements of Jonathan Burks, Kurt Couchman, Maya MacGuineas, and Jared Bernstein).
[4] Congressman Bill Huizenga, "The 3% Resolution: Huizenga, Peters, Smucker, Quigley Introduce Bipartisan Budget Deficit Reduction Measure," press release, January 8, 2026.
[5] Matthew Dickerson, "Reaching a 3% of GDP Deficit Target," Economic Policy Innovation Center, February 12, 2026.

recessions, and that may exacerbate recessions, when Congress cannot fund potential safety net programs. This becomes one of the primary arguments against this deficit target approach, because it can force spending cuts during some of the most difficult of economic times. Another potential concern is that if interest rates are higher than the growth rate, a 3 percent target may be insufficient to stabilize the debt as the interest expense will grow, forcing even more cuts to different spending programs. It can also push Congress toward blunt cuts instead of focused spending reforms. Finally, as we have seen, if there is no true enforcement mechanism, Congress can continually vote around these rules.

Ultimately, a 3 percent deficit target is a useful forcing device because it draws a bright line between sustainability and reckless spending. However, it only matters if it is designed to avoid procyclical spending restraint and paired with enforcement that cannot be waived the moment the politics get disagreeable.

Spending Caps

One of the more serious proposals is a debt brake, an idea discussed by the Cato Institute and The Conference Board.[6,7] A debt brake is a rule that limits structural deficits over the business cycle and restrains debt relative to GDP, so spending is constrained during expansions and government is forced to build room for the next downturn. Historically, deficits rise during downturns as safety net spending increases and revenues fall, but a debt brake aims to flip the script from more borrowing to more discipline by requiring savings and restraint when the economy is strong. A hard rule that is difficult to evade would force policymakers to build a cushion before the next recession, or be honest with the public about the tradeoffs, including the risk that a poorly designed brake could tighten policy at the wrong time and deepen the downturn.

International examples show the promise of this approach. For example, Sweden offers a different model built around expenditure discipline rather than a single deficit number. Sweden's fiscal framework relies on an expenditure ceiling set in advance, designed to prevent temporary revenue booms from turning into permanent spending increases and to force savings measures if spending threatens to breach the ceiling. Official Swedish budget documents credit the

[6] David K. Young, John Gardner, and Luis Bourgeois, "How the Swiss Debt Brake Can Improve the US Debt Ceiling," The Conference Board, August 11, 2025.

[7] Daniel J. Mitchell, "Switzerland's 'Debt Brake' Is a Role Model for Spending Control and Fiscal Restraint," *Cato at Liberty* (blog), April 26, 2012.

expenditure ceiling with restraining spending during good times and creating room to respond when conditions deteriorate.

However, even countries that institute a debt brake can sometimes bend their rules to get around its effectiveness. Germany's constitutional debt brake includes a well-known limit of 0.35 percent of GDP for federal structural borrowing, but it has been loosened in practice when national priorities collide with fiscal rules. In 2025, Germany moved to exclude defense spending above 1 percent of GDP from the debt brake calculation, effectively allowing that portion of defense spending to bypass the constraint. This example shows rules alone do not restrain spending; instead, a focused mindset for fiscal restraint is needed regardless of whatever policy is chosen.

Another approach is a TABOR, taxpayer bill of rights–style spending cap that limits allowable growth to inflation plus population change, effectively locking in real per capita spending. Colorado's TABOR is the best-known example, and both supporters and critics describe it in those terms. The Cato Institute has argued that TABOR can restrain government growth and force discipline[8], while the Center on Budget and Policy Priorities warns that the formula can virtually guarantee service cuts over time because the cost of core services often grows faster than inflation plus population.[9]

The underlying promise of these caps is straightforward. They turn budget growth into a formula, reduce the ability of elected officials to expand government during booms, and make it harder to convert temporary revenue spikes into permanent spending commitments. The tradeoff is just as clear. If healthcare, education, and other major drivers grow faster than the cap, the cap does not eliminate cost pressure. It reallocates it, often through tighter eligibility, lower service levels, deferred maintenance, or shifting costs to households and local governments. That is why spending caps can be effective at limiting totals while still producing fierce debates about fairness and service quality. While strict fiscal formulas are not what caused the significant growth of entitlement spending, formulas in this approach impose real restraint, and they can also reduce flexibility and limit the government's ability to respond when needs arise unexpectedly.

A third idea that resurfaces whenever deficits worsen is a balanced budget amendment. The American Enterprise Institute has highlighted renewed interest in this approach, driven by the

[8] Michael J. New and Michele Bachmann, "TABOR Foes Give State Spending Control a Bad Rap," Cato Institute, November 17, 2005.

[9] *In a League of Their Own* (Center on Budget and Policy Priorities, June 29, 2005).

argument that the political system rewards promises of more benefits or lower taxes while the debt accumulates in the background.[10] The attraction is clear. Unlike statutory rules, a constitutional constraint is much harder to vote around, and it would force Congress to save money during periods of expansion to act as a balance that can be drawn down during economic downturns, financing new commitments with savings rather than more borrowing. But it does not eliminate the math Congress is facing today with high debt and interest expense burdens. Balancing the budget today would be a great step going forward, but with the possibility of interest expense still rising with increasing interest rates, eventually Congress would have to generate a surplus to lessen the burden and allow for greater investments in the America of the future rather than consistently paying for the promises of the past.

Conclusion

Congress cannot continue to generate endless controversy over relatively narrow accounts while the largest growth drivers of federal spending stay on autopilot. That is not accountability. It is performance. The process produces headlines, not solutions, and the country pays the price in the form of a fiscal outlook that keeps deteriorating.

Those structural drivers are not subtle. The CBO's *Budget and Economic Outlook* shows spending rising faster than revenue over the decade and deficits staying elevated as a share of the economy.[11] It also highlights interest costs rising sharply over time. That is the recipe for fiscal squeeze. More of every tax dollar goes to service the past rather than invest in the future. More of Congress's agenda becomes reactive rather than strategic. Our future resilience and growth increasingly rely on luck rather than fiscal discipline.

This failure is bipartisan. Both parties have participated in a process that rewards short-term wins and defers structural reform. Both parties have used appropriations deadlines as political leverage while ignoring the burden of mandatory spending growth and interest costs that continue to compound. That is why the fix must be framed as nonpartisan and procedural, not ideological. The question is not whether you prefer a larger or smaller government in theory. The

[10] Kevin Kosar, "After Decades of Red Ink, a Fresh Push for a Balanced Budget Amendment Emerges," American Enterprise Institute, October 17, 2025.

[11] *The Budget and Economic Outlook: 2026 to 2036*.

question is whether our governing process can still respond to the budget we actually have and respond to emergencies when they occur.

A true reform agenda must address mandatory spending and the interest burden directly. People will disagree on the specifics, but disagreement is not an excuse for inaction. Process reform is a way to strip away the distractions that make inaction politically comfortable. If we keep telling ourselves that annual appropriations fights are proof of fiscal seriousness, we will keep getting the same results: a government that argues about the noisiest slice of spending while the largest forces keep driving debt higher.

Washington's fiscal complacency keeps Congress fighting over headlines while it votes around fiscal restraints, ignores the growing burden of mandatory spending and interest, and allows the looming fiscal cliff to accelerate in the background. If we want solutions, we need a process that forces them, not one that provides cover to politicians to avoid them. Congress can keep governing by cliffhanger and pretending the hard deadlines are always later, or it can modernize the process and impose true restraints to confront the pending fiscal collapse before these warnings become true emergencies.

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