

Budget Targets Help Congress Balance Near- and Long-term Needs

Overview

Better budget targets belong in a fiscal reform strategy. Understanding the shortcomings of enacted and proposal goals can help Congress design more feasible, more effective, and more durable budget targets. Well-crafted budget goals would provide economic stability over the business cycle and debt sustainability over the long run. The most promising options are 1) a transition to primary structural balance and 2) medium-term debt-to-GDP targets.

Better Budget Targets

- Primary Structural Balance

- Summary: Primary spending excludes interest costs; balance over the business cycle instead of every year.
- How: Spending growth matches rolling average of GDP growth, slower after primary deficits, faster after primary surpluses, adjust for revenue changes and emergency spending.
- Model: Sen. Braun/Rep. Emmer's Responsible Budget Targets Act ([S. 4016/H.R. 7420](#))

- Medium-Term Debt-to-GDP Targets

- Summary: Each year, Congress would reduce the projected debt burden by the end of a defined period.
- How: Each budget cycle, reduce the five-years-later debt-to-GDP ratio by 1 percentage point.

Rules That Fail—and Why

- **Debt limit:** Not part of the spending and revenue decision point.
- **Annual balance:** Pro-cyclical, drives policy instability.
- **Deficit limits:** Inflexible, driven by Congress doesn't control (interest on debt, economic performance).
- **Discretionary spending caps:** Small (30%) and declining share of spending, no revenue.
- **Nominal spending caps:** Inflexible, get outdated quickly.
- **Fixed percent-of-GDP spending caps:** Arbitrary, too low for the political left or too high for the right.
- **Stand-alone spending caps:** Debt control requires both spending and revenue.
- **Revenue ceilings:** Political non-starter with political left—not durable.
- **Statutory Pay-As-You-Go:** Only applies to new changes to laws; draconian enforcement.
- **Full balance:** Requires too much policy change; maybe a longer-term goal.

Guides For Effective Rules

- **Strategic:** Respect the process, politics, and policy.
- **Comprehensive:** Include (almost) all spending and revenue.
- **Neutral:** Focus on core goals, leave government size/scope issues to annual process.
- **Practical:** Easy enough to explain, work with timelines, minimize disruptions.
- **Expect Emergencies:** Build in broad allowance, offset subsequently.

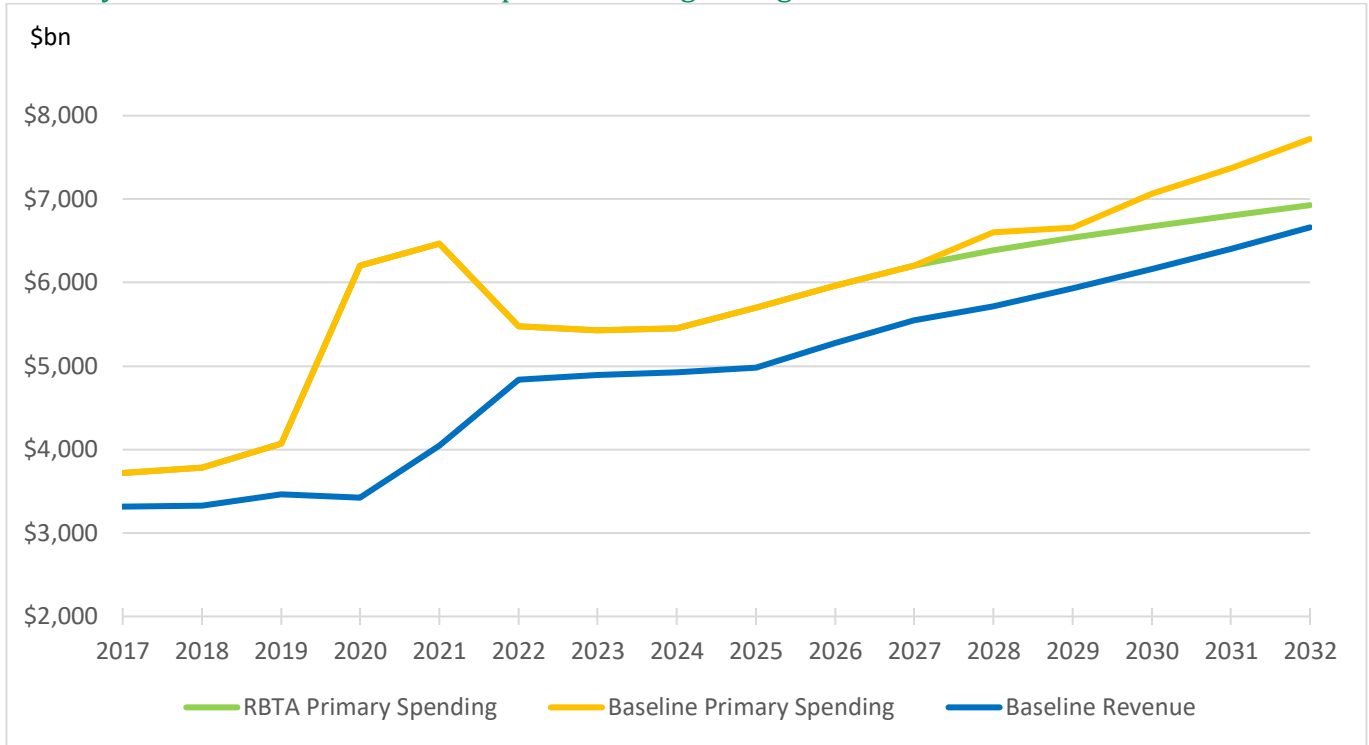
Read the full paper: <https://americansforprosperity.org/wp-content/uploads/2022/07/Americans-for-Prosperity-White-Paper-Better-budget-targets-can-help-Congress-balance-near-and-long-term-needs.pdf>

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Illustrating Better Budget Targets

Primary Structural Balance: The Responsible Budget Targets Act*



*Assumes CBO revenue baseline. Actual spending depends on revenue levels.

Medium-Term Debt-to-GDP Targets: 1 Percentage Point Lower After Five Years

