CATO POLICY ANALYSIS

January 7, 2025 Number 986

A Fiscal Agenda for the 119th Congress

The 2025 Fiscal Cliff Calls for Spending Restraint

By Romina Boccia and Dominik Lett

EXECUTIVE SUMMARY

The 119th Congress faces several critical fiscal deadlines, including the return of the statutory debt limit alongside the expiration of discretionary spending caps, expanded Obamacare subsidies, and several tax provisions. Congress will debate these deadlines amid unprecedented peacetime deficits, with the national debt now at around 100 percent of GDP. Failure to act in a fiscally responsible manner by cutting spending to reduce deficits and stabilize government debt will threaten economic growth, undermine confidence in the ability of the federal government to service its debts, and increase the chance of a fiscal crisis.

Congress should respond to these impending fiscal deadlines by reducing spending significantly, with the goal of putting the budget on a path to balance. Short of that, Congress should adopt a comprehensive fiscal strategy that pursues tax cut extensions and expansions in a deficit-neutral manner and pairs any debt limit increase with meaningful fiscal restraint. Key fiscal priorities for the 119th Congress include establishing clear, enforceable fiscal targets; reforming entitlement programs, possibly by establishing an independent fiscal commission; pursuing pro-growth, deficit-neutral tax reform; reinstating and strengthening discretionary spending caps; and allowing temporary health care subsidies to expire. Congress should take decisive action on these priorities to set the nation on a sustainable fiscal path.

ROMINA BOCCIA is director of budget and entitlement policy at the Cato Institute. **DOMINIK LETT** is a research associate at the Cato Institute.

INTRODUCTION

The 119th Congress will confront several fiscal deadlines that include reaching the federal debt limit in 2025, the expiration of statutory discretionary spending caps, expanded Obamacare health insurance subsidies, and a host of tax provisions.[1] Those deadlines present an opportunity for Congress to adopt meaningful fiscal reforms, which are more likely to succeed if addressed comprehensively. Congress should aim to cut spending and reform entitlements to put the budget on a path to sustainable balance within the 10-year budget window. If that is not politically possible, Congress should commit to a sustainable fiscal policy by pursuing tax cut extensions and expansions in a deficit-neutral manner and pairing any increase in the debt limit with fiscal restraint to stabilize the growth of the national debt. This includes reforming entitlement programs; pursuing pro-growth, deficit-neutral tax reform; reinstating and strengthening discretionary spending caps; and allowing temporary health care subsidies to expire.

The Fiscal Responsibility Act of 2023 (FRA) suspended the debt limit until January 1, 2025. Now that the debt limit has been reinstated, the Treasury Department will deploy extraordinary measures—such as suspending the sale of State and Local Government Series (SLGS) Treasury securities and halting reinvestment in certain government funds—to continue meeting federal government obligations until these funds are exhausted later this year.[2] The debt limit is a critical opportunity for Congress to implement fiscal reforms that curb unsustainable spending and debt growth.

The expiration of key tax provisions from the 2017 Tax Cuts and Jobs Act (TCJA) at the end of the calendar year (CY) 2025 poses additional challenges and opportunities. Allowing these provisions to lapse would result in significant tax increases, but extending them without offsetting spending reductions would irresponsibly add to already unsustainable deficits.

Furthermore, the expiration of binding statutory spending caps after fiscal year (FY) 2025 opens the door to higher discretionary government spending. Similarly, expanded Obamacare health insurance subsidies, which Congress initially enacted as part of pandemic relief measures, are set to expire at the end of CY 25. Congress should reinstate and strengthen discretionary spending caps and allow temporary health care subsidies to lapse as scheduled (Box 1).

These fiscal deadlines arrive at a time when America's fiscal situation is dire and rapidly deteriorating. In FY 24, the federal budget deficit totaled $1.8 trillion, or 6 percent of GDP. Federal debt held by the public—the debt borrowed from credit markets—is $29 trillion, or near 100 percent of GDP.[3] By 2027, the Congressional Budget Office (CBO) projects that the national debt will reach its highest level ever, exceeding 106 percent of GDP—under the unrealistic assumption that Congress will allow the 2017 TCJA provisions to expire as scheduled. The debt-to-GDP ratio will continue to grow unsustainably over the coming decades even with these far-fetched revenue assumptions (Figure 1).[4] CBO's bleak outlook is even more optimistic because it does not include the possibility of significant and unpredictable crises—such as another banking crisis, recession, war, or pandemic—and Congress's tendency to respond to crises with additional deficit spending.

Excessive spending and high debt further threaten the federal government's ability to supply essential public goods and respond effectively to unexpected crises. High debt is a symptom of excessive government spending that directs scarce economic resources toward low-value, politically inspired projects and imposes significant burdens on future American taxpayers. Debt that persistently grows relative to GDP will eventually cause a fiscal crisis with dire economic consequences domestically and internationally.[5]

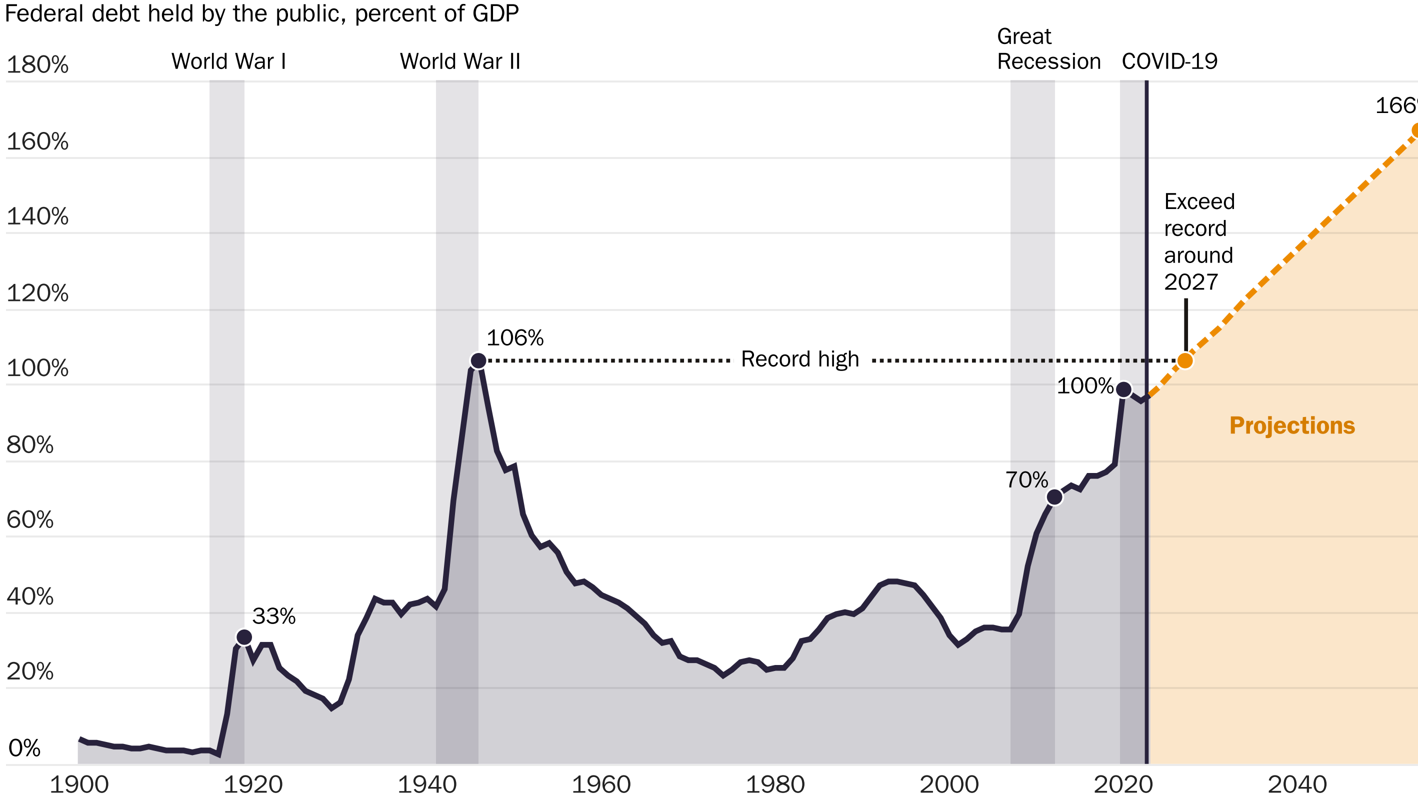
COMMITTING TO A CREDIBLE FISCAL STABILIZATION PLAN

At about 100 percent of GDP and growing rapidly, the US national debt drags down economic growth and threatens Americans with reduced opportunity and the consequences of a severe fiscal crisis. Without significant spending cuts and, most importantly, entitlement reforms, the United States faces severe long-term economic consequences from excessive spending and debt, including higher inflation, higher interest rates, and the possibility of severe and sudden austerity when debt financing becomes too expensive. Congress should recommit to fiscal responsibility by adopting clear, enforceable fiscal targets.

Figure 1

US debt expected to exceed the record high of 106 percent of GDP in 2027

Federal debt held by the public, percent of GDP



Sources: *The Long-Term Budget Outlook: 2024 to 2054* (Congressional Budget Office, March 2024); and *An Update to the Budget and Economic Outlook: 2024 to 2034* (Congressional Budget Office, June 2024).

Notes: GDP = gross domestic product; data between 1900 and 2034 use the latest Congressional Budget Office data; projections beyond 2034 rely on the more optimistic 2024 Long-Term Budget Outlook.

The return of the statutory debt limit following its temporary suspension presents a key opportunity for a credible fiscal stabilization package, one that cuts spending immediately and reduces future spending growth by reforming unsustainable entitlement programs. There is strong precedence for Congress to agree to deficit reduction before raising the debt limit. Every major deficit deal between 1985 and 2011 was tied to a debt limit deal.[6] Indeed, the most recent debt limit suspension was paired with new discretionary spending caps under the 2023 Fiscal Responsibility Act.[7]

Putting America on a sustainable budget path starts with adopting clear and enforceable fiscal targets. A familiar, intuitive goal such as balancing the budget is called the overall balance. That goal is most desirable over the long term, but achieving a balanced budget in 2025 is unrealistic due to the size of present and projected deficits, the elimination of which would require economically damaging and politically unfeasible deficit reductions.

There are two other metrics commonly used to assess balance in government budgets. The first is structural balance, which is the government's budget balance when the economy is operating at its full potential, removing fiscal effects from economic cycles and temporary or emergency spending. The second is primary balance, which is the government's budget balance excluding interest payments. One reason to focus on primary balance is to reduce spending that is within Congress's direct control, since interest costs are largely a function of past borrowing decisions.[8] Achieving primary balance is significantly more attainable than overall balance, requiring about half the amount of deficit reductions over the next decade. As a result, primary balance is more politically feasible in the short term and creates a solid foundation to achieve overall balance in the longer term.[9]

Another popular fiscal target is stabilizing the publicly held debt as a percentage of GDP, which ties government debt levels to the economy's capacity to service that debt.

This approach allows for a more comprehensive picture of fiscal health, a particularly salient consideration given rising interest costs and the potential for economic downturns. According to the Committee for a Responsible Federal Budget, stabilizing the public debt at current levels of about 100 percent of GDP would require around $6.7 trillion in 10-year savings, or the equivalent of an 8 percent overall spending reduction over the next 10 years. Achieving primary balance would require around $6.5 trillion in 10-year savings. For comparison, reducing the debt-to-GDP ratio to 80 percent and reaching overall budget balance both require around $15 trillion in 10-year savings, or the equivalent of an 18 percent overall spending reduction over 10 years.[10] Congress should aim for this level of ambitious savings over the next decade. At a minimum, Congress should stabilize the growth in the debt at no more than 100 percent of GDP.

Overall balance, structural balance, primary balance, and stabilizing the growth in the debt over 10 years all have their own merits. What matters most is for Congress to adopt credible fiscal targets backed by specific policies that allow the government to realize these targets. An overly ambitious target that is unachievable could result in abandoning the goal altogether, while a less ambitious but attainable target could make at least modest progress.

The second part of a credible fiscal stabilization plan involves adopting specific budget reforms to realize established fiscal targets. The evidence from fiscal consolidations in other developed economies around the world is clear: Spending reductions are more effective than increasing taxes for reducing deficits and debt. Spending-based fiscal adjustments tend to be less recessionary, can be pro-growth, and achieve lasting debt reductions. Tax increases, meanwhile, can be damaging to economic growth, reduce revenues or not increase them as much as anticipated, and thus fail at sustainable debt reduction.[11]

Critically, any effective fiscal consolidation in the United States must reduce spending on the federal government's vast network of social transfers. Spending on these programs, particularly on old-age entitlement programs like Medicare and Social Security, is projected to grow dramatically due to increasing longevity, declining birth rates, and rising benefit costs.[12] Figure 2 shows that Social Security and Medicare alone account for 100 percent of the federal government's 75-year unfunded obligation, which is the difference between projected non-interest spending and revenue in present value terms.[13] Any serious effort to stabilize the federal debt or achieve budget balance must reduce the growth in major entitlement spending.

Box 1

Recommendations for Congress

The 119th Congress has the responsibility to address the 2025 fiscal cliff with prudence by reining in excessive spending and mounting debt to preserve opportunity and economic growth for the American people. Congress should:

- Commit to a credible fiscal stabilization path before raising the debt limit.
  - Establish clear fiscal targets to stabilize the growth in spending and the debt, such as primary balance (see next section) or stabilizing debt at no more than 100 percent of GDP over 10 years.
  - Reform Social Security and health care entitlement programs by creating a bipartisan fiscal commission and adopting its recommendations, or by other means.
  - Cut and cap discretionary spending.
  - Pay for emergency spending.
- Address the 2025 fiscal cliff responsibly.
  - Allow temporary health care subsidies to expire.
  - Pursue deficit-neutral, pro-growth tax reform.
- Advance fiscal transparency and accountability.
- Avoid new stimulus spending.

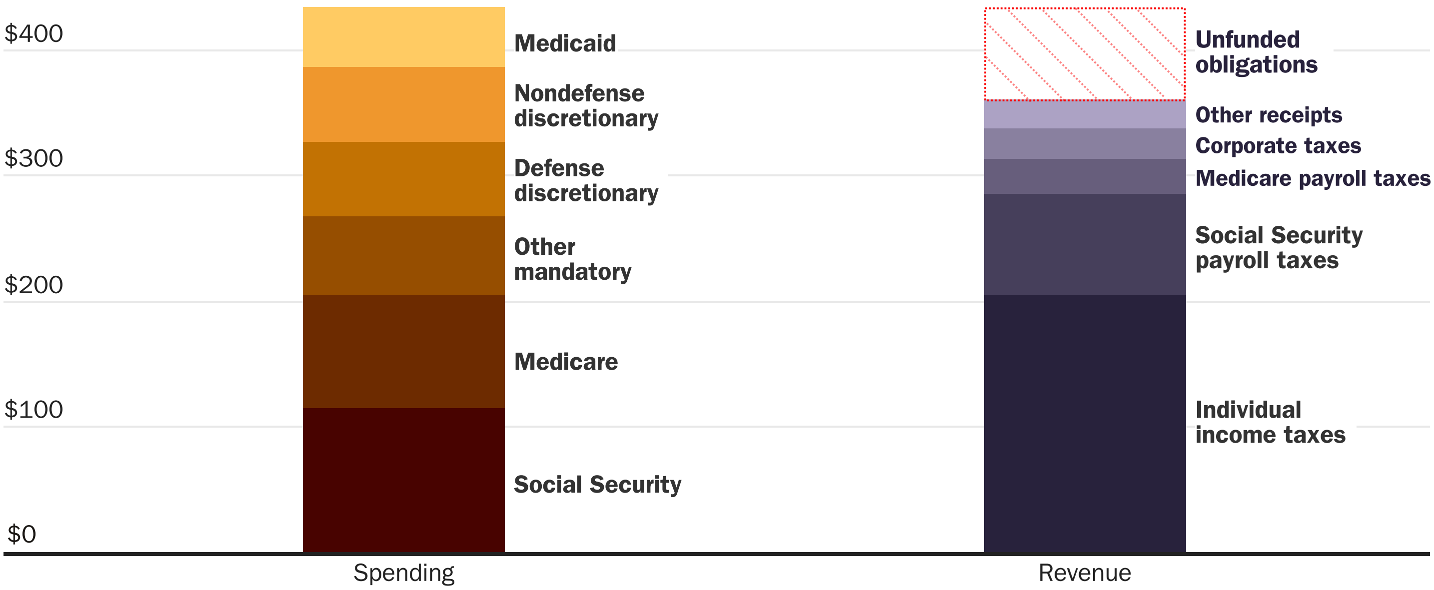
ESTABLISHING AN INDEPENDENT FISCAL COMMISSION

The 119th Congress should seize imminent 2025 fiscal deadlines as an opportunity to put the budget on a path to balance by tackling necessary entitlement reform. Slowing the growth of old-age entitlements is an unavoidable part of restoring the nation's fiscal health. However, political considerations over entitlement changes and how these will

Figure 2

Unfunded obligations will total $73 trillion over 75 years

Total projected non-interest spending and revenue, trillions of 2023 dollars in present value terms



Source: "The 2023 Financial Report of the US Government," Department of the Treasury, February 15, 2024.

play out electorally have delayed inevitable reforms for far too long. Americans at and near retirement age are more likely than younger Americans to show up at the voting booth.[14] As a result, asking politicians running for office to reform entitlement programs is like asking astronauts in space to shut off their oxygen. Most politicians' desire to be reelected is stronger than their willingness to make the tough choices needed to achieve fiscal balance.[15]

Here, too, the United States can learn from entitlement reform efforts in other countries. A fiscal commission's success hinges on bipartisan buy-in and political insulation. According to the Government Accountability Office, successful entitlement reforms are more likely to occur when there is a broad consensus across parties about the need for change, and when entitlement reform proposals are developed in commissions that insulate legislators from political risk. Additionally, entitlement reforms are more likely to succeed if they allow for iterative adjustments, including mechanisms that automatically adjust benefits based on changing conditions such as eligibility-age changes determined by increases in life expectancy. This improves the chances for lasting success by focusing on long-term sustainability.[16]

In January 2024, the House Budget Committee advanced the Fiscal Commission Act of 2023, which aims to stabilize the debt over 15 years and address the insolvency of Medicare's and Social Security's trust funds. While this commission effort is a promising start, it has several shortcomings, such as including only elected officials as voting members and requiring an affirmative vote in Congress before proposals can go into effect.[17]

A more promising approach would apply lessons from the Base Realignment and Closure (BRAC) Commission to implement specific policies to stabilize the federal debt. A BRAC-like fiscal commission would be composed of independent experts whom Congress would task with clear fiscal goals—such as stabilizing the public debt, achieving overall or primary balance, or limiting spending to a defined percentage of GDP—as well as a time frame for achieving them, a concrete list of agencies and programs subject to commission review, and objective criteria to guide the commission's decisions. So long as Congress sets out sufficiently clear standards, current case law allows Congress to empower a fiscal BRAC to implement a debt reduction program without Congress needing to take affirmative votes on the commission's plan details. The commission's recommendations would then be self-executing in Congress by empowering the executive to take the up-or-down vote on the commission plan, while Congress would retain the power to object to the plan through a joint resolution of disapproval within a specified time period, such as 45 days from presidential approval. A BRAC-like process could overcome political gridlock by providing legislators with sufficient cover, as it would leave the details of entitlement program reform to outside experts and the approval mechanism to the executive.[18] A BRAC-like fiscal commission could help Congress accomplish entitlement reform *before* a fiscal crisis forces legislators to enact sudden and severe austerity measures, should concerned bondholders demand unaffordable yields to keep buying US Treasury securities.

REDUCING AND CAPPING DISCRETIONARY SPENDING

As part of the FRA, Congress established binding discretionary spending caps for FY 24 and FY 25 and nonbinding spending targets for four more years. In other words, FRA spending caps for FY 26 to FY 29 are mere suggestions.[19] The 119th Congress should reduce and cap discretionary spending as part of a broader strategy to stabilize the debt. Spending caps are critical fiscal tools to encourage budgetary discipline. Imposing transparent resource constraints should motivate Congress to prioritize core government functions by examining the trade-offs in spending decisions more carefully. With enforceable discretionary spending caps expiring after FY 25, legislators should reinstate spending limits, deter the abuse of emergency spending, and cut duplicative and wasteful discretionary programs.

The FRA and the Budget Control Act (BCA) of 2011 offer valuable lessons on the importance of discretionary spending caps. The BCA successfully reduced regular discretionary appropriations from FY 12 to FY 21 by $855 billion relative to CBO's 2011 pre-BCA baseline projections.[20] However, its effectiveness was hampered by later adjustments to the caps and the use of emergency designations to bypass them. The FRA, meanwhile, also placed statutory limits on discretionary spending but was much less successful in achieving real fiscal restraint due to its overly modest targets, short-term focus, and abuse by legislators of gimmicky side deals and emergency spending.[21] The lessons here are clear: While caps can effectively control spending, their success hinges on well-designed, enforceable rules and a genuine commitment to fiscal responsibility from the outset.

Reinstating discretionary spending caps with a 2 percent annual spending growth limit and a longer 10-year time frame would be a prudent step toward restoring fiscal discipline. While a tighter cap on discretionary spending would be fiscally desirable, spending limits must not be overly strict, lest the current Congress or future Congresses forgo them altogether. Note that spending caps act as a ceiling, and legislators may pursue additional reductions to come in below the agreed-upon caps. A 2 percent annual growth limit on discretionary spending and a longer 10-year time frame for spending caps are reasonable targets in line with historical norms, which should encourage fiscal restraint and deter unchecked discretionary spending increases that contribute to rising deficits and debt.

Notably, one of the primary ways discretionary spending caps have been circumvented in recent years has been through the misuse of emergency designations. Both the BCA and FRA allowed spending to be exempt from the caps if labeled as emergency spending. While this provision is a necessary safety valve for genuine emergencies—such as major disasters or national security threats—it has often been used to fund unrelated or politically motivated projects and to increasingly federalize disaster relief and mitigation that should be the purview of the states. The abuse of this loophole undermines the effectiveness of spending caps, puts federal taxpayers increasingly on the hook for regional disaster expenditures, and weakens fiscal discipline.[22]

Without a process to offset emergency spending, Congress may continue to use emergencies as a pretext to pass budget-breaking spending initiatives with no plan to rein in future spending. Congress should establish a cut-as-you-go (CUTGO) emergency spending mechanism to account for and offset new emergency spending with immediate or future spending reductions. Additional reforms, such as requiring written justifications for how new emergency funding meets existing emergency definitions and raising the voting thresholds necessary to authorize new emergency spending, could further deter the irresponsible use of emergency designations. Ultimately, emergency criteria are helpful only insofar as legislators support them and are committed to enforcing them.

Additionally, Congress should reduce or eliminate unnecessary, wasteful, or duplicative programs within the discretionary budget. Programs like the Community

Development Block Grant, which often funds local projects with limited federal interest, and outdated agricultural subsidies are prime examples of where savings could be found. Numerous other federal programs that overlap with state responsibilities, such as local transportation and education funding, should be scaled back.[23]

Reinstating and enforcing discretionary caps, deterring the misuse of emergency designations, and reducing wasteful and duplicative programs would help Congress rein in discretionary spending, promote fiscal discipline, and put the nation on a more sustainable fiscal path.

EXTENDING TAX CUTS RESPONSIBLY

The 2017 Tax Cuts and Jobs Act significantly reduced taxes for individuals and businesses. Most provisions for individuals are set to expire at the end of 2025, leading to an automatic tax increase averaging $400 billion annually over the next decade.[24] The expiration of these tax provisions is one of the critical fiscal deadlines the 119th Congress must address. Congress should extend the TCJA's most pro-growth provisions under a deficit-neutral framework, pairing lower tax rates with spending cuts and limits on tax loopholes.

To offset the cost of tax cuts, Congress should eliminate inefficient and distorting tax loopholes and corporate welfare that benefit special interests. As Cato's Adam Michel explains, eliminating $1.4 trillion in annual tax subsidies and loopholes ($14 trillion over 10 years)—including those for certain industries, technologies, and demographic groups—would create more than enough fiscal space to offset all the revenue loss from extending the TCJA. Additionally, by pairing tax relief with reductions in corporate welfare and inefficient tax breaks, Congress could create a more efficient tax system that promotes long-term investment, innovation, and economic expansion without worsening the federal debt.[25]

While Congress should address the TCJA extension without expanding the deficit, by either repealing tax loopholes or cutting spending, ensuring that taxes can stay low for the long term will require additional spending cuts. If Congress fails to address the drivers of the nation's mounting debt, particularly unchecked entitlement growth, borrowing today will inevitably have to be paid for with future tax increases, including hidden taxes when the government attempts to deflate away its debts by reducing the value of the currency through excess inflation. The threat of future tax increases to cover mounting deficits undermines the longevity and efficacy of tax cuts today.[26] Thus, pairing tax cuts with spending discipline ensures that tax reform is as effective as possible and has real staying power, preserving the fiscal credibility of the US government and strengthening the economy.

ALLOWING TEMPORARY HEALTH CARE SUBSIDIES TO EXPIRE

The American Rescue Plan Act of 2021, enacted in response to the COVID-19 pandemic, included a wide array of provisions, from stimulus checks to additional unemployment benefits. Part of the legislation provided for a temporary increase in health care subsidies, expanding eligibility and increasing the amount of financial assistance for health insurance purchased through Affordable Care Act (ACA) marketplaces.[27] In 2022, the Inflation Reduction Act extended these subsidies through the end of 2025. While these measures were originally justified as temporary emergency support, their continued extension raises concerns about long-term fiscal sustainability. Federal health care spending is already one of the fastest-growing areas of the budget. Extending enhanced Obamacare subsidies would worsen the already grim fiscal picture by offering more generous assistance levels and broadening eligibility to higher-income individuals.[28] Critically, this spending does not make health care provision itself more affordable. It simply shields premium payers from increased prices, shifting that cost onto the government and, ultimately, the American taxpayer.

Congress should allow these temporary health care subsidies to expire to prevent additional strain on the federal budget. The Congressional Budget Office estimates that making the premium tax credits permanent would add $335 billion to federal deficits over the next 10 years. Roughly one-third of this spending would benefit wealthy individuals with incomes over 400 percent of the federal poverty level.[29] Additionally, the Paragon Institute has estimated that these expanded Obamacare subsidies contributed to enrollment fraud to the tune of

$20 billion per year.[30] Rather than give taxpayer handouts to insurance companies and the wealthy, Congress should take a meaningful step toward fiscal responsibility by allowing the temporary ACA subsidies to expire. In conjunction, Congress should reduce government intervention in the health sector. As Cato's Michael Cannon explains, government intervention tends to have the unintended consequence of encouraging inefficient consolidation in health care markets, resulting in worse quality and higher prices. The solution, in this case, is less government, not more.[31] Congress should eliminate distortionary taxes and excessive entitlement spending, not add new health care subsidies or expand existing ones.

ADVANCING FISCAL TRANSPARENCY AND ACCOUNTABILITY

An effective budget process is a critical part of responsible fiscal planning. The 119th Congress should not miss the opportunity to upgrade the current budget process, including by focusing on better oversight, increased transparency, and the adoption of additional spending controls to prevent further fiscal irresponsibility.

Tightening Controls on Executive Spending

Unchecked executive actions have increasingly contributed to the nation's fiscal challenges, with the Biden administration's major executive actions generating $2 trillion in 10-year debt. Administrative Pay-as-You-Go (PAYGO) rules were established to require executive agencies to offset the cost of new regulations by reducing spending elsewhere. However, the Office of Management and Budget (OMB) has issued broad exemptions, undermining the original intent of Administrative PAYGO. Congress should permanently codify and tighten these rules, limiting exemptions to genuine emergencies and requiring OMB to provide cost estimates and justifications for waived actions. This would close loopholes and ensure that executive actions do not contribute to unsustainable deficits.[32]

Additionally, executive spending during national emergencies often lacks transparency, making it difficult for Congress to oversee such actions effectively. Requiring detailed reports on emergency expenditures, including the long-term fiscal impacts, would increase accountability. Legislation like the National Emergency Expenditure Reporting Transparency Act offers a pathway for bringing these expenditures into the light, ensuring that emergency powers are not misused to circumvent fiscal controls.[33]

Reforming the Congressional Budget Office

The Congressional Budget Office plays a critical role in providing objective analyses of the federal budget and the economy. However, a few changes to its reporting requirements would improve Congress's and the public's ability to examine, comprehend, and change fiscal policy for the better.[34] Legislators should consider the following reforms:

- **Require CBO to include projected interest costs in legislative cost estimates.** Including debt service costs ensures that Congress considers the total fiscal impact of new policies, which is critical as interest costs continue to rise.
- **Remove emergency spending from the budget baseline.** Excluding emergency appropriations from baseline projections reduces the bias toward higher spending and reflects the temporary, unforeseen nature of actual emergency spending.
- **Report regularly on emergency designations.** Regular reporting on emergency-designated spending would improve transparency and reveal how this spending contributes to long-term fiscal challenges.
- **Report regularly on costly executive actions.** Subjecting executive actions that carry major costs to the same scrutiny as legislative proposals enhances oversight and accountability.
- **Make appropriations scores publicly available.** Making CBO's appropriations scores available to the public and Congress would enhance transparency, accountability, and fiscal restraint by exposing budget gimmicks and misuse of emergency designations.
- **Require the use of fair-value accounting for federal credit programs.** Fair-value accounting would provide a more accurate fiscal picture by incorporating

market risk and aligning federal accounting with private-sector standards.

Restoring the Earmark Ban

The return of earmarks, or congressionally directed spending, contributes to wasteful spending on politically motivated projects. Earmarks contribute to fiscal irresponsibility by diverting resources from competitive bidding processes and allowing politically connected interests to benefit from taxpayer dollars. Banning earmarks once again could help reduce unnecessary spending and encourage lawmakers to focus on national priorities rather than local pet projects.[35]

REJECTING NEW STIMULUS SPENDING

Legislators may face pressure to introduce new stimulus measures in response to a recession. Should growth turn negative for two or more quarters in a row, members of Congress may be tempted to resort to fiscal stimulus to boost aggregate demand.

Additional fiscal stimulus would be misguided for at least two reasons. First, fiscal stimulus could undermine the Federal Reserve's efforts to fight inflation, especially if it takes the form of new cash payments or enhanced unemployment benefits. Those are the same demand-boosting subsidies the federal government pursued during the COVID-19 pandemic that contributed to higher inflation. Second, the government cannot spend its way into national prosperity. Higher government spending today comes with costs from the likely displacement of private economic activities by government-directed projects, misallocation of capital, more outstanding debt, reduced incentives to work and invest, and the likelihood of higher future taxes.[36] Instead of implementing new subsidies, Congress should pursue reforms that promote sustainable economic growth—including cutting government spending, reducing regulatory burdens, and moving toward a more neutral tax base.[37]

CONCLUSION

The 119th Congress faces a unique convergence of fiscal deadlines, including the debt limit and the expirations of a host of tax provisions, discretionary spending caps, and expanded health care subsidies. This 2025 fiscal cliff presents a critical opportunity to significantly improve the nation's fiscal trajectory. Rather than address these issues piecemeal, Congress should tackle them together, committing to a credible fiscal stabilization path that aims at sustainable budget balance by the end of the decade and controls the growth in the debt as a percentage of GDP. Spending-based deficit reduction, primarily targeted at social and entitlement programs, is most effective at sustainably reducing deficits and the growth in the debt as a percentage of GDP. Accordingly, Congress should focus on establishing clear, enforceable fiscal targets; reforming entitlement programs, possibly by adopting an independent fiscal commission; cutting and capping discretionary spending; and pursuing deficit-neutral, pro-growth tax reform. Without meaningful fiscal reforms, the United States could become a nation in decline, burdened by high debt, slower economic growth, and diminished opportunities. The time to act is now, before the consequences of fiscal irresponsibility become irreversible.

NOTES

1. Fiscal Responsibility Act of 2023, Pub. L. 118-5, 137 Stat. 10 (June 3, 2023); Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818 (August 16, 2022); An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. 115-97, 131 Stat. 2054 (December 22, 2017); and "Upcoming Congressional Fiscal Policy Deadlines," *The Bottom Line* (blog), Committee for a Responsible Federal Budget, May 17, 2024.

2. Erin Meade, "The First of Several 2025 Fiscal Milestones for Congress: The X Date," Bipartisan Policy Center, April 16, 2024.

3. "Debt to the Penny," FiscalData, Department of the Treasury, October 23, 2024; "What Is the National Debt?," FiscalData, Department of the Treasury, October 23, 2024; and Bureau of the Fiscal Service, Department of the Treasury, *Final Monthly Treasury Statement*, September 2024.

4. *An Update to the Budget and Economic Outlook: 2024 to 2034* (Congressional Budget Office, June 2024).

5. Romina Boccia and Dominik Lett, "The Debt Limit and the High Costs of Debt," *Cato at Liberty* (blog), Cato Institute, February 1, 2023.

6. Brian Riedl, "Getting to Yes: A History of Why Budget Negotiations Succeed, and Why They Fail," Manhattan Institute, June 18, 2019.

7. Fiscal Responsibility Act of 2023, Pub. L. 118-5, 137 Stat. 10 (June 3, 2023).

8. *The Nation's Fiscal Health: Road Map Needed to Address Projected Unsustainable Debt Levels* (Government Accountability Office, February 2024).

9. Kurt Couchman, "Better Budget Targets Can Help Congress Balance Near- and Long-Term Needs," Americans for Prosperity, July 2022.

10. "What Would It Take to Fix the Debt?," *The Bottom Line* (blog), Committee for a Responsible Federal Budget, February 13, 2024.

11. Alberto Alesina, Carlo Favero, and Francesco Giavazzi, *Austerity: When It Works and When It Doesn't* (Princeton University Press, 2019), pp. 95–116.

12. *The Long-Term Budget Outlook: 2024 to 2054* (Congressional Budget Office, March 2024).

13. Romina Boccia, "Medicare and Social Security Are Responsible for 100 Percent of US Unfunded Obligations," *Cato at Liberty* (blog), Cato Institute, March 20, 2024.

14. David Luhnow and Richard Rubin, "The Other Age Issue: Old Voters Are Gaining Power Around World," *Wall Street Journal*, July 1, 2024.

15. Romina Boccia, "George Will: Overcoming Constitutional Queasiness to Head Off a Fiscal Crisis," *Cato at Liberty* (blog), Cato Institute, August 10, 2023.

16. *Entitlement Reform Process: Other Countries' Experiences Provide Useful Insights for the United States* (Government Accountability Office, January 2008); and Kurt Couchman, "Why Incremental Adjustments Are a Better Approach to Automatic Budget Enforcement," Americans for Prosperity, March 23, 2023.

17. Romina Boccia, "House Budget Committee Advances Fiscal Commission to Address Government Spending and Debt," *Cato at Liberty* (blog), Cato Institute, January 23, 2024.

18. Romina Boccia, "Designing a BRAC-Like Fiscal Commission to Stabilize the Debt," *Cato at Liberty* (blog), Cato Institute, May 8, 2023.

19. Romina Boccia, "Misleading Debt Limit Deal Math Counts Phantom Savings," *Cato at Liberty* (blog), Cato Institute, June 1, 2023.

20. Brian Riedl, "A Blueprint for Sustainable Discretionary Spending Caps," Manhattan Institute, June 15, 2023.

21. Romina Boccia, "Misleading Debt Limit Deal Math Counts Phantom Savings," *Cato at Liberty* (blog), Cato Institute, June 1, 2023.

22. Romina Boccia and Dominik Lett, "Curbing Federal Emergency Spending," Cato Institute Policy Analysis no. 966, January 9, 2024.

23. Chris Edwards, "Reviving Federalism to Tackle the Government Debt Crisis," Cato Institute Briefing Paper no. 172, January 25, 2024; and Chris Edwards, "How the Federal Government Spends \$6.7 Trillion," Cato Institute Briefing Paper no. 174, March 12, 2024.

24. *Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues* (Congressional Budget Office, May 2024).

25. Adam N. Michel, “Slashing Tax Rates and Cutting Loopholes,” Cato Institute Policy Analysis no. 975, June 17, 2024.

26. Christina D. Romer and David H. Romer, “Do Tax Cuts Starve the Beast? The Effect of Tax Changes on Government Spending,” in *Brookings Papers on Economic Activity*, ed. David H. Romer and Justin Wolfers (Brookings Institution, Spring 2009), pp. 139–200.

27. Matthew Rae et al., “How the American Rescue Plan Act Affects Subsidies for Marketplace Shoppers and People Who Are Uninsured,” Kaiser Family Foundation, March 25, 2021.

28. “Reconciliation Recommendations of the House Committee on Ways and Means,” Cost Estimate, Congressional Budget Office, February 15, 2021.

29. Phillip L. Swagel, letter to Hon. Jodey Arrington and Hon. Jason Smith, “The Effects of Permanently Extending the Expansion of the Premium Tax Credit and the Costs of That Credit for Deferred Action for Childhood Arrivals Recipients,” Congressional Budget Office, June 24, 2024.

30. Brian Blase, “The $20 Billion ObamaCare Subsidy Fraud,” Opinion, *Wall Street Journal*, June 19, 2024.

31. Michael F. Cannon, “Market Concentration in Health Care: Government Is the Problem, Not the Solution,” Cato Institute Briefing Paper no. 139, July 19, 2022.

32. Romina Boccia and Dominik Lett, “Reining in Trillions of Executive Spending,” *Cato at Liberty* (blog), Cato Institute, September 24, 2024.

33. Romina Boccia and Dominik Lett, “Enhancing Transparency over Emergency Spending Reporting: A Call for Executive Accountability,” *Cato at Liberty* (blog), Cato Institute, October 12, 2023.

34. Romina Boccia and Dominik Lett, “Six Reforms to Enhance Transparency and Fiscal Accountability Through the Congressional Budget Office,” *Cato at Liberty* (blog), Cato Institute, January 30, 2024.

35. Romina Boccia, “It’s Time for Congress to Ban Earmarks,” *National Review*, December 1, 2022.

36. Adam Michel, “The False Promise of Stimulus Spending: Lessons from the Great Recession,” Heritage Foundation, May 6, 2020.

37. Chris Edwards, “Tax Expenditures and Tax Reform,” Cato Institute Policy Analysis no. 954, July 25, 2023.

RELATED STUDIES FROM THE CATO INSTITUTE

Slashing Tax Rates and Cutting Loopholes by Adam N. Michel, Policy Analysis no. 975 (June 17, 2024)

A Case for Federal Deficit Reduction by Ryan Bourne, Policy Analysis no. 973 (April 18, 2024)

Reviving Federalism to Tackle the Government Debt Crisis by Chris Edwards, Briefing Paper no. 172 (January 25, 2024)

Curbing Federal Emergency Spending by Romina Boccia and Dominik Lett, Policy Analysis no. 966 (January 9, 2024)

Tax Expenditures and Tax Reform by Chris Edwards, Policy Analysis no. 954 (July 25, 2023)

How a Better Budget Control Act Would Limit Spending and Control Debt by Romina Boccia, Briefing Paper no. 156 (May 11, 2023)

COVID-19 and the US Fiscal Imbalance by Jeffrey Miron, Policy Analysis no. 905 (December 8, 2020)

Budget Restraints That Work: Lessons from Chile, Switzerland, the United Kingdom, and the United States by Ryan Bourne, Tax and Budget Bulletin no. 81 (February 21, 2018)

CITATION

Boccia, Romina, and Dominik Lett. "A Fiscal Agenda for the 119th Congress: The 2025 Fiscal Cliff Calls for Spending Restraint," Policy Analysis no. 986, Cato Institute, Washington, DC, January 7, 2025.