

Prepared Statement
of
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Subcommittee on Federal Financial Management,
Government Information, and International Security
of the
Committee on Homeland Security and Governmental Affairs
of the
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Mr. Chairman and other Members of the Committee: thank you for inviting me to discuss Congress' role and the effectiveness of the federal budget process.

The budget process is clearly dysfunctional. Budget resolutions are passed late and have diminishing relevance. Appropriations burgeon beyond reason, partly because they are larded with earmarks. Entitlements grow, raise unrealistic expectations on the part of beneficiaries, and place impossible demands on future generations – leading to inevitable intergenerational conflict. In the name of “tax reform” the tax code grows longer and IRS interpretations expand exponentially. Few Members of Congress have any idea of the depth and breadth of special-interest provisions in the budget legislation on which they vote. Some of those who do are under investigation for influence-peddling.

The solution is not better people, but better institutional arrangements. If you design a system that is biased toward growing government, making the tax code more complicated, and approving benefits with little care for how they will be financed, that's what you will get -- no matter how angelic are those serving in public office.

There is discipline known as “public choice” – for which economist James M. Buchanan of George Mason University won a Nobel Prize in 1986 for helping to develop. This discipline addresses collective decisionmaking and how efficiently institutions such as Congress allocate resources – in the same way as economists have addressed private decisionmaking in the context of market exchanges. One conclusion of the public choice researchers is that the collective decisionmaking body known as the U.S. Congress tends to grow the federal government beyond the size the American people think appropriate and to tax them more than is acceptable. An ancillary conclusion is that Congress tends to channel Americans' resources into projects that are not the highest priorities and that Congress pays for them with an inefficient and inequitable combination of taxes and debt.

The public choice experts' analysis of the causes of these outcomes is that the institutional arrangements under which Members of Congress operate is far more at fault than the philosophical, ideological, or political preferences of the people elected. This point cannot be overemphasized: it is the *system* that is at fault, and only by reforming the *system* will you solve the problem.

Let me illustrate with two examples. During the 1960s and 1970s a debate raged among economists and political scientists about the causes of the miserable performance of the federal government's economic regulatory agencies – the ICC, the FMC, the CAB, and so forth. On the one side were those espousing the “good man hypothesis.” Their notion was that if only Presidents would appoint good men and women and the Senate would confirm them, these agencies would turn around completely. On the other side were those who said the basic regulatory institutions were at fault – indeed, certain agencies did not need to exist. After endless arguments and trying out the good man theory with a notable lack of success, Congress and the President finally ended the debate by abolishing certain agencies. To all who have followed these matters, it is clear that what was wrong was the institutions, not the people appointed to run them. For these people – including the really good ones – were destined to respond to the incentives incorporated in their positions and to follow what the laws required. Given a bad institutional arrangement, you will get bad results.

Closer to home: in 1994, voters elected a Republican House and a Republican Senate. Many of those concerned about the overreaching of the federal government felt that surely the size of government would be checked, priorities would be followed, and the tax code would become less burdensome and more efficient. This hope was stimulated by the election of a Republican president in 2000. Now it must be noted that these party reversals wrought important changes in government behavior. At first the growth of government was curtailed and the deficit was eliminated. Progress was made in reforming counter-productive entitlement programs such as welfare and lowering marginal tax rates. But over time, there has been significant recidivism. Despite a Republican-dominant, conservative-dominant cast of decisionmakers, federal spending in the past half-decade has exploded. So have entitlements. And the tax code is not simpler, it is more complicated and even more wasteful. In short, Republicans are acting like the characteratures of the Democrats they attacked in their campaigns.

Is there no difference between Democrats and Republicans when it comes to budgeting? Between responsible and irresponsible Members? Between ideologues and pragmatists? The data would suggest there is little difference. As long as you have institutional arrangements that are biased toward larger government, you will get larger government. As long as you have institutional arrangements that encourage Members to make the tax code more complicated

and larded with exemptions and other special-interest provisions, you will get a more complicated, inefficient, and inequitable tax code. As long as you have institutional arrangements that encourage Members to vote for benefits today and “forget the costs – that’s tomorrow’s problem,” you will get burgeoning entitlement spending. As long as you have institutional arrangements that give incumbents a leg up on challengers when they put pork in appropriations, you will get more earmarks. And as long as you have institutional arrangements that give individual Members extraordinary power to determine the allocation of spending largess, some will succumb to temptation and go astray.

Oratory and the election cycle will not suffice to solve the problem. To solve the problem you must change the institutional arrangements.

Since leaving the Office of Management and Budget in 1988, I have written about the need for reform of the budget institutions.¹ I have noted the importance of the 1974 budget act, which established the budget resolution whereby Congress as a whole has to approve both the overall levels of appropriations, entitlements, and tax revenue and the major dimensions of these elements. I also noted the importance of the Gramm-Rudman-Hollings Act, which cut spending automatically unless certain reduced deficit goals were met. The problem with these worthy reforms is that in the case of the budget resolution, it is honored in the breach; in the case of Gramm-Rudman-Hollings, Congress got cold feet and revised its targets.

To restore the integrity of the budget resolution, you need to make it a joint resolution rather than a concurrent resolution. That would mean the President would be signing on to these overall limits as well as Congress. And, you should include penalties for failure to conclude this instrument on time – such as withholding salaries of Members of Congress and senior members of the Administration until this is done. And why not promulgate a revised Gramm-Rudman-Hollings deficit-reduction schedule, putting at risk spending on non-essential programs?

Give the President a line-item veto. I realize that the Supreme Court has held that the version enacted during President Clinton’s tenure is unconstitutional. But you could easily make a line-item veto device constitutional simply by enrolling each and every item appropriated as a separate bill. Moreover, the President himself could “line-item veto” the vast majority of earmarks – those which are specified in the report language accompanying the appropriations bills and not in the legislation itself. Since such earmarks do not meet the presentment clause of the Constitution, they are not law. The President would have to spend the money on the account for which it was appropriated, but not on the earmarked projects. You should also give the President the “enhanced rescission” he has asked for under the name, “legislative line item

¹ See, for example, James C. Miller III, Fix the U.S. Budget!: Urgings of an “Abominable No-Man” (Stanford: Hoover Institution Press, 1994).

veto.” As you know, rescissions – Presidential proposals to “de-appropriate” spending -- tend to be ignored on Capitol Hill; at least give them an up-or-down vote.

You should sunset entitlement programs. That would at least force a thoroughgoing review of them periodically. You should also insist on full funding of sensitive programs – list those that would not be eligible for “emergency appropriations.” Each year, appropriators play the game of underfunding certain sensitive programs – in order to fund those of lower priority – and then count on an “emergency supplemental” to make the programs whole. “Emergency appropriations” should be precisely that: funding for unforeseeable emergencies.

You should eliminate “budget speak” and communicate straightforwardly with the American people. Only in Washington can an increase in spending less than what was expected or desired be characterized as a “cut.” Most Americans think that only if you spend less this year than last year has there been a cut. Because of the way it is abused, I would suggest doing away with the concept of “current services.”

End the practice of converting appropriations into entitlements. For appropriators that is a very effective way of getting around limits imposed by the budget resolution, but it amounts to a shell game. As you know, appropriated spending is a shrinking part of total spending.

You need to establish a regulatory budget. That is, just as in the case of the financial budget, where the President outlines his or her spending priorities and Congress responds, the President should be required to itemize, by agency and by program, the regulatory costs to be imposed on the economy during the fiscal year. Congress and the President should then “appropriate” regulatory costs, and the agencies should be required to live within these limits.

The biases in the budget process are to a large extent the result of Members’ interests in being reelected.² Earmarks help with fundraising and with drawing attention to Members’ effectiveness in representing their districts or states. Special-interest appropriations or tax concessions work to enhance Members’ support among concentrated constituencies, while those who ultimately will pay for such largess remain ignorant of their new liabilities.

I regret that these musings may be taken by some Members of Congress as being overly critical or even disrespectful. That is not my intent. Indeed, it is my plea that you view this matter not as the failure of character on the part of any or all Member(s) of Congress, but rather as a failure of institutional arrangements. And only by changing the institutional arrangements will you solve the problem this hearing is meant to address.

² See, for example, James C. Miller III, Monopoly Politics (Stanford: Hoover Institution Press, 1999).