CBO TESTIMONY

Statement of
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on
Reform of the Federal
Budget Process

before the
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Chairman Horn and Members of the Subcommittee, I am pleased to be here today to discuss the issue of reforming the federal budget process. The basic theme of my testimony is that the budget process is working. It achieves the functions it is designed to perform. Evidence often cited as proof of the failure of the budget process actually reflects political disagreement over basic budget policies that the process cannot--and probably should not--control. Accordingly, I believe the Subcommittee should proceed cautiously as it considers an omnibus reform measure.

THE BUDGET PROCESS WORKS

Fundamentally, the budget process works well. Although the record of Presidential vetoes of major budget measures over the past year and continued conflict over fiscal year 1996 appropriations would seem ample cause for a less enthusiastic endorsement, those difficulties and other evidence of the failure of the budget process involve matters beyond the control of the process. In recent years, the budget process has not only accomplished the basic purposes for which it was created, it has also displayed certain virtues that should be preserved in any reform effort.

Last year, the Congress adopted a historic budget resolution recommending a balanced budget by fiscal year 2002. It then proceeded, without inordinate delay, to develop and approve reconciliation legislation, appropriation measures, welfare

reform legislation, and other landmark measures that were consistent with the resolution and that CBO projected would achieve the resolution's balanced budget goal. Thus, using existing procedures, the Congress was able to accomplish the most fundamental and perhaps the most important function of the budget process--to establish and enforce a comprehensive budget plan for the federal government.

Critics of the budget process point to different evidence. Last winter, the President vetoed the reconciliation and welfare reform measures that included most of the policy changes necessary to follow through on the budget resolution's balanced budget recommendation. The Congress and the President continue to disagree over funding levels for major federal programs for the current fiscal year, a year that is already half over. That disagreement has led to two partial shutdowns of the federal government and has required the Congress to enact a record number of continuing appropriation acts. Moreover, only recently has essential legislation increasing the limit on the public debt been enacted into law.

Yet, much of the apparent failure of the budget process is actually a product of political disagreement between the President and the Congress over budget policy. That disagreement is not the result of inherent flaws in the budget process. The budget process is not designed to force certain outcomes in the absence of broad political agreement or to obstruct those outcomes when agreement has been reached.

Rather, the budget process provides a framework of rules and procedures that generally serves as a conduit for majority rule. The process establishes a structure in both the executive and legislative branches for disseminating information on the budget and for developing and enforcing budget plans for the federal government. In the Congress, it also provides a means of coordinating the actions of committees. More expansive, policy-oriented goals for the budget process, without political agreement on how to reach those goals, ask more of any budget process than can be delivered.

How an Adaptable Budget Process Evolved

The modern budget process is an amalgam of procedures and practices set forth in various statutes and in Congressional rules of procedure. Principally, however, the modern budget process is established in two laws--the Budget and Accounting Act of 1921 and the Congressional Budget and Impoundment Control Act of 1974. The former provides for an executive budget process centered around the annual submission of a budget proposal by the President. The latter provides for a Congressional budget process centered around adopting and enforcing a concurrent resolution on the budget by the Congress.

The basic purposes of each of those statutes correspond to the constitutional roles and responsibilities of the respective branches of government to which they apply. The Budget and Accounting Act of 1921 requires the President to submit an annual budget setting forth his proposals in detail for the upcoming fiscal year. Because the President under the Constitution heads the executive branch, the act establishes procedures to ensure that the President's priorities prevail in his annual budgetary proposals.

The Congressional Budget Act of 1974 establishes a Congressional budget process for the Congress to set forth its own budget. However, because power in the Congress is dispersed, the Congressional Budget Act establishes a procedural framework for bringing majorities in the House and Senate into agreement on the budget. It does so by providing for the Congress to adopt annually a broad, nonspecific concurrent resolution. The resolution is not signed into law; it serves only as a guideline for Congressional action on actual legislation on spending, revenues, or the debt limit.

Because Congressional majorities control the Congressional budget process, different majorities have used it for different policy goals. Budget resolutions have recommended both tax cuts and increases, entitlement cuts and expansions, and annual appropriation cuts and increases. Moreover, majorities in the Congress have also modified the process--sometimes by an informal change in practice--to

accomplish their policy objectives. For example, a change in budget resolution practices in 1981 converted the reconciliation process from a limited, seldom-used procedure to a potent new tool for conforming permanent spending and revenue law to the priorities established in the budget resolution.

Changes Made in the Budget Process to Reduce the Deficit

The most significant recent changes in the budget process have been made over the last decade or so to reduce and control the deficit. Initially, those changes met with mixed success, in part because they may have asked more of the budget process than it could reasonably deliver. More recent revisions to those procedures have put in place deficit control procedures that the budget process can more realistically accommodate.

In 1985, the Balanced Budget and Emergency Deficit Control Act was enacted into law. Known as the Gramm-Rudman-Hollings Act, or GRH, it established a firm schedule of declining deficit targets that called for eliminating the deficit by fiscal year 1991. It established a procedure--known as sequestration--to make uniform percentage reductions in spending that would be triggered if the targets were not met. Moreover, it amended the Congressional Budget Act of 1974 to ensure

that Congressional action on the budget resolution would be consistent with the new statutory deficit targets.

Even though budget resolutions were adopted that met the targets, and spending and revenue legislation was enacted that was projected to meet the targets, actual deficits generally failed to reach the targeted levels. For example, the actual deficit for fiscal year 1991, the year originally targeted for a balanced budget, was $270 billion. Although different reasons are cited for the failure of fixed deficit targets, including relying on excessively optimistic budget estimates, clearly more sweeping changes in budget policy or larger sequestration reductions would not have been supported by the prevailing political consensus.

In the fall of 1990, the Congress and the President amended the GRH act and the Congressional Budget Act to put in place procedures that established a new philosophy of deficit control for the budget process. Set forth in the Budget Enforcement Act of 1990 (BEA), those new procedures no longer set a goal tied to a fixed deficit target. Instead, the BEA established annual limits on total discretionary appropriations and a pay-as-you-go (PAYGO) requirement for mandatory spending and revenue legislation through fiscal year 1995. If discretionary appropriations were enacted that exceeded annual limits, or if mandatory spending or revenue legislation was enacted that caused a net increase in the deficit for a fiscal year, a sequestration would occur to eliminate the excess

amount or deficit increase. The discretionary spending limits and the PAYGO requirement were extended through 1998 in the Omnibus Budget Reconciliation Act of 1993.

Unlike the fixed deficit targets under the GRH act, the discretionary spending limits and PAYGO requirements have been met. The limits and the PAYGO requirement have been honored in each fiscal year, and they have proven to be effective in deterring legislation that would increase the deficit.

The BEA has been criticized for not going far enough. Indeed, during the years immediately following the 1990 budget agreement, the deficit increased significantly. However, that increase was not caused by legislation in violation of the BEA. Rather, it stemmed from worse-than-anticipated economic performance and higher-than-expected health care costs, which drove down current-law revenues and drove up current-law spending. Those are some of the same factors that made relying on fixed deficit targets enforced by sequestration unsustainable and led to the BEA procedures currently in effect. What critics really mean is that, in their view, the budget agreements that the BEA helps to carry out were not ambitious enough. The BEA procedures do not force sterner agreements to be forged, although they do not stand in the way of such agreements.

SELECTED REFORM PROPOSALS

The proposals that the Subcommittee is now considering cover a wide range of topics. Some are comprehensive and others narrow in scope. I will discuss just a few of the major proposals, concentrating on ones that have been proposed in earlier Congresses and have been the subject of previous committee hearings and other review.

A Joint Budget Resolution

Those policymakers who advocate converting the budget resolution to a joint budget resolution that must be enacted into law point to last year as an example of the need for this reform. It is better, they say, to use the budget resolution as a vehicle to force the President and the Congress to reach broad budget agreement early in the year so that veto confrontations and other conflicts over individual spending and revenue measures will not occur later in the year.

It is unclear whether budget agreement between the President and the Congress will be more forthcoming if the budget resolution becomes the formal vehicle for carrying it out. However, such a change would probably alter the fundamental purpose of the budget resolution as a means for the Congress to

establish its own budget priorities. Last year, because the Congress did not have to wait for the President to begin its budget process, it could make significant progress on annual appropriation measures and other bills, several of which were signed into law. Harder to gauge is whether momentum toward political agreement with the President may have been created as the Congress proceeded with its own budget process. Would the President have modified his budget proposal last year in the same way without the steady drumbeat of budgetary legislation coming from the Congress? Can it be argued that the momentum created by the budget resolution and other legislation moved the President closer to the Congress's position, even if agreement still has not been reached?

Biennial Budgeting

One of the proposals before this Subcommittee also calls for a form of biennial budgeting. Under biennial budgeting, some or all of the annual budget cycle would be converted to a biennial cycle, with budget resolutions, appropriation bills, authorization measures, and other budgetary legislation (or some combination of those measures) considered only every other year.

The impact of biennial budgeting probably would vary depending on the types of measures to which it was applied. One proposal that the Subcommittee is

considering would convert the budget resolution to a two-year cycle and make it a joint resolution. In that case, the Congress and the President would have to weigh the consequences of setting overall budget policy only every other year. Because budget projections and estimates can change dramatically in relatively short periods, reviewing budget policies annually can be helpful, even if those policies cover multiyear periods. Also, until the long-range deficit picture improves, it may be advisable to revisit budget policies more rather than less frequently.

Biennial budgeting might have its greatest impact in the annual appropriation process. Proponents of biennial appropriations contend that appropriating every other year would have payoffs in improved planning for federal agencies and more time for Congressional oversight. Opponents are concerned that biennial appropriations might diminish the effectiveness of Congressional control of spending and simply necessitate supplemental appropriations or other adjustments in the off year.

Mandatory Spending Cap

The deficit cannot be brought under control without significantly reducing the rate of growth in mandatory spending. Consequently, control of mandatory spending represents one of the greatest challenges facing the budget process. With the baby-

boom generation's retirement beginning only 15 years from now, dealing with entitlement growth will become even more critical.

In late 1991, when it started to become apparent that unanticipated mandatory spending increases under current law would erode much of the savings from the 1990 budget agreement, proposals began to surface for some type of cap on mandatory spending similar to the limits on discretionary spending that had proved so successful under the BEA.

Two proposals for a mandatory spending cap now before the Subcommittee illustrate some of the issues involved with such initiatives. One proposal would limit mandatory spending to a predetermined rate of increase and provide for a sequestration of amounts exceeding the limit. Another would set target levels that would trigger expedited consideration of deficit reduction legislation if the targets were exceeded.

Mandatory spending caps linked to sequestration may suffer from the same problem that affected fixed deficit targets under the GRH act. They establish spending targets for entitlement programs that are at odds in some cases with the underlying law for those programs. At some point, a conflict is created between the requirements of the process and the underlying program in which reductions must be made. Furthermore, in the case of entitlement law, the process requirements may

also conflict with legal commitments that are enforceable by the courts. Spending limits for appropriations work because the spending is not encumbered by such problems and is generally provided anew each year.

Another potential problem is that spending for Medicare and Medicaid--two of the largest and fastest growing entitlement programs--currently outpaces spending for most other entitlements. Large increases in those health care entitlements might trigger massive reductions in other programs, even though spending for those other programs may be relatively more controlled.

Mandatory spending targets enforced by expedited legislative procedures generally would require the Congress and the President to consider legislation to reduce any excess but would not guarantee that the targets be met. It is not clear whether a forced legislative track can be effective when fundamental differences on policy are the cause of inaction. However, given the limitations of the budget process in forging political consensus on such matters, more restrictive procedural alternatives would not be advisable. Ultimately, if the problem is the inconsistency of underlying law and the nation's budgetary goals, the laws themselves must be changed.

Regulatory Budget

Certain proposals before the Subcommittee would require new information on the costs and benefits of federal regulations to be prepared by the Office of Management and Budget and the Congressional Budget Office. Those and other proposals for a regulatory budget present substantial practical difficulties.

One of the most significant problems would be collecting and analyzing the vast amount of data and information needed to produce reliable cost estimates. Some of the costs and benefits cannot be measured reliably, and any attempted measurement of them would be arbitrary. With respect to the Congressional Budget Office, the information requirements imposed by regulatory budget proposals would be beyond our current capacities. Simply providing more resources would not solve those problems and could in fact divert necessary resources away from our core responsibility of providing budgetary information and analysis to the Congress.

Capital Budget

The Subcommittee is also considering proposals for a capital budget. In general, a capital budget would establish procedures to account for spending on building public capital and record it separately from spending on current consumption.

The budget process generally does not distinguish between spending on investments and spending on current consumption. It might be a useful step to modify the budget process so that it would make such a distinction. However, depending on its design, a capital budget might also lead to a serious loss of budget discipline. With the current focus on long-term economic growth, it is important to differentiate government consumption from public investment, but redefining the budget process to meet this need could be a highly risky option.

OTHER GENERAL CONSIDERATIONS

In examining those and other reforms represented in the draft Omnibus Budget Act, the Subcommittee may wish to consider the following general considerations as well.

Unintended Consequences

The Subcommittee should proceed cautiously as it seeks to combine various proposals into an omnibus package. Proposals adopted independently may have one set of consequences, but when combined they are apt to acquire quite different characteristics. For example, requiring that the budget resolution be enacted into law and providing for automatic continuing appropriations at the beginning of the

fiscal year might have unintended effects under current circumstances. If automatic continuing appropriations fund programs at levels more to the President's liking than those being proposed by the Congress, would this requirement inordinately strengthen the President's positions in budget negotiations over the resolution? Even the recently enacted line-item veto could possibly interact with an enacted budget resolution in ways that should be carefully considered.

Competing Goals of Budget Process Reform

In fashioning budget reform legislation, it may not be possible to accommodate all goals. Efforts to simplify and streamline may be at odds with a desire for greater discipline and control. GRH and the BEA are criticized for adding excessive complexity to the budget process, but they are complex largely to improve budget discipline and to circumscribe the authority of the President and of his Office of Management and Budget in administering the sequestration process.

Accounting for the Costs of Carrying Out Reform

In evaluating various reform proposals, particularly omnibus proposals, it is also important to recognize the costs of putting them in place. Major procedural change

creates new burdens and alters established practices. An important consideration is whether the advantages of change outweigh the inevitable inefficiencies that will result as officials responsible for carrying out the changes devise appropriate new mechanisms and procedures. Often, some of the costs may not be apparent or may take some time to sort out. For example, the impact of the Unfunded Mandates Reform Act enacted last year is significant but cannot yet be established. Some of the reforms that the Subcommittee is considering appear to be at least as sweeping.

Significant Reforms Have Been Adopted in the 104th Congress

The 104th Congress has already been active in the area of budget process reform. As I just mentioned, last year the Congress established new procedures for controlling unfunded mandates. More recently, the Congress approved and the President signed the Line Item Veto Act. The unfunded mandates requirement went into effect this year, but the President's new authority on the line-item veto will not take effect until January 1, 1997.

The Line Item Veto Act grants the President the power to cancel certain new spending or tax provisions that have been enacted into law. Proponents and opponents of the law disagree strongly about its necessity and potential effectiveness. However, both sides agree that it represents a shift in power to the President. How

that power shift will affect the annual budget process is more difficult to predict but should be taken into account as further reform is considered.

CONCLUSION

Because the budget process works well does not mean that it is perfect or that it should not be reevaluated when circumstances change. For example, if agreement on balanced budget legislation is reached, serious consideration probably will be given to whether the deficit reduction procedures now in effect under the BEA should be modified accordingly. Also, although the budget process now successfully controls new spending and tax actions under BEA procedures, other problems remain. Future deficits continue to be driven by projected increases in existing mandatory spending. Yet it is unclear if there is any procedural substitute for controlling mandatory spending other than reaching agreement on direct changes in the programs themselves.

In any event, the basic purposes and limitations of the budget process should be kept in mind. The budget process generally is intended to allow a consensus to work its will in setting budget policy. Over the years, it has performed that task admirably. When it has been modified to force policy changes without an underlying consensus on those changes, it has failed. Much of the evidence of the apparent

failure in the budget process actually reflects disagreements over budget policy. The budget process cannot force consensus on budget policy when it does not exist, and it should not be modified in an attempt to do so.