Informing Legislators About the Budget:

The History and Role of the U.S. Congressional Budget Office

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Introduction

Budgeting presents a special challenge for legislative bodies worldwide. Almost invariably, legislators find that the major decisions they confront and the votes they cast have important fiscal consequences. And to make informed decisions about those consequences, they must themselves be informed. Yet their need for reliable information poses a problem. Executive officials and program administrators generally control the information that is vital to budget decision-making. And it may or may not be in their best interests to keep legislators fully informed about the budget.

In the United States, this problem is aggravated by the particular structure of our national government. Most nations combine the executive and legislative functions into a parliamentary form of government. By contrast, the U.S. Constitution divides our national government into three independent branches: the legislative (the Congress), executive (the President), and judicial (the Courts). Powers are reserved to each branch but are also shared among the three.

Only the Congress may write a law. But no law goes into effect unless approved by the President. If the President vetoes a bill passed by the Congress, it goes into effect only if his veto is overridden by two-thirds of the Congress (a rare accomplishment). This mix of separate and shared powers creates an institutional competition between the President and the Congress that permeates the budget process. Thus, for the Congress to make effective budget policy and protect its powers under the Constitution, it is especially critical that it have a source of reliable budgetary information independent of the Administration.

Nearly 30 years ago, Congress approved a new budget process law intended to strengthen its budgetary capacity. As part of that law, it established the Congressional Budget Office (CBO) to provide it with objective budgetary and economic information. In my talk today I will briefly discuss: first, the history behind the creation of CBO; second, the role of CBO in the budget process; and third, some lessons we have drawn that may be useful to other nations contemplating a similar course.

Budget History before CBO

The U.S. Constitution grants the power to tax and spend to the Congress. Taxes may be levied and funds drawn from the Treasury only after laws crafted by the Congress specifically for those purposes have been enacted. James Madison, famed as the Father of the Constitution, asserted that "[t]his power over the purse may, in fact, be regarded as the most complete and effectual weapon with which any constitution can arm the immediate representatives of the people, for obtaining a redress of every grievance, and for carrying into effect every just and salutary measure." For Madison and the other framers of the Constitution, legislative preeminence in matters of taxing and spending was an article of faith—a byproduct of their long struggle with the English monarchy and one of the fundamental principles underlying the American revolution.

But beyond this broad grant of legislative authority to tax and spend, the Constitution is silent about fiscal policy and budgeting. It does not specify how tax or spending laws are to be formed or carried out, provides no direct role for the President in fiscal matters (beyond his power to veto legislation approved by the Congress), and says nothing about a national budget system.

And for the first century and a half of the nation's existence, Congress clearly controlled federal fiscal policy. Only during times of war or economic crisis did the President strongly assert his priorities on matters of taxation or spending, and only then did the Congress acquiesce. In this early period of the nation's history, fiscal policymaking in the Congress was decentralized and fragmented, having been divided among numerous competing committees with jurisdiction over the various departments and agencies of government. Budget requests were compiled by the Treasury Department into a *Book of Estimates* which was forwarded directly to those committees with little or no involvement by the President and no overall budget plan or framework. In other words, there was no federal budget.

But by the early 20th century, this fragmented approach to setting fiscal policy, although advantageous for maintaining Congressional authority, was ill-suited to the United States as a growing nation and emerging international power. The unprecedented increase in federal spending that attended U.S. involvement in World War I led lawmakers to conclude that modern budget methods and controls were needed, and that tax and spending decisions for the federal government should be coordinated in a comprehensive budget. Thus, the Congress approved the Budget and Accounting Act of 1921, which made the President responsible for overall budget planning by requiring him to submit an annual, comprehensive budget proposal to the Congress. The act also established a new Bureau of the Budget (renamed the Office of Management and Budget in 1970) that centralized control over budget information within the executive office of the President.

The 1921 act established an effective budgeting system for the national government, but it had an unintended side effect. For the next half century, the President acquired greater and greater influence over the budget by virtue of his growing control over budget and economic information. In contrast, Congress failed to develop for itself the institutional capacity to establish and enforce overall budget priorities, to coordinate its actions on spending and revenue legislation, or to develop budgetary and economic information independent of the Executive Branch. Instead, it continued to act on budgetary matters through its fragmented web of committees with little or no attention to the overall effect of its actions on total spending, revenues, deficits, or public debt. And during its annual budget debates, the

Congress came to rely more and more on the President as its principle source of budgetary and economic information. These developments, along with explosive growth of the federal establishment during the middle years of the 20th century, contributed to a steady erosion of Congress's control over the budget and led inexorably to a constitutional crisis over the budget.

The Advent of Congressional Budgeting and the Creation of CBO

In the early 1970s, the Congress and President Richard Nixon fought bitterly over budget priorities. President Nixon claimed that the Congress had become incapable of exercising control over spending and deficits. He refused to obligate billions of dollars in funds that had been appropriated by law, and did so in a way that preserved his own spending priorities. The Congress viewed the President's actions as an effort to acquire unprecedented budgetary power. Members of Congress challenged the President in the courts, where most of the so-called impoundments were eventually overturned. Although lawmakers successfully resisted President Nixon's impoundments, they now realized that major changes in Congress's budgetary practices were needed to reassert its constitutional power over the purse.

But a return to those Halcyon Days of the 19th century was not possible, or even advisable. Congress did not wish to strip the executive branch of its budgetary capacity, as that capacity had led to marked improvements in the government's stewardship of federal finances. Instead, the Congress realized that it needed to establish a budgetary capability of its own, so that it could more effectively challenge the President on broad budget policies and priorities while preserving its core power to tax and to spend.

Therefore, after nearly two years of study and debate, the Congress approved a landmark measure—the Congressional Budget and Impoundment Control Act of 1974. Signed into law by President Richard Nixon on July 12, 1974 (ironically, the last measure he signed before resigning from office), that act created a Congressional budget process, centered on the adoption of a concurrent resolution on the budget, through which the Congress could establish broad budget policies independent of the President. To support the new congressional budget process, the act also created new legislative institutions for budgeting—House and Senate Budget Committees to oversee the new process and the Congressional Budget Office (CBO) to provide the Budget Committees and the Congress with an independent source of budgetary and economic information.

Role and Responsibilities of CBO

CBO's chief responsibility under the 1974 Budget Act is to assist the Budget Committees with the matters under their jurisdiction—principally the Congressional budget resolution and its enforcement. The budget resolution recommends total levels of spending and revenues, and broad spending priorities, for several fiscal years. It is a concurrent resolution, meaning that it is approved by the House and Senate but it does not become law. No funds are spent or revenues raised under the budget resolution. Instead, it serves as a blueprint and guideline for Congressional action on separate spending and revenue legislation within the jurisdiction of other committees.

To assist the budget committees and the Congress in developing a Congressional budget, CBO prepares a series of three major reports.

First, early each year CBO prepares a report on the economic and budget outlook in which it estimates spending and revenue levels for the next 10 years under current policies and current assumptions about the economy. This so-called budget baseline report serves as a neutral benchmark against which Members of Congress can measure the budgetary effect of proposed changes in budget policies. The baseline is constructed according to rules set forth in law. Those laws generally instruct CBO to assume that current spending and revenue laws continue without change. Thus, the baseline is not a prediction of future budget outcomes. Rather, it reflects CBO's best judgment about how the economy and other factors will affect federal revenues and spending under existing laws and policies. In the summer, CBO issues an update of its baseline projections that incorporates a new economic forecast and the effects of any new laws that have been enacted to date in that session of Congress. This update allows the Congress to complete its budgetary actions for the upcoming fiscal year (which begins October 1) on the basis of the most recent data and information available.

Second, CBO prepares a report that analyzes the President's budget. The President is required by law to submit a detailed budget proposal in early February of each year. CBO's analysis follows shortly thereafter, usually within a month or so. In its analysis, CBO uses its own economic and estimating techniques to recast the President's budget proposals. This independent reestimate of the President's budget allows the Congress to compare his spending or revenue proposals to other proposals using a consistent set of economic and technical assumptions.

Third, CBO produces a volume that discusses various options for the budget. Past volumes have included a wide range of options to cut or increase spending, and to cut or increase taxes. They have also included discussions of the implications of certain broad policy choices, such as paying down the public debt or reforming programs for the long-term. The proposals are derived from many sources and, in keeping with CBO's mandate to provide objective analysis, each includes a discussion for or against it.

In addition to its three major reports on the budget and the economy, CBO analyzes the spending or revenue effects of specific legislative proposals. It prepares cost estimates of pending legislation and tracks the progress of such legislation in a scorekeeping system. CBO's cost estimates and scorekeeping system show how individual legislative proposals would change spending or revenue levels under current law and help to determine whether those budget effects are consistent with the targets in the Congress's most recent budget resolution.

In 1995, a new component was added to CBO's cost statements. The Unfunded Mandates Reform Act of 1995 amended the 1974 Budget Act to require CBO to identify legislation containing federal mandates to states, localities, tribal governments, or the private sector. This new requirement is intended to enable lawmakers to better assess the costs of federal legislation that are imposed on other governmental or private entities.

Finally, CBO also produces reports and studies that analyze specific policy and program issues related to the budget. Those reports and studies explore significant budgetary issues in greater depth and help to inform CBO's statutory work in support of the Congressional budget process. For example, since 1996 CBO has prepared reports on the long-term budgetary pressures associated with the aging of the baby boom generation. That demographic trend will create demands for spending under current policies that would generate huge deficits and debt beginning later in the 2nd decade of the 21st century, or well beyond the budget horizon used by lawmakers in the annual budget process.

Major Lessons from CBO's Experience

The U.S. form of government is based on separated powers, and so part of CBO's job is to help the Congress to assert its independence in our constitutional system. In parliamentary or other systems, where the legislative and executive branches are intertwined, such a purpose is at odds with the underlying form of government. Yet there may be certain general lessons from CBO's experience that prove helpful to other legislatures seeking to improve their budgetary capabilities.

Independent. CBO was established by law as an independent entity within the Congress. Other options considered by the framers of the 1974 act were to expand the duties of the General Accounting Office or of the Library of Congress, or to make the new budget staff an extension of the budget committees. However, the framers concluded that supporting Congress in budget and economic matters was sufficiently different from the core missions of other legislative branch agencies to merit a separate agency. Also, they decided that although the CBO should give priority to the work of budget committees, it should also be available to other committees and the Congress generally. Thus, CBO is not a creature of one chamber or of one committee, or of the majority party in control of the House or Senate. This separate identity has proven to be immensely important in protecting CBO's integrity, both within and outside of the Congress.

Nonpolitical. CBO is required by law to provide nonpartisan, objective information and analysis. The President's budget office, on the other hand, serves as a policy advocate, and must promote the President's policy agenda. The CBO director is appointed by the Speaker of the House and Presiding Officer of the Senate through a process of broad consultation between the two chambers and two parties. The Budget Act requires that he or she must be appointed "without regard to political affiliation." CBO makes no policy recommendations to or on behalf of the Congress. It must serve both parties. If CBO ever came to be viewed as an arm of one political party or another, its status and effectiveness would be greatly diminished. It is in Congress's interest to preserve CBO's role as objective arbiter in budgetary matters. In recent years, party control of the Congress has shifted frequently. In such circumstances, it is even more important for CBO to maintain strict nonpartisanship.

Objective. CBO also strives to maintain professional objectivity in its work. As an extension of its mandate to be nonpartisan, CBO evaluates all sides of a particular issue for its Congressional clientele. Thus, in its budget and economic projections, and its cost estimates of legislation, CBO tends to strike a middle course. In its Congressional testimonies and analyses of various budget and economic issues, CBO takes pains to carefully assess all the arguments for or against specific proposals. CBO's staff are chosen for their experience or training as policy analysts, not as policy advocates.

Access to Executive Branch. The statute creating CBO also requires agencies of the executive branch to provide CBO with the information it needs to performs its duties and functions. Giving CBO statutory authority to acquire information helps to convince reluctant agencies to provide the necessary data. Over the years, agencies generally have cooperated with CBO requests for such information, in part because they know that they risk the wrath of the Congress if they fail to comply. Such confrontations are in fact quite rare.

Responsive. Because CBO's work is used in the legislative process, it must be available when Congress wants to consider legislation. Congress often sets a demanding schedule and requires a quick response to its information needs. This responsiveness is necessary, but can be daunting when the legislative schedule becomes crowded. CBO totals about 230 employees, a number that has remained relatively constant throughout its existence. That may sound large by comparison to the budget staff available to other legislatures. However, the demand for budget information and analysis by the Congress is quite high. The House and Senate Budget Committees, both majority and minority, total about 60 members and some100 staffers. All can and do contact CBO staff directly and regularly. Other committees, led by the appropriations and tax committees of the two chambers, and individual Members also are authorized by law to contact CBO directly. Thus, literally hundreds of Members of Congress (there are 535 between the House and Senate) and thousands of staff have direct access to CBO. Each year, CBO averages about 2000 formal or informal cost estimates of pending legislative proposals before the Congress, issues 70 to 80 major reports and other publications, and prepares dozens of testimonies for various Congressional committees.

Transparent. CBO products are widely available. Once a projection, cost estimate, or other analysis has been completed it is available to all Members of Congress and the public at large. CBO also makes available the methodologies and assumptions that it uses to produce its various analyses, and regularly publishes an evaluation of its record of economic forecasts and budget projections. CBO also seeks outside review of its analyses. For example, CBO convenes a panel of distinguished economists twice each year to seek input on its latest economic forecast. This transparency and openness helps to give further credibility to CBO's budget and economic projections and other analyses.

Conclusion

In creating CBO, the Congress acknowledged that it could not remain coequal with the President on budgetary affairs without its own budget and economic expertise. And the trends since 1974 have underscored the need for an independent cadre of disinterested and dispassionate analysts working exclusively for the Congress.

Budgetary politics in the United States have been intensely partisan. Political control of the Congress and the Presidency has been divided, often making it difficult for lawmakers to reach a consensus. Also, the U.S. budget process has become exceedingly complex, as lawmakers put in place procedures to control deficits and debt. And modern budget laws have become increasingly sensitive to changes in the economy and other factors beyond legislators' direct control. CBO helps the Congress to sort through these difficulties, which in turn enables it to protect its budgetary powers under the Constitution.

Although the U.S. system of government differs from the parliamentary systems prevailing elsewhere in the world, CBO's experience may nonetheless provide some general lessons for any legislature that is considering how best to inform itself about the budget. The broad budgetary trends and complexities experienced in the U.S. have been mirrored across the globe. And in any partisan environment—a characteristic of all legislative bodies—objective budgetary information is invaluable. At a minimum, it is important that no single government entity monopolize the information needed in the legislative process. Legislative institutions and the legislative process can only be strengthened when legislators are informed.