

CBO TESTIMONY

Statement of
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on the
Legislative Reorganization Act of 1994

before the
Subcommittee on the Legislative Process
Committee on Rules
U.S. House of Representatives

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NOTICE

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Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify on the recommendations of the Joint Committee on the Organization of Congress included in H.R. 3801, which Chairman Hamilton recently introduced. In my testimony today, I will focus primarily on the Joint Committee's proposal to move to a two-year budget cycle, which is by far the most significant recommendation affecting the budget process. At the conclusion of these remarks, I will also discuss various other recommendations that might affect the ability of the Congressional Budget Office (CBO) to assist the Congress in making budgetary decisions.

BIENNIAL BUDGETING

Both the Senate and House recommendations of the Joint Committee advocate moving to a system of biennial budget resolutions and appropriations and multiyear authorizations. Under this proposal, the first biennium would begin October 1, 1995, covering fiscal years 1996 and 1997. The President would also submit a full budget only every two years; the first biennial budget would be submitted in February 1995, at the beginning of the 104th Congress. In nonbudget years, the President would submit amendments only in exceptional circumstances.

Vice President Gore's National Performance Review (NPR) has also recommended that the Congress establish biennial budgeting, including all of the aspects contained in the Joint Committee bill. The NPR, however, would envision

a different timetable than the Joint Committee, with the budget submission, budget resolution, and appropriations occurring in the second session of each Congress, rather than the first.

My testimony will make the following points in evaluating the effects of this proposal:

- o Because budgets have had to conform to requirements contained in multiyear agreements, biennial budget resolutions represent a relatively small change from recent practice. But they could increase the likelihood that budget decisions would be based on less accurate information, and consequently they may hurt efforts to reduce the deficit.

- o Biennial appropriations should be viewed primarily as a trade-off between the Congress's flexibility to make frequent changes in the budget and the ability of executive branch agencies and recipients of federal aid to plan for the future and manage programs. Other factors, however, call into question whether biennial appropriations would yield the benefits that their proponents cite.

- o Biennial budgeting is proposed as a reform that will decrease the time the Congress devotes to budgeting and increase Congressional oversight. These changes, if they occur, are likely to be considerably less than what some proponents advertise.

Biennial Budget Resolutions

Under the Joint Committee's proposal for biennial budgeting, the budget resolution would be adopted every other year. Since 1987, the Congress and the President have experimented with multiyear budget agreements--for two years in 1987, and for five years in 1990 and again in 1993 (the 1990 agreement was revised after three years). In an era of multiyear budget agreements, setting our aggregate targets in budget resolutions every other year should not represent a substantial change since the broad outlines of the budget are already established for two or more years. In recent practice, the budget resolution in the year or two following the adoption of a large deficit reduction package usually restates the policies underlying that package. A conversion to a two-year budget resolution would serve in this sense to ratify current practice.

Failing to revisit the budget resolution each year, however, would have certain drawbacks. Putting a requirement for biennial budget resolutions into law

would make it more likely that budget decisions would be based on unrealistic economic and technical assumptions. Generally speaking, forecast errors become larger as projections extend further into the future. Even in the current annual process, forecasters are required to project changes in the economy and the budget 21 months before the end of the fiscal year. A biennial budget resolution would increase this period to 33 months for the second fiscal year of the biennium.

Second, problems may occur in enforcing the resolution, particularly in the second year of the biennium. The budgetary effects of a bill are currently estimated using the economic and technical assumptions underlying the budget resolution. As those assumptions became more out of date, the enforcement process would be strained because bills that would increase spending under updated assumptions might have no cost under the assumptions of the budget resolution. We have encountered this problem with one-year resolutions, but it could be much worse under biennial budgeting.

Biennial budget resolutions also may actually hinder further efforts to reduce the deficit, since a biennial system is designed to confront budget decisions less frequently. As long as large deficits persist, the Congress and the President should face them on an annual basis and decide whether additional action is warranted in that year. To some extent, multiyear agreements already vitiate annual reexamination. Biennial budgeting, however, hardens the denial of annual

review, which seems undesirable in a world with \$200 billion deficits. It is certainly true that the President and the Congress have not opted to attack the deficit every year, but it is also true that major deficit reduction efforts have not followed a neat two-year cycle. Under the Joint Committee proposal, the normal budget resolution and reconciliation procedures would be unavailable every other year. The Congress might be able to overcome this impediment, but given the difficulty of enacting deficit reduction legislation under the best of circumstances, additional hurdles may be unwise.

If and when the deficit has been brought under control, the Congress may want to return to using the budget resolution to carry out a more active fiscal policy. In the first years following the passage of the Congressional Budget Act, such active policy was the norm, but over the past decade attention has focused on longer-term deficit reduction. A biennial budget would make it more difficult for the budget resolution to be used once again to set fiscal policy.

Biennial Appropriations

Decisions on appropriations are now made annually; that is, appropriation bills covering virtually all discretionary budget accounts are enacted each year. This process provides the Congress with ample opportunity to review program

operations and to make changes in resource allocations. But biennial appropriations could potentially allow federal government agencies and recipients of federal aid to manage their resources better. This was the major reason that the Vice President's National Performance Review advocated that such resolutions be coupled with biennial appropriations. Therefore, biennial appropriations are best viewed as a trade-off between the ability of agencies to manage programs and recipients of federal aid to plan for the future, on the one hand, and the ability of the Congress to control the budget and to make more frequent changes in it, on the other.

Without question, the main beneficiaries of biennial budgeting would be executive branch agencies and recipients of federal assistance. Executive agencies would benefit because the proposal for biennial appropriations would enable managers to focus their time and attention more effectively on managing their programs. The NPR report, for example, argued that agency managers are forced each year to spend a great deal of time justifying programs that are routinely funded at stable levels and could be considered less frequently. Biennial budgets would allow agency managers to spend more time evaluating the effectiveness of programs and doing long-range planning. In addition, contracts between the federal government and private contractors might be negotiated at terms more favorable to the government and at a pace that better ensures good management practice if more stable funding could be guaranteed.

Furthermore, states, local governments, and other recipients of federal money would be better able to plan for the future under a biennial system. Currently, recipients of federal aid must in many cases face uncertainty about how much money they will receive in a given year, which is a major impediment to planning state and local budgets. A biennial system would decrease this uncertainty.

Even though the Congress would consider appropriations comprehensively in only one year, the improvements in management and planning for agencies in a biennial system would probably be accompanied by an increase in the number and size of supplemental appropriations enacted by the Congress in the nonbudget year. Programs that are currently prone to supplemental appropriations--emergencies such as disaster assistance, programs tied to changes in the economy, and hard-to-predict foreign assistance programs--would probably be even more likely to require supplemental funding in a biennial regime. In addition, the Congress might seek to revise budgets for other programs in the nonbudget year for policy reasons. For example, recent changes in the world might have resulted in reductions in the defense budget in nonbudget years even if a biennial system had been in place.

If the time and attention of the Congress were diverted away from nonbudgetary issues to supplemental appropriations and other changes in the

budget, the benefits of biennial budgeting in economizing on the Congress's time would be reduced accordingly. Consider what would happen if the biennial process were not adhered to. The result would be to substitute for the current process one with biennial appropriations and routine omnibus supplemental budget bills in the second year. That is almost certainly not an improvement.

If a biennial system was followed, the benefits that would accrue to agencies would come at the expense of some reduction in the Congress's current annual control and oversight of programs through the appropriation process. Some Members of Congress might view that as a shift of power from the legislative to the executive branch. The stakes would increase in the appropriation process as well; agreements on appropriation bills, both within the Congress and between the Congress and the President, might be more difficult to achieve under a biennial regime.

The experience of the states offers some support for the contention that biennial systems are harder to live up to than to design. States have tended to move away from biennial budgeting in recent years--44 states followed the practice in 1940, compared with only 19 today. One important reason for the move to annual budgeting in the states is that many more state legislatures meet annually today than in the past. Another reason for the shift away from biennial systems has been the increased sensitivity of state budgets to economic cycles,

largely because states are relying more on the income tax as a revenue source. Frequently, because of large (and unanticipated) budget deficits, the states have had to revise their budgets in the second year of the biennium. The regularity of these revisions has led some states to convert formally to annual budgeting, which was the form that they were following in a de facto manner.

If the Congress does not wish to make a change as radical as biennial appropriations would require, it could embrace biennial appropriations selectively--for technically predictable and politically stable programs, for example. In fact, the Congress has already found it desirable to provide more planning certainty for some programs funded in the appropriation process; to cite two, it has provided multiyear funding for defense procurement and forward funding for education programs. Other programs for which a similar consensus exists, and that benefit from long-term planning, might also have some annual controls removed without embracing biennial appropriations in their entirety.

Because this middle ground between biennial budgeting and the current process exists, the Congress should consider the distinction between the frequency with which budget decisions are made and the length of time for which funds are made available. The Joint Committee's recommendations would primarily affect the timing of budget decisions--that is, decisions would be made only every other year. But, as noted above, the largest benefits of biennial budgeting for federal

agencies may come from permitting funds to be spent over a longer period of time. The Congress could lengthen the time period for which funds were available without abandoning the current annual process.

Annual authorizations are inconsistent with biennial appropriations, as is reflected in the Joint Committee's recommendation that authorizations cover more than one year. For many programs, multiyear authorizations are already the norm. There are few obvious budgetary reasons for annual authorizations, but the Congress may pursue them for other reasons--for example, to enable committees to exercise more frequent oversight of a particular program.

Effect of Biennial Budgeting on Congressional Work Load

Agencies currently spend a lot of time on the budget, but the budget claims substantial Congressional time and attention as well. Furthermore, the explosion of the budget deficit and attempts to bring that deficit under control have kept the budget near the top of the Congressional agenda. Increasingly, Members of Congress and Congressional committees have faced constraints imposed by the budget process at every turn. For this reason, their frustration with the budget process is understandable, as is their desire to see less emphasis placed on budgeting. Indeed, many Congressional supporters view the major benefit of

biennial budgeting to be that it would permit more time to be spent on other legislative activities, including oversight.

A biennial process might have less benefit in this area than advertised, however, for two main reasons. First, the increases in time available rest on the assumption that the biennial timetable is adhered to. Yet the likelihood of more supplemental appropriations and other changes in budget policy in nonbudget years could easily eat into that time. Second, it is not clear how much the process of making budget allocations has crowded out authorizing legislation and oversight. The two types of activities tend to be carried out by two separate types of committees: budgeting tends to be the province of the budget and appropriations committees, and authorization/oversight is the responsibility of authorizing committees. In the House, where appropriations is an exclusive assignment, time available for authorizations and oversight would increase only if the current budget timetable interfered with the work of the authorizing committees or that oversight was exercised by the appropriations committees in nonbudget years. In the Senate, however, many Members serve on both types of committees, and appropriating every two years would give those Senators more time to spend on authorizations.

OTHER JOINT COMMITTEE RECOMMENDATIONS AFFECTING CBO

Biennial budgeting is the most significant recommendation included in the report of the House Members of the Joint Committee that would affect the budget process. Other recommendations, however, might well have a significant effect on the operations of CBO, and therefore on our ability to serve the Congress. I would like to address several of these other recommendations in the remainder of my testimony. The proposals on which I will comment include additional requirements for CBO reports to the Congress, an eight-year reauthorization for support agencies, and a 12 percent reduction in legislative branch staffing.

Additional CBO Reports

The House Members of the Joint Committee included recommendations requiring two additional CBO reports. First, we would be required to issue quarterly reports on how actual experience with the budget for the current year compares with the assumptions in the budget resolution. The Joint Committee coordinated the drafting of this language with CBO, and we would have little problem complying with such a provision, as it would essentially expand on (and make more widely available) a report that we now provide to the Budget Committees.

The second proposed report would be more problematic. The House Members would mandate a review by CBO of all user fees and a report to the Congress within 90 days after enactment of the Legislative Reorganization Act of 1994 that identified the effect of adjusting the current user fees for past inflation. It would probably be impossible to do a comprehensive report, since there is no centralized source of information in the federal government on user fees. Most user fees are set not in legislation, but rather administratively. In fact, the House Budget Committee asked the General Accounting Office (GAO) to conduct a similar study in 1989. GAO determined that it was not feasible for it to do a comprehensive study, and instead it looked at a much smaller set of fees. Given these data limitations, little would be gained by having CBO do such a study.

We have, however, recently issued an analysis of federal user charges.¹ Although CBO, like GAO before us, was unable to collect the kind of data that are envisioned by the Joint Committee's proposed requirement, our study did document the general trends in user charges between 1980 and 1991. We found that user charges were increasingly being used as a source of funding for federal programs, increasing by 54 percent in constant dollars over the period of our study. Recent experience, including the content of the deficit reduction packages of 1990 and 1993, suggests that this trend is likely to continue. We commend this study to Members who are interested in this topic.

1. Congressional Budget Office, *The Growth of Federal User Charges* (August 1993).

Eight-Year Reauthorizations for Support Agencies

Both the House and the Senate reports of the Joint Committee would repeal the permanent authorization for CBO and the other Congressional support agencies and would reauthorize them on an eight-year cycle beginning in 1997 (the House does not specify a timetable, while the Senate would have CBO reauthorized in 2003). The House did not specify the committee(s) to do the reauthorization, but the Senate gives the responsibility to the Senate Rules and Administration Committee.

CBO has no problem with the Congress periodically reassessing the operations of our agency. It would be difficult, however, to reconsider CBO's mission without doing a broader analysis of the entire budget process. Under the current process, if CBO did not exist, the Congress would need to have some other source of budget and economic information. If the Congress is interested in reviewing the activities of CBO and other support agencies, it might consider the option of exercising more systematic oversight, which would carry with it most of the advantages that could be gained from reauthorization. Oversight does not include some significant drawbacks that are inherent in the reauthorization alternative. For example, what would happen if the Congress reauthorized a Congressional support agency, but the President vetoed the reauthorization?

If reauthorization is the course chosen for CBO, the Congress might consider two other issues. First, the timing of the reauthorization schedule should perhaps not coincide with the timing of the appointment of CBO directors, who are appointed to four-year terms, the next of which would begin in 1995. A director with a few years' experience in the job would be in a better position to respond appropriately to concerns raised in a reauthorization process than a newly appointed director. Second, it is not immediately clear which committees in the House would be the most appropriate ones to undertake CBO's reauthorization. Currently, in the House, legislation on budget process is jointly referred to this committee and the Committee on Government Operations. Under the Congressional Budget Act, however, the House Budget Committee has oversight responsibility for CBO. In the Senate, both the Budget Committee and the Committee on Governmental Affairs have jurisdiction over the budget process.

Reduction in Staff of 12 Percent

The most significant Joint Committee recommendation affecting CBO calls for a staff reduction of 12 percent in the legislative branch by fiscal year 1999. This step could have a substantial affect on CBO's ability to assist the Congress in making budgetary decisions. To illustrate, let me point out the increasing pressures that we have been under in the past decade, as the budget and the deficit

have remained on top of the political agenda. Since 1987, we have been holding constant at about our current level of approximately 220 staff members. During that time, however, the budget has commanded more and more of the Congress's attention, and therefore the demands on our time have grown substantially. In fact, several laws that have been enacted in the last 10 years, including Gramm-Rudman-Hollings and the Budget Enforcement Act, have created specific additional requirements for CBO. Further, the attention paid to issues with economic and budgetary ramifications--such as the deposit insurance crisis, the North American Free Trade Agreement, and health care reform--have led to increased requests for analytic studies.

In short, CBO could not absorb a 12 percent staff reduction without reducing the services that we are able to provide to the Congress. A staff cut of this size would require CBO to eliminate 20 current positions in addition to the 9 full-time employees already eliminated as a result of the 1994 legislative branch appropriation act. The Congressional Budget Act already lays out priorities for CBO's assistance to the Congress, which results in our doing the majority of our work for the Budget Committees, the Appropriations Committees, and the tax-writing committees. An additional reduction of this size would have several specific effects, including significantly reducing our ability to do timely cost estimates and ending our support to individual Members when they are drafting legislation with budgetary impact. In addition, we would be much less able to

respond with analyses for the Congress when new issues arise that have significant economic and budgetary effects.

Moreover, our recent experience suggests that during a time when we are trying to get the budget and the deficit under control, the Congress needs more help from CBO, not less. For this reason, cutting back on our staffing seems inappropriate until the point at which the deficit problem is behind us.

CONCLUSION

Of all of the recommendations of the Joint Committee, biennial budgeting is the one with the most significant ramifications for the budget process, and it should be considered very carefully before being enacted. It may, as discussed above, hamper efforts to reduce the deficit.

Once the deficit problem is behind us, biennial budgeting may be beneficial, but only if all participants adhere to the system. If they do, some of the improvements--primarily increased certainty and improved management opportunities for agencies and state and local governments--may be worth the costs of having less frequent Congressional attention to budget policy. But if the Congress does not believe that the biennial budgeting system will hold--that is, if the system will revert to its counterpart annual system because of the necessity or

desire to make budget policy annually--then disrupting the current system by making such a change would probably yield few benefits.

Other Joint Committee recommendations are of less significance for the budget process as a whole. However, as I mentioned earlier, CBO is greatly concerned that some of them would affect our ability to continue to deliver high-quality services to the Congress.

