Testimony

Federal Budget Process Reforms: Testimony to the Joint Select Committee on Budget and Appropriations Process Reform

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Introduction

Chairman Womack, Chairman Lowey members of the Committee, I am pleased to have the opportunity to appear today. In this testimony, I wish to make a few basic points:

- The federal government does not actually formulate a fiscal policy, and the result is poor budgetary outcomes,
- Fiscal problems are not solved by process solutions alone, but process improvements can facilitate fiscal reforms,
- Process reforms can be radical, reorganize federal institutions, and directly affect the operation of programs; more modest – and likely more achievable reforms – can improve the presentation of and timing of fiscal policy decisions, and
- Even modest process reforms can contribute to reducing risks to the economy from budget-related disruptions.

Let me discuss each in turn.

The United States Does Not Have a Fiscal Policy

At present, the federal government does not have a fiscal "policy." Instead, it has fiscal "outcomes." The House and Senate do not reliably agree on a budget resolution, and when they do, the executive branch does not necessarily concur. Annual appropriations reflect the contemporaneous politics of congressional compromise, and White House negotiation. Too often, the annual appropriations process is in whole or in part replaced with a continuing resolution. Annual discretionary spending is not coordinated in any way with the outlays from mandatory spending programs operating on autopilot. And nothing annually constrains overall spending to have any relationship to the fees and tax receipts flowing into the U.S. Treasury. The fiscal outcome is whatever it turns out to be – usually bad – and certainly not a policy choice.

The congressional budget process is widely broken and does not engender regular evaluation of the fiscal health of the federal government. Indeed, the *prima facie* evidence of its failure is the fact that the executive branch regularly submits budgets that clearly display a path leading to a sovereign debt crisis, while Congress regularly flouts the budget process set forth in the Congressional Budget and Impoundment Control Act of 1974 (the Budget Act). As a tiny piece of evidence, note that this hearing is being held two days after the deadline for passing the congressional budget resolution. Where is the outrage over the fact that there is no such resolution?

The budget process is intended to facilitate a regular and disciplined evaluation of the inflow of taxpayer resources and outflow of federal spending. It should enhance the role of Congress as a good steward of the federal credit rating. It does neither because the current process is insufficiently binding. As a result, it easily degenerates to the mere adoption of current-year discretionary spending levels, or adjustments to the Budget Control Act (BCA) spending caps, with no review of the real policy problem: the long-term commitments in mandatory spending.

Defining the Scope of the "Problem"

The federal *fiscal problem* demands fundamental reforms to major mandatory spending programs – Medicare, Medicaid, Social Security, and the Affordable Care Act – but those reforms have proven elusive due to fundamental policy disagreements among the public and their elected representatives. Every member of this Committee has their own views on the size and scope of the federal government and process reforms are no substitute, nor should they be, for that broader debate.

Meaningful process reforms can facilitate fiscal reforms but should be neutral with respect to policy outcomes. Process reforms should not serve as proxy for fiscal reforms, nor be viewed as favoring one type of fiscal outcome over another – those perceptions would undermine the effort for reform and further unravel the process by which policymakers address fiscal policy issues.

The challenge that this Committee should consider is the *process problem*, which I define as basic flaws in presentation of the fiscal outlook, as presented in the Congressional Budget Office's (CBO) budget baseline and the routine avoidance of considering a budget resolution and the complete breakdown in the annual appropriations process. These challenges can be addressed through more radical reforms, or through more incremental amendments to the Budget Act and other budget laws.

Alternatives Strategies for Process Reform

This Committee could take two approaches to addressing the process problem addressed above. It could consider reforms that fall well outside the jurisdiction of the Budget Committees and include reevaluation of fundamental budget concepts, to include reforms to programs (though not policy changes per se) and institutional reforms. Or, the Committee could stay within the traditional jurisdiction of the Budget Committees and rethink the construction of the CBO baseline, and the budget process timeline as set forth in the Budget Act. While the balance of this testimony will focus on the latter, the former approach warrants discussion.

This Committee could consider more sweeping changes such as eliminating the distinction between mandatory and discretionary spending – a change that in practice would amount to essentially sunsetting every major entitlement program. I do not have any illusions about the likelihood of this approach being enacted, but rather I pose it here for the purpose of illustrating the narrowness of the scope of the current budget process. This change would force Congress to come to terms with the 63 percent of federal outlays that have been effectively grandfathered into the national fisc and are not subject to meaningful annual oversight.

Another reform approach would be to elevate the congressional budget resolution from a concurrent to a joint resolution requiring the president's signature. There is merit to this reform in that it forces Congress and the executive branch to grapple with fiscal policy matters beyond the enactment of annual appropriations bills. However, there is also reason to suspect that legitimate disagreements on fiscal policy will be insurmountable stumbling blocks. If so, this would contribute to problems with the budget process instead of improving it. In the other direction, this is the *de facto* current budgeting regime. The federal government has since 2013 operated under three amendments to the Budget Control Act that were agreed upon by the House and Senate, and then signed by the president.

Last, one oft-discussed reform approach involves congressional reorganization that reorients the role of the Budget Committee and/or its membership. The failure to adhere to the current budget process is a bipartisan and bicameral challenge, and to the extent that the Budget Act provides for privileged consideration of certain budget matters, it is unclear that reimagining the Budget Committee would address the failure of Congress to routinely engage in the budget process as established in the Budget Act.

A more modest approach to budget process reform would be confined to changes to the existing budget process architecture but would seek to improve the presentation of the budgetary outlook and reduce the risk of budget process failures. The balance of my testimony will address these potential reform options.

Goals for Budget Process Reforms

Improving the Baseline

The first step of the congressional budget process (after the executive branch releases the president's budget) is the submission to Congress of the CBO Budget and Economic Outlook.[1] This baseline, and more important the "scoring" baseline prepared later in the year, is the yardstick against which Congress measures the fiscal impact of legislation. It is important to note that the baseline is not CBO's best guess of what future Congresses might do or what it thinks should happen. Rather, it is constructed according to strict rules emanating from laws, policies, and customs that have evolved since the creation of CBO in the 1974 Budget Act. The baseline is best viewed as a tool for ranking alternative policies, and there are sound options for improving the baseline for this function.

The Budget Act of 1974 (as amended over time) requires that the baseline be prepared by extrapolating the current law over the budget window (currently 10 years). Now, you might think that (a) this means that appropriations for, say, 2020 would be zero in the baseline since appropriations are enacted yearly and there is no law in place for 2020, and (b) that any program that has not been re-authorized would have zero budgetary impact since the law had expired. In both cases, you would be wrong.

Appropriations, including those specified as "emergencies" are extrapolated from current levels (and assumed to rise with inflation) and any program that spends $50 million or more is assumed to continue spending money whether it is re-authorized or not. These features place a clear upward bias on spending because appropriating at last year's level plus inflation is "free," as is re-authorizing an expensive spending program.

In contrast, revenues follow current law precisely, with CBO forced to show expiring tax cuts as tax hikes. Clearly, this asymmetry tilts the budgetary playing field and is not a good benchmark. As an alternative, one could interpret current law strictly on both sides of the budget, showing the expiration of tax cuts *and* zeros for future year appropriations and unauthorized programs. Or, in the spirit of extending spending programs, any tax cut over $50 million could be assumed to continue indefinitely. In any event, some change is needed to equalize the treatment of budgetary flows in the baseline.

An additional issue related to the construction of the baseline, is that the "scoring" baseline is typically set in stone in March of each year, based on an economic forecast that is typically put together for release in January. This has the virtue that all proposed legislation is compared to the same starting point and makes it easier to compare across proposals and rank their budgetary impact appropriately. It has the disadvantage that a law being evaluated in, say, November has its budgetary impact based on a year-old economic forecast. This has a clear impact on accuracy, as no forecaster would fail to update his/her jumping off point when trying to make an accurate forecast. If Congress wanted a greater focus on accuracy, it could require that the baseline be updated more frequently, at the risk of sowing chaos when trying to compare a law passed by the House in April with one passed by the Senate in October.

Reducing Risk: Timely Passage of Budget Resolution, Appropriations, and Authorizing Bills

The last several years has witnessed deterioration in the adherence to the budget process punctuated by funding gaps, or government shutdowns, and an over-reliance on continuing resolutions (CRs). Failure to enact timely appropriations is not a recent phenomenon, however. In all but four out of the past 40 years, Congress relied on CRs to fund the federal government until agreement on full-year appropriations could be reached between the parties, the houses of Congress, and the legislative and executive branches.[2] Beyond the conspicuous process failures evinced by government shutdowns, CRs themselves pose risks that can raise costs, incur waste, and present management challenges. At a minimum, this Committee should attempt to reduce these risks by pursuing reforms that lend greater predictability and stability to the appropriations cycle.

One approach would be to build on the recent history of two-year budget agreements. Necessity has given rise to the recent series of multi-year budget agreements. When the BCA was enacted, it imposed discretionary spending caps and required Congress to form a bipartisan committee (the Joint Select Committee on Deficit Reduction or "Super Committee") to achieve a further $1.2 trillion in deficit savings. When this committee failed to deliver, a fallback mechanism in the BCA reduced the original discretionary spending caps even further to levels that were not intended to fall on defense and non-defense discretionary spending. Subsequent budget agreements, the Bipartisan Budget Acts of 2013, 2015, and 2018 have restored some, but not all, of the funding reduced by this fallback mechanism. There is reason to assume Congress will pursue another 2-year agreement for the remaining years of the Budget Control Act, but thereafter the incentive will expire with the BCA.

It strikes me that this Committee should consider building on the success of these recent multiyear budget agreements and institutionalize them appropriately.

Institutional incentives may also play a role in enhancing adherence to the budget process. The "No Budget, No Pay Act," for instance, was enacted in 2013, during which time the Senate passed a budget resolution for the first time in four years. There are legitimate criticisms of specifics of this approach (not the least of which are constitutional) but other variations, such as a "No Budget, No Recess" approach may be worthy of consideration. But inducements need not be all “sticks” and no “carrots.” Congressional pay raises, or other similar institutional interests that may have sound policy grounding but face irrational process barriers may be tied to the budget resolution. The Gephardt rule, which tied passage of debt limit increases, a historically toxic vote, to passage of the budget resolution is a model for this type of inducement to adhere to the budget process.

Another achievable goal for this Committee should institutionalize regular and close oversight of all revenue and spending. The Budget Committees have this function, but it only manifests itself in Congress as a whole if and when legislators consider a budget resolution. Regularizing this core function of the legislative branch would be a remarkable and achievable goal that should be well within this Committee’s purview.

Thank you. I look forward to your questions.

[1] https://www.gpo.gov/fdsys/pkg/CPRT-112HPRT75001/pdf/CPRT-112HPRT75001.pdf

[2] https://www.gao.gov/assets/690/689914.pdf