HOUSE BUDGET COMMITTEE HEARING
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BUDGETING IN CONGRESS; HOW THE BUDGET PROCESS FUNCTIONS

Testimony of Bill Frenzel, Guest Scholar , Brookings Institution, and
former member of Congress

Mr. Chairman, and Members of the Committee:

I am a Guest Scholar at the Brookings Institution, but this testimony is my own and does not represent any position or conclusion of the Brookings Institution.

It is true, Mr. Chairman, that I was a member of Congress when the Budget and Impoundment Act of 1974 was passed. However, I was then a very junior member of an oppressed minority, so I cannot take any credit for being a mover and shaker in the development of the Act, although I tried to be. In fact, I was an interested observer, whose recollections grow ever more dim with each passing year.

As is true with every enacted bill, congressional intent, like truth, resides in the eyes of all the beholders. There are many different interpretations of intent. I will try to describe what I thought was intended with reference to the Broad Perspectives laid out in the Committee's statement of *Hearing Purpose.* Some of my impressions were gained at the time, and some came in later discussions with members who I thought were among the principal drivers in the House, notably Dick Bolling for the Democrats and John Rhodes for the Republicans.

Setting Priorities

The conditions under which the Budget Act arose were dominated by the Congress' desire to overcome the Presidents' use of the implied power of Impoundment. Presidents Johnson and Nixon had made heavy use of impoundment, and members were enraged that money for their transportation projects had been stopped, especially to be used in carrying out military actions that many opposed.

That feeling set the tone for much of the discussion about "Congress' need to set its own priorities". The frequent battle cry was that Congress, possessor of the

constitutional Power of the Purse, needed to reestablish its primary role in setting national priorities. Congress had an appealing rationale for battle it knew it could win against a weakened President.

Parenthetically, I will add here that Congress has made little use of the Budget for priority setting. Part of the reason was that a number of early Budget philosophers, prominently Senator Ed Muskie, insisted on using baselines tied to existing programs, plus COLAs, plus demographic changes. Once the baseline theory was set in concrete, it became almost impossible for new programs to compete with old ones.

Presidents could occasionally push through new initiatives, often with the help of friendly Congressional majorities. Congress could modify them, but it could seldom inaugurate new programs of its own. The old programs, escalated, claimed all the resources. Particularly in times of fiscal difficulties (most of the time), there were simply no funds for worthy new programs and projects. As long as the budget is tied to the baseline, it will be hard for the Congress to alter priorities, and impossible to budget for outcomes.

If Congress really wants to play in the priorities game, it has to find a way to liberate itself from baselines, and from the continuing domination of old programs. If you can't change the baseline, you can't change priorities. Congress has been reluctant to change either one.

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Comprehensive Approach to Budget

In the early 1970s, there was a growing realization inside and outside of Congress, that, unlike the Executive Branch, Congress had no way to develop an overall Budget plan. Congressional spending was merely the cumulative result of individual pieces of legislation, each passed without much reference to any of the others. It was already obvious then that there was no framework for Congress to establish a general fiscal policy.

Many people in Congress who commented on the Act through its development made mention of the need for a comprehensive approach to the Budget. How could Congress set priorities rationally unless all spending could be reviewed at once? But most of them were thinking about spending in a different way than we do today. 1974 was the last year in which Discretionary Spending was greater than Mandatory Spending plus Interest. Most people who mentioned the "comprehensive approach" were thinking of discretionary spending, rather than mandatory.

Then, as now, appropriators were suspicious of the process, and believed that they could provide whatever comprehensive approach might be needed themselves. They insisted that the Budget Act not shift their traditional control of allocations to others, especially the Budget Committee. Appropriators were strong then, and they prevailed, but they are even stronger now because directed spending on "earmarked" projects has become the rule rather than the exception.

However, appropriators may look at this question differently now. They may have a different set of incentives. Their traditional bailiwick, discretionary spending, has grown (too fast in my opinion), but much less swiftly than mandatories. When Entitlement and Interest are combined, nearly 2/3 of spending is mandatory now, and its has become the growth engine for spending. The appropriators' 1/3 of spending is getting squeezed further each year. The comprehensive approach to Budgeting might be a bit more attractive to them now, as a potential tool to protect their discretionary spending. They have few other defenses against the rapidly rising mandatories which are consuming resources formerly dedicated to discretionaries.

Certainly, for Budget observers, insulated from jurisdictional disputes within the Congress, the huge, impending deficits are a powerful argument in favor of the need to look at everything before making judgments on anything.

Controlling Spending

In 1974, Republicans were especially concerned about controlling spending and eliminating deficits (that was then). The country had endured only four years of deficits, and deficits did not extend into the future "as far as the eye could see". But, wailing about deficits and spending has always been an important minority function, and Republicans were in the minority at that time.

Democrats were less interested in this aspect of Budget Process. We were "all Keynesians" then, after all, and the majority was much more interested in stimulation, and, to a lesser extent, priorities, and than in control. In fact, in its early years, the Budget Act was used by the Democratic majority to increase spending above that requested by Republican Presidents. House Budget Committee members used to insist on putting new projects by name into Budget Resolutions, or at least into the Committee language that accompanied the Resolutions. Those attempts did not always survive the scrutiny of the gimlet-eyed appropriators, but they were a hallmark of the Committee in the 1970s.

Over the years, Congresses have wrestled with the notion of using the Budget to control spending and deficits (which to me is supposed to be the real purpose of the whole exercise), but the struggles seldom came to any good conclusion. We can all toll the litany of failed attempts, but I won't do it here. For now, let it suffice to note that, in my judgment, the only control features that were other than sporadically successful, were the discrete caps and the pay-as-you-go features of the BEA 1990, and an occasional Reconciliation Bill.

There are many other suggestions for control, some of which may be effective that may be effective, but this Committee well how tough it is to amend the Budget Act, so we may never experience them. For my part, I am convinced that if the Budget Act, or the Budget process, cannot help Congress control spending and deficits, its other functions are probably not worth the time, effort and money that we are currently investing in it.

Nevertheless, I am aware of the fact that the Budget Act's "Framers" were very careful to see that the Act did not seek a specific policy outcome regarding the deficit. Their intent, I believe, was to assert the role of Congress in setting fiscal policy and priorities rather than to dictate what the policy should be. I believe that they either overestimated Congress' fiscal sobriety, or underestimated its fiscal inebriation. Either way the Act was too permissive. Had it been written at the end of the 1980s, in a period of despair after 20 years of deficits, it might have contained a heavy anti-deficit thrust.

In 1974, I said on the floor of the House that the Act "Won't guarantee a balanced Budget, even though it makes balanced Budgets more attainable". I got the first part right, and the second, wrong.

Enforcement

Few elements are more basic to Budget systems than enforcement. Under the Budget Act, Congress has tried, in several different ways to enforce its Budget, but the results of the enforcement mechanisms used , described charitably, have been mixed.

In 1974, many important members of Congress expected that the Reconciliation Process might never be used. Most hoped it would not. In 1980, Congress tried it for the first time, and survived. So the process was not an unknown when it was employed in 1981 with reasonable effectiveness to impose spending reductions suggested by President Reagan. Naturally, the Congress, authorizers, taxers, and appropriators alike, hated the experience.

Not the least of the complaints were that the Congress was obliged to use its own process to enact, not its own priorities, but those of the President. And that, of course, happened again in the 1993 with the Clinton Economic Agenda, and in 2001 with the Bush Tax Cuts. On the latter two occasions, the Congressional majority was of the same Party as the President, so complaints were noticeably fewer.

The experiments with Gramm-Rudman-Hollings sequesters were exciting, but there was precious little enforcement. Whenever a sequester threatened, the Congress found a way to dodge the bullet. I suspect that this will always be true because ultimately Congress cannot, and usually will not, be bound. Stated another way, Congress can't even keep it promises to itself.

Even the Spending Caps and Pay-Go systems can ultimately be defeated, waived, ignored or allowed to expire each time Congress finds, as it inevitably does, that spending needs are compelling, or tax cuts are irresistible. My notion here is that Congress should build as many of these enforcement mechanisms as possible into the Budget process, with the hope that some of them may help sometime, but with understanding that all together they will seldom be helpful in controlling spending, or in enforcing Budgeteers' dreams.

Entitlements

Entitlements were large and growing in in the early 1970s, but Congress did not see them as a problem. The Budget Act did provide a regular opportunity for Congress to review the growing entitlement programs, but few people in 1974 harbored any inclinations about making changes or even doing any real oversight. Later Congresses had similar feelings. Today entitlement review has seems even less appealing.

The "third rails" of Social Security and Medicare have proved highly resistant to oversight and change. Congress was willing to make many small adjustments to reduce Medicare expenses in the 1980s, but none of them were important in the cosmic scheme of things. The big changes have all been increases.

Without the Budget Act, there is no way to make Congress address the Entitlement programs unless the country runs out of money. But there is no immediate prospect that Congress will use the Budget Process to take a serious look at the two big entitlements, or any other ones, either now or in the near future.

Review of entitlements ought to be mandated. Sunsets would help. But, whatever the rules, there is little reason to believe that Congress would want, or dare, to take them on. The Budget Act gave Congress a way to tackle them, but Congress would prefer not to do so until and unless the bankruptcy conditions of Social Security in1982 and 1983 are reproduced.

Congressional Agenda

I would be very surprised if the people who worked on the Budget Act of 1974 had any idea that it would so dominate the Congressional agenda. Setting that agenda and work plan is one thing the Budget Act has accomplished. There have been some years in which the Congress works on little else but the Budget and the Appropriations Bills that flow from it. When no Budget is passed, Congress just gulps and then revs up the spending machine.

Much of the criticism of the Budget process is that it has overwhelmed the legislative process. To me that is a positive development. The budget provides coherence and order to the process. The legislative process needed some order and discipline. Prior to 1974, each committee worked on whatever it felt like working on, unless the majority leadership could persuade it to handle pressing issues. The result was not exactly whimsical, but neither was it in any sense orderly.

Today, committees may feel that they would like to get out from under the Budget, but at least there is some system and plan than governs their actions. I don't believe that this was expected in 1974, but it is the one way in which the Act has had a real affect on the Congress.

Conclusion

In general, I have to celebrate the courage and success of the "framers" of the Budget Act. They were visionaries who wanted a stronger law, but produced the best one possible in the environment that existed in 1974. They were astonishingly successful, given the conditions prevailing at the time.

The Act was passed by a majority of Members of both Parties, many or most of whom hoped that it represented the least change that could then be accepted. They were right. It did not, and could not, produce the results that outside observers expected from a Budget process.

The “framers” knew it was not enough, but they hoped it could be developed through later years. It is the fault of those of us who followed that the Act has not been improved significantly. Like all organizations, the change-resistant Congress avoids risk and stays with processes and jurisdictions it knows, and likes.

Of the things we would like the Budget to do - restore Congressional control, set priorities, control spending, enforce limits, address entitlements, and set the Congressional agenda – only the last has been realized. To achieve the other purposes of Budgeting, substantial changes must be made in the Budget Act. But even more fundamental changes must be made in the attitude of Congress about its willingness to submit to fiscal discipline.

> **To set priorities** – The majority must be willing to lead, and Congress must be willing to take risks. The baseline does not have to be scrapped, but major alterations will be needed from time to time.
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> **To control spending, and enforce Budget limits** - Control and enforcement mechanisms are available. Congress has to enshrine them in law, and use them.
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> **To review entitlements** – The Congress could do it anytime, but without a forcing event, like bankruptcy or sunset, It probably won’t get done .

Budgeteers have tried for years to do all these things, but every year conventional Congressional wisdom easily defeats what seem to me to be desirable changes. It will take strong, dedicated, optimistic Budgeteers to stay the course and, ultimately, carry the day. I hope there are some left.