

Hearing before the Senate Budget Committee on

**Improving the Budget Process:
Strategies for More Effective Congressional Budgeting**

Tuesday October 4, 2011

Testimony of Maya MacGuineas
Committee for a Responsible Federal Budget at
The New America Foundation

Good morning, Mr. Chairman and Members of the Committee. Thank you for the opportunity to testify today on the important topic of improving the budget process. It is a privilege to appear before the Committee.

I am the President of the Committee for a Responsible Federal Budget. Our Co-Chairs are Bill Frenzel, Jim Nussle, Tim Penny and Charlie Stenholm, and our Board is made up of many of the past Directors of the Office of Management and Budget, the Congressional Budget Office, and the Chairs of the Federal Reserve Board and the House and Senate Budget Committees. I am also a member of the Peterson-Pew Commission on Budget Reform, which spent the past two and a half years developing a suite of recommendations to reform the budget process and released two reports—*Red Ink Rising* and *Getting Back in the Black*, which focus on the need to adopt multi-year budgetary targets and automatic triggers, in addition to a number of other budgetary reforms, which we believe can be a helpful part of fixing our budgetary challenges.

I share the belief that I believe many of you hold, that 1) our budget process is in many ways broken; 2) there are many reforms we can and should make to improve it; and 3) none of these changes will replace the hard choices that need to be made to fix our dangerous fiscal situation. In order to do that, we need to change our spending and tax policies, and the sooner we get a plan to do so in place, the better it will be for the fiscal and economic health of the country.

When it comes to the budget process, it is simply not working. Deadlines are routinely missed, appropriations fall behind schedule and lead to budgeting in bulk, and too many gimmicks are employed to get around the few fiscal constraints that remain. Most of the budget is on automatic pilot, and the entire process lacks the thoughtful contemplation that should be part of setting our national priorities and deciding how best to fund them.

The Committee for a Responsible Federal Budget and the Peterson-Pew Commission have made a number of recommendations to change the budget process, which fall under our 3-Ts of ***Targets, Triggers, and Transparency***, which we believe would be helpful, including:

- Setting a medium-term debt target and a glide path of annual debt and savings targets to achieve it
- Using broad-based budget triggers with no programmatic exemptions to ensure that targets are met
- Following the enactment of a deficit reduction plan to stabilize the debt, using additional triggers and spending and tax expenditure caps to keep any plan on track
- Requiring the President to issue annual progress reports on the effects of all newly issued legislation and progress towards longer-term fiscal goals
- Presenting new budget allocations compared to the previous year's levels as well as other baselines
- Reforming the way for which emergencies are budgeted
- Presenting tax expenditures by area alongside other spending in the same categories
- Increasing the level of scrutiny and oversight on tax expenditures

Today, I have been asked to focus the bulk of my remarks on biennial budgeting, which is getting a good deal of interest and attention, and which the Committee for a Responsible Federal Budget has long supported. I will also touch upon an extension of this that we at the Committee are particularly interested in at the moment—multi-year budgeting.

Under biennial budgeting, the country would shift from a one-year budget cycle to a two-year budget cycle. The traditional argument for this, and one the Committee agree with, is that it frees up considerable time to devote to better oversight of current programs. Improved oversight will by necessity, I believe, become a large theme of fiscal policy going forward. One of the greatest challenges we will have as a nation, given our fiscal realities, is how to do more and how to do it better in a period of constrained fiscal resources. Oversight is one critical component of making these improvements.

Currently, we actually collect considerable amount of data on the performance and effectiveness of various government programs – though we don't do nearly as good a job at collecting comparable information on tax expenditures. However, we don't do a particularly good job of integrating the findings of these metrics into the actual budget process. More time to better integrate these findings would presumably lead to improving or eliminating programs that are duplicative, underperforming, or mis-allocating resources. While ridding the budget of

waste, fraud, and abuse is never going to fix the budget on its own and has become a talking point that for years has detracted from the real issues of spending and tax changes, it is a necessary component of overhauling our budget. Whatever we can do to ferret out waste and improve performance, we should do.

Furthermore, biennial budgeting would give federal agencies more stability and free up some of the considerable time they must currently devote to budgeting. Much like putting in place a multi-year deficit reduction plan would help businesses and families by providing them with the stability they currently don't have, biennial budgeting would add more stability to the environment in which federal agencies operate. Organizations that receive government funding for things such as basic research would also be helped in their planning efforts by having a longer budget cycle. A longer cycle could also create better managerial incentives in terms allowing agency heads to determine when over the course of two years, rather than one, they should spend down their allotted resources.

There are certainly some legitimate arguments against two-year budgeting. Many people agree that the changes would free-up resources and allow for better oversight but are concerned about how biennial budgeting would work in practice. Some degree of flexibility would be lost, for instance, as agencies would be required to make their budget farther in advance. Others worry that agencies would be less responsive and accountable to Congress once their budgets were in place and protected for the following two years.

There is also a real concern that we would see a significant increase in the number of supplemental appropriations bills, thus creating a de-facto annual budget appropriations process. But this could be dealt with by tightening up restrictions for what can qualify as supplemental spending. Supplementals should only be used in the case of emergencies or in the face of unpredictable changes, not as a means to increase spending in general budget areas. This could also be addressed by improving how we budget for emergencies.

Finally, with the recent Budget Control Act of 2011 (BCA), the nature of budgeting going forward has changed, at least for the medium-term. With the adoption of 10-year spending caps for discretionary spending through 2021 as part of the budget deal, much of the work of the annual budget exercise has already been done, providing more to the argument that the budget need not be redone on an annual basis. This recent change is likely to breathe new life into the efforts to institute biennial budgeting.

I would like to make a number of suggestions of what a second year in a biennial budget system could be used for in addition to further evaluation and oversight.

One of the obvious advantages is that biennial budgeting frees up more time for oversight. But it also would free up time for deeper studies in a variety of areas related to the budget. One possibility that we at the Committee have long supported, would be to create a budget concepts commission. Such a commission would look into a number of issues, including many of those I mentioned earlier in my remarks, such as better accounting, particularly for long-term spending programs, fiscal exposures, insurance programs, and programs that are intended to be pre-funded; improving the construction and use of budget baselines; capital budgeting and dynamic scoring issues; tax expenditures; accounting for private securities; leasing and public-private partnerships; and trust funds. As the nature of budgeting continues to evolve, a freestanding budget concepts commission would likely prove immensely beneficial.

The second possibility is to spend more time focusing on determining national priorities and developing a more detailed analysis of all government tax and spending programs that are directed towards achieving those priorities. This practice is referred to in some other nations as portfolio budgeting and focuses on connecting all the various spending and tax programs by area to their intended objective. More time would be devoted to identifying and ranking national priorities than we have in our current budget process, which would allow policymakers to be more purposeful and transparent in setting budget priorities and determining how best to achieve them.

Related to this would be using the off years to engage in broader strategic planning for the nation. Currently, not only is there no fiscal roadmap for the country, there is no broader strategic path. Efforts to identify long, medium, and short-term goals; threats and new opportunities; changes in the political and economic environment, etc. would guide policymakers as they hopefully engage in a more thoughtful budget process and allow them to take a step back on a regular basis from the nuts and bolts aspects of crafting a national budget.

Finally, we might consider producing topical reports regarding the fiscal health of the country. Australia, for instance, issues its Intergenerational Report every five years, which assess the implications of current policies over a longer time horizon and looks at the effects of demographic change on economic growth. Past efforts in the United States to integrate generational accounting have been, while technically challenging, extremely illuminating. A deeper dive into topics such as the interconnectedness between federal, state, and local budgets or fiscal exposures due to contingent liabilities and implicit budget commitments would

be immensely useful in identifying, and hopefully avoiding, future budgetary challenges. Suffice to it say, there is no shortage of ways we could use the additional time freed up by budgeting over a longer cycle.

I'd also like to take a moment discuss the possibility of a multi-year budget. Right now the country needs a fiscal plan to get us to a sustainable debt level with the debt on a declining path relative to the economy. Such a plan will probably need to span a full decade, which is a reasonable amount of time to make progress on reducing the debt to around 65 percent of GDP—though beyond that, we need to continue to make changes to bring it back closer to its historical level of below 40 percent. Ideally, we would put such a plan in place immediately and allow many of the changes to phase-in more gradually both to allow people to adjust as needed and to allow the economy to continue to recover. But in order to be credible, there has to be a real commitment to sticking to the plan in subsequent years. So if such a multi-year plan is adopted as so many fiscal experts have recommended, the policy then should be to assume that ten-year plan remains in place for the decade, though with enough flexibility to make necessary changes along the way to account for external changes that arise without derailing the overall glide path to an improved fiscal situation. One of the purposes of putting a plan in place is to reassure credit markets and rating agencies, and provide families and businesses with the stability they need to plan, invest, and help grow the economy. If this plan is seen as something that can be changed dramatically year-to-year, it will not provide that security or stability.

Therefore, the Committee for a Responsible Federal Budget is currently most focused on how to encourage the adoption of a multi-year plan with the flexibility to make adjustments as needed, but also the enforcement mechanisms to ensure that it stays on track. In addition to adding more stability, multi-year budgets have the advantage of becoming the default budget and staying in place until they are replaced with a new budget, so such a change would end the detrimental practice of missed deadlines, last minute budgeting, and near government shutdowns.

I must emphasize that regardless of budget process improvements, the single most important thing we can do to improve the fiscal health of our nation is put in place a package of policy changes sufficient to stabilize the debt at a manageable level. The Joint Select Committee on Deficit Reduction has a remarkable opportunity to put in place reforms that will help set the country on an improved fiscal path. The \$1.5 trillion dollars in savings they are trying to achieve would be a significant improvement, though it is not large enough to stabilize the debt, and we believe the Joint Select Committee should work to focus on the largest problems in the budget – particularly entitlement spending on health care and retirement, in addition to the tax code –

and attempt to come up with larger savings in order to bring the debt back down to a sustainable level. Budget process reforms will be helpful in encouraging these policy reforms, and are critical in making sure they stick. However, the heavy lift will come from making the actual decisions about what spending to cut what revenues to increase, how to ensure that these changes are conducive to economic growth, and how to protect the many core principles and values that come into play as part of the federal budget.

Relying on a more rational timeframe for budgeting is one of the process changes we believe will have positive results. Accordingly, while I would urge Congress not to focus on process as a replacement for policy, biennial budgeting or multi-year budgeting would be a useful tool in helping to deal with America's significant budgetary and fiscal challenges.

Thank you again for the opportunity to testify today and to the many members of this Committee for your leadership on these critical issues. I look forward to your questions.