

Federal Budget Process: Recommendations for Reform

Published by

The Committee for a Responsible Federal Budget

This publication is the product of a project made possible by financial support
from

The "Big Five" Accounting Firms

Arthur Anderson LLP
Ernst & Young LLP
Deloitte & Touche
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RECOMMENDATIONS¹

JOINT BUDGET RESOLUTION—Congress and the President should agree on fiscal policy goals, i.e., aggregate revenues, expenditures, surpluses or deficits, debt levels or debt reduction targets, etc., and incorporate those agreements in a Joint Budget Resolution.

EXPENDITURE LIMITS—Joint Budget Resolutions should include enforceable nominal dollar limits for both discretionary² and direct spending³.

PAY-AS-YOU-GO (PAYGO)⁴—discipline should be maintained. Joint Budget Resolutions should include limits on projected surpluses available to offset new entitlements/revenue changes without PAYGO offsets.

BIENNIAL BUDGETS, APPROPRIATIONS AND TAX CYCLES should free up significant resources for other more productive purposes.

AUTOMATIC CONTINUING RESOLUTION—An automatic continuing resolution at or below the level of the caps contained in the most recently enacted Joint Budget Resolution should provide stop-gap funding in the event Congress and the President fail to reach agreement on some or all regular appropriations bills. Automatic continuing resolutions should be very restrictive. They could create compelling incentives for Congress and the President to agree on regular appropriations bills.

RAINY DAY FUND—"EMERGENCIES". Joint Budget Resolutions should include reasonable reserves against emergencies and other unforeseeable contingencies. "Emergencies" should be carefully and narrowly defined. There should be strong rules to govern expenditure of such funds. This could help to limit the number and frequency of very large so-called emergency appropriations.

THE BUDGET SHOULD DISTINGUISH CLEARLY BETWEEN SPENDING AND REVENUES. There should be strict limits on any receipts scored as negative outlays. Activities that have all the characteristics of spending programs should not be scored as tax expenditures. There is a difference between spending and taxes and budgetary presentations should make clear distinctions between the two.

ENHANCED RESCISSION should be enacted to take the place of line item veto.

BUDGET CONCEPTS COMMISSION—It is time for another Budget Concepts Commission. A concepts commission is the best approach to resolve technical issues and to address new issues as they arise. A new concepts commission should meet at regularly scheduled intervals of not less than 10 years.

¹ These are consensus views of our Board of Directors but do not necessarily represent the views of all directors on all issues. Neither do the recommendations necessarily reflect positions of the "Big 5" accounting firms that co-sponsored this project. For balance, we include with a fuller explication of the Committee's recommendations at the end of this report, the views of one of our Directors, Robert Reischauer. Dr. Reischauer disagrees with many of the Board's consensus recommendations.

² "Discretionary spending" comprises programs, projects and activities subject to annual appropriations.

³ "Direct Spending" includes entitlements and other mandatory spending.

⁴ "Pay-As-You-Go" or "PAYGO" rules require revenue increases or reductions in direct spending to offset new legislation that would reduce revenues or increase direct spending.

EXECUTIVE SUMMARY

"The budget is the key instrument in national policymaking. It is through the budget that the Nation chooses what areas it wishes to leave to private choice and what services it wants to provide through government...Budget formulation is a highly political exercise in the American democratic system, and it should not be otherwise. It is therefore essential that the budget be understandable, at least in broad outline, to as many of the public and their elected representatives as possible."

*—The President's Commission on
Budget Concepts, 1967*

The budget should provide an accurate reflection of policies proposed and adopted. Comprehensive and honest budgets promote accountability. Sound budget process promotes fiscal discipline. When politicians cannot agree on policy they tend to fall back on process. But no process can compel decision-makers to reach consensus. Policymakers may be tempted to resort to "blue smoke and mirrors" rather than admit that they cannot reach agreement on hard choices. Perversely, therefore, policy stalemates and effective budget process can combine to make it difficult to keep the budget comprehensive and honest.

The Congressional Budget process evolved in an era of persistent record high peacetime deficits and debt. For all the criticism here and elsewhere, the process helped to frame decisions that produced current surpluses. The Budget Enforcement Act (BEA) in particular was a significant first step toward cooperation between Congress and the Executive branch to achieve specific goals. In many respects, the recommendations contained in this report build on the successes of the BEA.

The Congressional budget process has succumbed to an all too human tendency. When we write rules, people tend to bend and break them. When we build fences and fail to tend them, people will find ways to breach those barriers. So much has happened, so many rules and concepts have been bent or broken that the total damage to the process is greater than the sum of the parts. As a result, even well intentioned, well-informed people have difficulty understanding the budget today and our broad public policy debates suffer as a consequence.

Current budget process debates revolve around two distinctly different kinds of problems.

The first is caused by surpluses. Surpluses are not the problem. But a process designed to ensure that policy actions do not increase the deficit can be frustrating in the current surplus environment.

For example, in 1990 PAYGO was designed to prevent Congress from adding to the deficit. It seemed clear to almost everyone involved in the 1990 budget debate that adding to the deficit (which was 4 percent of GDP and rising) would have been downright dangerous. PAYGO now makes it difficult to reduce the projected surplus. Reducing the surplus is a policy issue. It may or may not be desirable. But there is no broad consensus that spending increases and/or tax cuts that reduce deficit projections are dangerous to the economy or the nation.

Budget process must accommodate changing priorities. If it does not, eventually the process will break down. The existing process is heavily biased toward deficit reduction. Barriers to amending enforcement provisions probably are higher than they ought to be. As the budget shifts from deficits to surpluses, some question the need for continued restraint.

Political leaders are becoming more frustrated with rules they perceive to be unrealistic as surplus projections grow.

There are, however, budget process problems unrelated to deficits or surpluses. For example, our inability accurately to measure the size of the Federal sector relative to the overall economy would be a problem in any fiscal environment. Traditional definitions and budget concepts have become so blurred that they do not inform analysis, as they ought to do.

The budget process is the product of a series of compromises over twenty-five years. It is complicated, some would say convoluted. There is so much duplication and overlap that no decision ever seems to be final.

Though Congress and the President seem to spend an inordinate amount of time on budget-related matters, they never reach agreement on an overall fiscal policy plan for the national government.

Since 1990 nominal dollar caps have acted as a reasonably effective constraint on discretionary expenditures, but the more restrictive caps became the less effective they proved to be, and discretionary appropriations represent a shrinking piece of the budget pie.

PAYGO acts a brake on enactment of new direct spending legislation. But there is no effective limit on direct spending that results from laws already on the books.

The Federal budget includes a number of terms and presentations that are unusual, misleading or employed in unusual ways. Examples—

TAX EXPENDITURES that walk, talk, look and act like expenditure programs. The current lexicon frequently labels such items "targeted tax cuts". Examples include the higher education tax credits enacted as part of the 1997 Balanced Budget Act and tax credits for corporations that build plants and employ people in "empowerment zones". Decision-makers are drawn to such devices to avoid budgetary and political restraints. The effect often is to understate both expenditures and governmental receipts.

REFUNDABLE TAX CREDITS, on the spending side of the budget, are indistinguishable from other entitlement outlays. For example, the refundable portion of the Earned Income Tax Credit (EITC) is the second largest welfare program in the budget—and four times greater than revenue losses for that program.

NETTING, i.e., subtracting income from expenditures at the account level for selected programs and showing the net figure as program outlays understates costs and distorts the budget picture.

THERE IS A SERIOUS NEED TO REVISIT SOME BASIC BUDGET CONCEPTS.

Transparency and Universality are recognized as hallmarks of sound systems for public sector budgeting.

TRANSPARENCY refers to budgets that are easy to penetrate and understand.

UNIVERSALITY means simply that all governmental financial transactions should be reflected in the budget.

The budget has become less universal and less transparent over time as policy makers tried to avoid hard choices and/or escape accountability for the choices that they made. Too many decisions are made at the end of congressional sessions, in small rooms, with few participants. Too few Members of Congress fully understand the import and impact of such decisions. Too few feel invested in the outcomes of such deliberations. There is very little accountability when decisions are reached in this manner.

Thus the budget process is unsatisfactory in several ways. It places both too little and too much restraint on fiscal policy decisions. It does not produce an accurate picture of the government's financial condition and activities. It does little to hold Members of Congress accountable to constituents.

Historically, impetus to enact and amend the congressional budget process was essentially reactive.

In the 1970's, two overriding concerns led to enactment of the Congressional Budget and Impoundment Control Act. There was backlash against President Nixon's impoundments of funds contained in appropriations bills he had signed into law; and many members of Congress were frustrated that they had no mechanism to articulate a coherent alternative to the President's Budget.

Subsequent amendments to the process were driven by two concerns that very often clashed. On the one hand there was a need to control and ultimately eliminate record peacetime deficits. On the other hand, many Members resented the modest restraint that the budget process imposes on congressional prerogatives.

The current impetus for reform also is reactive but the specific stimuli are different. After twenty-five years of amendment and interpretation, many are disappointed with the process. Some problems are common to most public sector budgeting. For example, accountability, enforceability, measurement and the question of how to frame future challenges.

BIAS. There is a legitimate question whether the process ought to be biased at all, and if so toward what goal (s).

THE ROLE BUDGETING SHOULD PLAY in the overall decision-making process is an open question. Should it simply provide a framework to keep track of receipts and expenditures, deficits or surpluses, and debt? Should the process provide a mechanism through which Congress and the President set priorities, make choices and enforce fiscal policy limits once a budget is adopted? Should it do both?

Should the two policy branches of government reach agreement on one budget or should they continue to work on separate tracks?

DEFINITIONS. "Offsetting receipts," "tax expenditures," "net" receipts and outlays have been so stretched as to defy definition and distort budget presentations.

BEYOND PROBLEMS COMMON TO ALL PUBLIC SECTOR BUDGETS, THERE ARE ISSUES UNIQUE TO U. S. BUDGET such as --

TIMING, e.g., annual or biennial budgets;

SCOPE, i.e., 20± functions versus broader categories such as discretionary, direct spending, receipts, etc. versus some other aggregation and/or different aggregations in different years to reflect topical concerns;

ENFORCEMENT. What to enforce and how to enforce it?

EMERGENCIES, CONTINGENCIES and other exceptions to regular budget rules.

TECHNICAL ISSUES ALSO ARGUE FOR REFORM.

Technical issues may take on political importance as they affect decisions regarding popular programs or activities.

Technical issues include, but are not necessarily limited to the following -

ACCRUAL ACCOUNTING for certain categories of receipts and/or expenditures;

TAXES VERSUS MANDATES—for example, the Congressional Budget Office labeled proposed premium mandates in President Clinton's health care reform proposal taxes.

CAPITAL BUDGETING AND TRUST FUNDS. The President's Commission to Study Capital Budgeting made major contributions to the debate about this topic and they also recommended a Budget Concepts Commission.

The next Congress and the new President almost certainly will have to address budget process reform and fashion a more workable framework for debates on fiscal policy for the future.

We hope that this report will be of use to them and to that process. We thank the "Big Five" accounting firms for their support. Without that support, we could not have completed this project.

EVOLUTION – A BRIEF HISTORY

The Congressional Budget and Impoundment Control Act was born of frustration over President Nixon's exercise of impoundment authority. Also, in 1973 Democrats controlled Congress. Congress believed that the President's budget gave the Administration an incredible advantage: The President could describe economic goals and an entire legislative program in context, in one document. Congress had no vehicle similarly to describe alternative goals, policies and programs. Congressional leaders believed that a congressional budget could diminish if not eliminate the Administration's advantage in this regard.

Congressional desires to put stringent limits on Presidents' ability to withhold appropriated funds provided powerful impetus to passage of the Budget Act. Ironically the Federal courts effectively eliminated presidential impoundment authority before the Act could become law. But the great impoundment debate is a good example the law of unintended consequences at work.

For nearly two hundred years, Presidents determined not to spend, i.e., impounded,

KEY BUDGET PROCESS LAWS

- Budget Act of 1921 established the Executive budget and the Bureau of the Budget
- Congressional Budget Act of 1974 established the Congressional budget process, set up the House and Senate Budget Committees and the Congressional Budget Office, and reinvented the Bureau of the Budget as the Office of Management and Budget
- Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings or G-R-H) established deficit reduction targets and enforcement procedures (sequestration)
- Omnibus Budget and Reconciliation Act of 1993 (OBRA) extended discretionary spending caps and pay-as-you-go requirements through 1998
- 1997 Balanced Budget Act (BBA) extended discretionary spending caps and pay-as-you-go requirements through 2002.

appropriated funds. President Nixon's 1974 budget impounded funds for 102 programs. The President maintained that those programs were wasteful. Previous impoundments generally had been accepted, but this time States and local governments, and other potential recipients of the impounded funds sued in Federal court.

The President took the position that congressional authorizations and appropriations provided authority to the executive to spend money but did not mandate expenditures. Plaintiffs held otherwise. Few cases were tried. In all but one (HUD) plaintiffs prevailed. (The court rulings became known as the "Ash" decisions after Roy L. Ash who was OMB Director when the suits were filed.)

None of the decisions reached the Supreme Court. Nobody knows how the Court would have ruled. But the plaintiffs might have thought twice before filing their suits had they anticipated the evolution of budget rules under the Congressional Budget Act. Congressional leaders might have left well enough alone if they had foreseen budget caps, pay-as-you-go rules, reconciliation and sequestration.

Dick Bolling, John Rhodes, Ed Muskie and others who helped to write the 1973 Act said that Congress passed the law primarily because they thought it would put an end to impoundments. The Drafters of the Act knew it would not work. We know because they told us so. But none of them anticipated the evolution of the budget process as it actually has occurred.

PRIOR TO THE ACT, Congress received the President's budget and for all practical purposes disassembled it. The parts were referred to relevant committees.

APPROPRIATIONS COMMITTEES acted on requests for discretionary funding in at least thirteen separate bills each year. (Congress generally passed one or more supplemental bills as well).

AUTHORIZING COMMITTEES dealt with proposals for new direct spending or for changes to existing entitlements. They wrote laws describing program designs and rules and authorizing appropriations to carry out discretionary programs and activities.

TAX COMMITTEES acted (or didn't act) on revenue proposals.

The parts of the Budget never were reassembled. As a result of this piecemeal approach, Congress could not gauge the aggregate fiscal policy impacts of their spending and revenue decisions until after the end of the fiscal year when Treasury reported actual receipts, outlays, deficits or surpluses and debt. Periodically Congress acted to increase the debt limit, but debt limit votes simply recognize and accommodate spending and revenue decisions taken in the past.

The process described in the Congressional Budget and Impoundment Control Act of 1973 was fundamentally flawed. It was designed more to keep track of Congressional decisions than to enforce them. Final decisions were not supposed to be made until the end of the process—just before the beginning of a new fiscal year and after Congress disposed of most spending and tax legislation.

There were too many budget resolutions and Congress was supposed to budget one year at a time.

The first budget Congress adopted each year did not really count. Reconciliation came at the end of the process. If invoked it would have reversed work that had consumed much of the congressional session. But Congress never implemented the reconciliation process as it was described in the Act. Congress first passed reconciliation instructions in the spring of 1980. That effectively ended the two-budgets-a-year regime; but they did not change the law to eliminate the Second Budget Resolution until the Gramm-Rudman-Hollings Act in 1985. (Reconciliation instructions are included in budget resolutions. They tell specific Committees to report by a date certain

changes in laws to reduce spending, raise or lower taxes by specified amounts.) The original Act contained no effective enforcement mechanism. Budget committees had no legislative jurisdiction and no real power.

The process was supposed to be outcomes neutral. But large deficits overshadowed all other fiscal policy concerns for nearly two decades and Members soon sought to bias the process toward deficit reduction.

A series of deficit reduction initiatives failed to produce advertised outcomes. Consequently, there was increasing focus on enforcement. For the first half of the 1980's Congress used the "elastic clause"⁵ in the Budget Act to make the process more responsive to topical concerns.

In 1985, 1987, 1990, 1993 and 1997 Congress passed, and the President signed, laws formally to amend the Act and change the process.

⁵ §301 of the Act spells out (in subsection (a) "Content of concurrent Resolution on the Budget"; and in subsection (b) "Additional Matters in Concurrent Resolution". §(b) (4), sometimes referred to as the "elastic clause", says, "set forth such other matters and require such other procedures, relating to the budget, as may be appropriate to carry out the purposes of this Act."

Eventually Congress and the President achieved the desired goal. In Fiscal 1998, the consolidated budget was in balance for the first time in thirty years. In Fiscal 1999, there was an on-budget surplus.

There is a legitimate debate about whether the budget process ought to be outcomes neutral or whether it should be biased in favor of specific fiscal policy outcomes.

A biased process presupposes broad agreement around desired outcomes. For a quarter century, there was such a consensus around the goal of deficit reduction and budget balance. Now that the budget is in balance, the absence of consensus around appropriate fiscal policy goals impedes both budget formulation and budget process reform.

BASIC BUDGET CONCEPTS

TRANSPARENCY

To say that budgets are transparent is to describe our ability to look inside them and understand what we see. Citizens of average intelligence, willing to spend a reasonable amount of time to follow public policy debates, should understand the amount politicians propose to raise in taxes and how they would spend the money. In addition, citizens should be able to weigh competing policy proposals without attending a seminar or taking a tutorial.

The 1967 Budget Concepts Commission contributed significantly to the Budget process.

For two decades following enactment of the Budget Act, historically high peacetime deficits dominated budget debates.

The budget picture got bleaker. Choices became more difficult. The Budget Act demanded disclosure of a great deal of information that previously was not generally available.

Administrations of both parties abandoned traditional budget presentations. Administrations and Congresses resorted to complex accounting, shifting baselines and old fashioned "blue smoke and mirrors" to obscure budget options and outcomes. Transparency was a major casualty.

Today, it takes a real expert, a great deal of time, and access to considerable unpublished data to pierce the fog that shrouds most budgetary presentations. This is unhealthy.

Representative governments depend on the consent of voters for their legitimacy. Citizens need and deserve to know from where government gets revenue and how our tax dollars are spent. The polling booth is supposed to function as a market clearing mechanism. The political marketplace depends on transparency to function effectively. Thus, it is impossible to overstate the importance of transparency to the fundamental health of representative governmental systems.

UNIVERSALITY

Universality means that all financial transactions of the government should be reflected in the budget. We play games with ourselves when we take Social Security, the Postal Service, Highway Trust Funds and other programs "off-budget".

Taking something "off-budget" does not take it "off government". There are legitimate issues around the use of dedicated receipts, but we should be able to answer those concerns *and* recognize the aggregate impact of all financial activities of government in the budget.

Given current and projected surpluses, Social Security Trust Fund surpluses serve as convenient proxy for a more analytic approach to determine minimum amounts that will be devoted to debt reduction. This example illustrates that it may be politically attractive, even useful, to treat certain pots of money as special. Most economists agree that using budget surpluses to retire public debt is prudent policy. Debt reduction increases savings available for productive private investment and thus contributes to productivity and economic growth.

Thus, debt reduction can help the country meet the challenges that will arise as the baby boom generation retires. But there is no empirically correct amount of debt reduction. Social Security Trust Fund surpluses serve as a convenient "line in the sand".

There is no logical relationship between the size of the trust fund surplus and the amount of debt reduction that makes sense in a broader fiscal policy context.

Politics may compel decision-makers to dedicate 100 percent of those trust fund surpluses to debt reduction. Earmarking trust fund surpluses for that purpose probably will produce greater debt reduction than would be the case in the absence of that policy.

But in the final instance, the size and scope of government matters. A decision to raise or cut taxes or benefits for one program inevitably impacts on other areas of the budget. That is why it is important to include all governmental financial transactions in one comprehensive consolidated budget.

That is why the Administration and Congress continue to report consolidated receipts, outlays, deficits and surpluses, and debt—*notwithstanding the fact that they have taken Social Security “off-budget” several times.*

BIAS

Bias is a value laden word to describe the tendency of processes to produce certain kinds of outcomes. It is difficult, if not impossible, to design completely unbiased processes. Thus it is worthwhile to ask ourselves what kinds of outcomes we prefer—all else being equal—and take those preferences into account as we consider the biases that specific reforms may produce. In 1973 liberals argued successfully that the budget baseline should take into account current year spending, projected obligations, inflation, demographic changes and other factors to hold programs and service levels constant throughout the forecast period.

Conservatives have argued ever since to exclude from the baseline inflation and other factors—except as required by law. They say current spending should be the departure point for comparisons.

Neither baseline projections nor previous years' policies are the best starting point for formulating future policy. Budgets should

include planned expenditures and receipts for future years. Budget debates should make comparisons to current levels, planned levels *and* a current policy baseline. Combined, the three tell us how much spending and receipts are going up or down, whether the changes were contemplated in the last budget cycle and whether planned or projected changes will result in increased or decreased program levels.

If Congress and the President budget to phase out the xyz program, that activity is best described in future years as adhering to plan—not as a cut. If decision-makers plan a series of spending increases for a specific function, subsequent budgets should describe such changes as “according to plan”.

The actual and current policy comparisons are useful, but tracking progress based on past budget decisions could interject a level of political accountability that is absent from current budget debates.

Discretionary caps currently require Congress and the Administration to compare proposed and projected spending to past budget decisions. Notwithstanding so-called “emergency” appropriations that evade the caps, those statutory limits have proven to be more effective than any other approach to discipline the Federal budget process.

In the current debate over changing "PAYGO" rules we see an odd juxtaposition of liberal and conservative positions. By and large, liberals argue to maintain the current pay-as-you-go-rules, or relax them as little as possible, even though that could impede passage of entitlement expansions they support.

Some fear a large tax cut that could reduce total resources available to meet public needs at the Federal level; and some fear the impact of growing entitlements and tax cuts on discretionary spending for activities such as education, the environment, transportation, etc.

The budget process ought not to predetermine budget outcomes. But policy makers ought to consider the default option as they debate budget process reform.

If we are wrong about policy outcomes, do we prefer the result to be more or less expansive fiscal policy? What happens if Congress and the President reach an impasse—if they do nothing at all?

Political biases strongly favor expansive fiscal policy. Perhaps, therefore, process biases ought to be more restrictive. That could interject one more "check and balance" into the political system.

THE ROLE OF BUDGET PROCESS

Should the budget be a mirror, reflecting societal goals and aspirations or should it be a fence or series of fences to place limits around political behavior?

Adding up all the programs and policies you would like government to pursue may be an interesting and gratifying activity, but it is not budgeting.

When government budgets, it first divides national incomes between the public and private sectors. Government can make this decision because it has theoretically unlimited taxing authority. Within the public sector, the Federal budget allocates resources among competing priorities.

The 1973 Congressional Budget Act articulated a process better suited to keep track of spending and revenue legislation than to frame or constrain decisions on fiscal policy legislation. Congress was to pass a draft budget in the spring. Then they acted on individual spending and tax bills. At the end of the process, Congress adopted a final budget. They were supposed to change spending and tax laws just passed to fit within the budget, or change the budget to accommodate enacted legislation.

Not surprisingly, Congress changed the budget. In fact, Congress frequently adopted a second (amended) budget resolution in the fall—and a third (further amended) resolution the following spring.

Eventually, Congress did attempt to change spending and tax laws, i.e., reconcile them, to fit within the budget. But it was impossible to do so at the end of the year. Without changing the Act, Congress made the first budget resolution binding, effectively eliminated the second resolution, and institutionalized “reconciliation”.

The reconciliation process as we know it is to be found nowhere in the 1973 Act. Reconciliation rules and guidelines were written “on-the-job”—sometimes in budget resolutions, sometimes through consultation and negotiation in leadership offices, on the floor of the House or Senate, and sometimes through parliamentary challenges. Reconciliation rules have tended to be formalized, and incorporated in law, after the fact.

It is neither desirable nor possible to go back to a budget process that forces no choices and contains no teeth. Any effective budget process will impose some constraint on the

Committees that have jurisdiction over specific spending and revenue policies. Members will take issue with that. But “budget” and “restraint” are nearly synonymous concepts.

DEFINITIONS AND CONCEPTS

Definitions and concepts are easier to deal with than many other elements of the budget process. Labels neither determine, nor alter, the fundamental nature of a transaction, program or policy.

The Health Care Reform debate in the first Clinton Administration illustrates this point. Calling that proposal an employment-based private system did not make it so.

Calling taxes mandates did not fool anyone. It serves no useful purpose to kid ourselves about the nature of spending programs and tax policies. We ought not to label spending programs as tax cuts—nor tax receipts as “fees”—nor label some revenues as “negative outlays”.

The revenue side of the budget should reflect all governmental receipts; the expenditure side should reflect executive branch authority to incur obligations on behalf of the federal government (budget authority) and actual expenditures (outlays).

"Offsetting receipts", as defined by the 1966 Budget Concepts Commission, were supposed to account for "revolving funds".

"Netting" repayments against disbursements in direct loan funds—or user fees against outlays for related business-like activities and services of government was supposed to reveal the governmental cost of such activities, i.e., the cost to be charged to the tax base.

"User Fees", as described in the report of the Budget Concepts Commission were supposed to be charges for business-like activities of government. For example, receipts from operations of House and Senate Restaurants, or from the sale/lease of mineral rights. FDA charges for expedited processing of applications for approval of new food and drug products would appear to be consistent with this definition. Fees should be scored as receipts. Offsetting receipts are scored as negative outlays. Royalties from drilling

rights on the outer continental shelf offer an example of offsetting receipts. Administrations and Congresses, without respect to political party affiliation, have expanded the concepts of "Offsetting Receipts" and "user fees" beyond recognition. There are two reasons for this. They hope to avoid the "tax increase" label; and they want to increase spending; but they do not want to increase the budget caps or bust them.

Today, user fees and offsetting receipts both are "scored" as negative outlays. Negative outlays make it possible to increase expenditures without reporting an increase in total Federal spending. User fees may be good policy but this scorekeeping convention distorts budget reporting and should be severely curtailed.

The term Tax Expenditures describes revenue laws/policies that reduce, rebate or eliminate taxes that otherwise would apply to specific classes of individuals and/or activities. This may include deductions and credits that apply to millions of individuals and huge classes of activity, e.g., deductions for home loan mortgage interest and health insurance costs; it may describe provisions written very narrowly to benefit a small group of people and/or uncommon activities.

A number of tax expenditures seem more like spending programs than tax policy. Higher education tax credits might as well be grants to individuals from families that meet statutory income limits to pay for post-secondary education. Corporations may apply for certain tax credits if they set up shop in specific areas of specific towns and cities, employ people who meet statutory guidelines, and otherwise meet statutory criteria.

Refundable tax credits actually are grants. Some people don't pay taxes. Many pay little or no income tax. Treasury writes a check for the amount of refundable credit, for which the taxpayer is eligible, in excess of his or her tax liability.

The Earned Income Tax Credit is meant to offset some or all of the impact of FICA taxes for low-income workers. The refundable (grant) portion of the program has grown larger than regular Federal welfare costs. The more politicians attempt to subsidize the purchase of specific goods and services, e.g., education and health care, the more refundable tax credits we will see. Low-income families don't pay enough income taxes to take full advantage of credits large enough to meet all those social policy objectives.

"Net outlays" distort the impact of governmental receipts and spending on incomes and the economy even more than scoring "Offsetting Receipts" as negative outlays.

With offsetting receipts, we generally record separately expenditures (outlays) and receipts (negative outlays). This distorts bottom line outcomes but discloses the gross as well as net cost of a program.

Subtracting receipts from outlays, and recording only the difference in the budget may drastically understate the cost of a program. Indeed, exaggerating to make the point, we could report negative net outlays for the entire government this year. Treasury receipts will exceed total Federal expenditures, but that does not make government free. Government will spend nearly two trillion dollars.

Budget process reform should examine the basic concept of "net outlays" and whether this convention is needed or desirable.

The same holds true on the revenue side of the budget. There are a few programs, e.g., payments to states for their shares of offshore oil revenues, where we record net income in the budget, i.e., governmental receipts, less payments associated with those receipts.

This is as deceptive as the practice of recording net outlays and should be subject to the same degree of scrutiny in budget process reform.

Beyond being able to measure the size of government—beyond the potential to mislead—policymakers should be able to assess the likely efficacy of alternative approaches to meeting specific policy priorities. Treating expenditures and receipts as if they were fungible makes this task more difficult. Choosing among possible approaches to fund priorities based on political expediency is the antithesis of choice based on efficacy and efficiency, and the latter is most likely to deliver high-quality public goods and services.

NEW CHALLENGES IN THE NEW MILLENNIUM

In the current environment, four principal factors drive debates on budget process reform.

1. **FRUSTRATION.** Some who accepted restrictive rules such as PAYGO and discretionary caps, when that seemed necessary to reduce the deficit and balance the budget, resent restraints on the use of some or all projected on-budget surpluses to offset the cost of new programs and tax reductions.
2. **COMPLEXITY.** The current budget process grew like topsy. It is ridiculously complex. Duplicative roles and overlapping responsibilities spawn redundancy and lead to conflict between and among those charged with disposition of the same issues at different points in the process.

Many Members of Congress and their staffs believe that Congress is governed by arcane rules known to very few and subject to change almost without notice. Few outside government have the time, patience, or sufficient information to follow the budget process. This is one product of

evolution. Some changes are codified in law. Others are buried in unanimous consent agreements. Some rules began as tacit understandings. That puts tremendous power in the hands of those who know the rules, but it also and inevitably irritates almost everybody else.

3. **DISAPPOINTMENT.** The process rarely produces outcomes consistent with the promises budget resolutions seem to make. Sometimes it seems that likely budget outcomes are no clearer at the beginning of the fiscal year than before the budget process was enacted. Congress and the President rarely complete a budget cycle on time. Fiscal policy decisions seem never to be final. Members tire of debating the same issues over and over again.
4. **FUTURE CHALLENGES.** The U. S. population is aging. In little more than a decade, the baby boom generation's retirement, and a slower growing workforce, will put extraordinary demands on the budget and economy.

Current and projected Surpluses could mitigate transition pressures in Social Security reform, Medicare reform, tax reform, etc., the very actions necessary to meet baby boomers' needs in retirement and to meet the public service needs of the rest of the population at the same time. If we squander current and projected surpluses, it will be much harder to deal with the pressures that lie ahead. Thus, budget surpluses are good news in every way except the impact that they appear to have on fiscal discipline. And current budget rules do not lend themselves to debates on how best to use surpluses to address challenges that lie ahead.

Discretionary caps may constrain somewhat the urge to spend—but “emergencies” have become welcome events because they provide opportunities to increase spending above the caps. (Sometimes the only “emergency” is an uncontrollable urge to spend money.)

Legislation enacted in 1999 reversed some of the Medicare savings enacted in the 1997 Balanced Budget Act. It is not clear whether current rules permit the use of on-budget surpluses to

offset the cost of such legislation; but that did not matter. Congress and the Administration seem to have reached an informal agreement that anything goes, so long as they do not have to dip into Social Security Trust Fund surpluses to pay the bills.

The budget process is a weak bulwark against such pressures. It focuses on short-term priorities, not on longer-term challenges. The budget process advantages anything that is in the base, i.e., the baseline assumes that every program and tax policy on the books now will continue indefinitely into the future. Proponents must come up with offsets, i.e., cut an existing program or raise new revenue to pay for new priorities.

For example, if Congress appropriated money last year to build a dam, eliminating the cost of that dam from the current budget inevitably will be described as a cut—even though we may not need to build another dam this year. If they want to build new prisons, those costs are described as increases. A proposal to transfer the dam money to pay for prisons may be twice cursed: first for cutting water

projects; and second for proposing to increase spending.

The bias in favor of the status quo is especially strong in the case of entitlement programs. Entitlement benefits continue until and unless Congress passes and the President signs a law to change the rules. And you can ask any lobbyist, it is much more difficult to enact a new law than to stop passage of any piece of legislation.

All of these concerns argue for budget process reform today. We believe, however, that the budget process debate should be expanded to include all of the issues addressed in our recommendations.

ISSUES UNIQUE TO CURRENT U.S. BUDGET DEBATES

TIMING

The Senate Budget Committee Chairman (Pete V. Domenici, R. NM), a majority of House Members, and many other experts believe the country and the Federal government would be better served by biennial budget and appropriations processes.

Proponents of annual budgeting argue that Congress and the President would

give up too much flexibility to meet changing priorities if they changed to a biennial process.

In any event, much of government remains relatively unchanged over time. Proponents of biennial budgeting say that a two-year process would free up resources and encourage Congress to devote more time and attention to authorizations and oversight.

Finally, some say that biennial budgets would reduce upward pressure on spending and bring more stability to governmental financial transactions.

SCOPE

The Congressional Budget and Impoundment Control Act of 1973 deliberately set up budget functions different from appropriations categories. Government is managed departmentally. Thus it is appropriate to ask how much should be appropriated to the Secretary of Education, or Defense, etc. But we plan functionally. The Department of Defense manages most national security programs, but the Department of Energy manages nuclear weapons research. Nuclear weapons research belongs in the national defense function of the budget—but the money is appropriated to the Secretary of Energy.

Budgets are supposed to be broad fiscal policy plans. Over time, Congressional budgets have come to include specific assumptions at the sub-function or even program level—angering authorizers and

appropriators and getting away from the basic idea of a budget.

With the advent of discretionary budget caps and pay-as-you-go rules, it has become necessary to include "mandatory" and "discretionary" totals in the budget. Many argue that functional detail is unnecessary. Should budgets contain 19 or 20 or more functions; or should the budget be limited to broader categories—e.g., direct and discretionary spending and such levels of detail as seem appropriate given current budgetary concerns?

JOINT V SEPARATE EXECUTIVE AND LEGISLATIVE BRANCH BUDGETS

The President sends a budget to Congress every year. Most years, Congress passes a concurrent resolution on the budget or Congressional Budget. Congress rarely votes up or down on the President's Budget—and never in modern memory has adopted the President's Budget. The President does not sign and cannot veto concurrent resolutions. Thus, Congress and the President never do agree on a budget.

The Executive and legislature eventually do agree on appropriations for discretionary programs for the budget year, generally just before or after the beginning of a new fiscal year. Sometimes they agree on changes to specific direct spending programs or revenue laws.

Many political leaders and budget experts agree that it is imperative for Congress and the President to agree on one plan.

The existence of an agreed plan would diminish the importance of so-called "baseline" debates. Moving many of the big budget compromises forward would be conducive to more deliberate consideration of substantive tax and spending legislation and ultimately to better public policy.

ENFORCEMENT/CONTROLS

The most important enforcement mechanisms in the 1973 Act were—

- A point of order in the House and Senate against any bill, amendment, or conference report that would cause total budget authority and/or outlay amounts contained in the most

recently enacted budget to be exceeded;

- Points of order against consideration of any legislation that would create new spending authority or reduce receipts first effective in a year for which no budget resolution had been adopted; and
- A requirement that new direct spending legislation be referred to the Appropriations Committees of the House or Senate, so they could comment on possible impacts on future discretionary spending.

The point of order against breaching the aggregate spending limits in the budget did not work. Most often it lay against the last bill Congress considered.

Frequently, the last bill was Defense Appropriations or other "must" legislation. Congress could choose to waive the point of order, to cut bills recently enacted or force the last bill they considered each year to bear the brunt of aggregate budget overages throughout the year. Obviously, they almost always waived the point of order.

The rules have been amended to permit House consideration of appropriations beginning May 15, even if Congress has not adopted a budget by that time.

Clearly, however, enforcement provisions contained in the 1973 Act were not equal to the deficit reduction task Congresses and Administrations faced in the 1980's and into the 1990's.

GRAMM-RUDMAN-HOLLINGS

The Emergency Deficit Control and Balanced Budget Act of 1985, better known as Gramm-Rudman-Hollings or G-R-H for the authors, was Congress' first serious attempt to limit spending under existing laws and policies. Previous enforcement mechanisms had attempted to put a break on enactment of new budget busting legislation.

SEQUESTRATION

- First enacted as part of Gramm-Rudman-Hollings, sequestration is a system of automatic semi-across-the-board cuts, triggered by circumstances spelled out in law.

- Almost all discretionary spending is eligible to be sequestered. The President can protect Military pay. Some other programs/activities are protected wholly or in part by statute.
- Social Security cannot not be sequestered, but within limits Medicare can.
- The initial G-R-H statute relied on the Comptroller General, as mediator between the Office of Management and Budget and the Congressional Budget Office to determine whether sequestration would be triggered – and if so how large it should be. Members of Congress (Led by Mike Synar (D OK)) sued. The courts held that this was an unconstitutional delegation of Executive authority to the Comptroller General who does not serve at the pleasure of the President. The courts upheld Synar.
- Subsequently, Congress amended G-R-H, giving OMB the final say on whether sequestration is triggered and how big any cuts would be. At the same time, Congress reaffirmed the sequestration that already had gone into effect lest the courts overturn that action based on the Synar decision.

G-R-H FAILED FOR TWO REASONS—

1. It attempted to enforce deficit levels. That is the wrong target because deficits are derivative of expenditure and revenue levels, and because very minor changes in economic conditions and technical estimates can cause wide swings in the deficit.
2. The limits established in law were unrealistic. Actual deficits were bound to be much higher than the limits contained in the law every year. There never was a real chance that actual deficit levels would conform to the statutory limits.

BALANCED BUDGET ACT (BBA).

Twice having amended G-R-H, and having conjured up a fair amount of blue smoke and mirrors to limit or avoid sequestration, Congress and the President adopted a new approach to enforce the 1990 Balanced Budget Act. The Budget Enforcement Act was an important first step toward forging agreements between the executive and the legislature to achieve specific fiscal policy goals.

Most of the committee's current recommendations for budget process reform are based on successes of the BEA.

- The BEA wrote nominal dollar expenditure caps into law-- separate caps for defense, international and domestic spending in the early years, aggregate budget authority and outlay caps in the last three years.

Establishing a pattern that has obtained since that time, the caps were quite generous in the first year, becoming more restrictive with the passage of time.

If discretionary spending is projected to cause one or more cap to be exceeded, sequestration reduces pro-rata all eligible programs and activities under that cap. It does not matter whether outlays derive from prior year budget authority or new legislation—or some combination thereof—any overage causes a sequester. (There is a fudge factor to keep a very small breach from triggering sequestration.)

- Pay-As-You-Go or "PAYGO" rules are designed to ensure that enactment of new legislation does not increase direct spending, reduce revenues, or widen the deficit. Entitlement increases or revenue reductions must be offset by reductions in entitlement spending or revenue increases.

If spending under current laws and policies exceeds budget estimates nothing happens. If new legislation is enacted that widens the deficit due to increased direct spending or reduced revenues, sequestration is triggered and applies to all eligible direct spending accounts.

SINCE 1990, THE BEA HAS BEEN AMENDED TWICE—as part of the 1993 Omnibus Budget Reduction Act, and in the 1997 Balanced Budget Act.

Both times, existing discretionary spending caps went up a lot for the budget year but got tighter in subsequent years, contributing significantly to the savings and deficit reduction each bill was supposed to achieve.

Both times, Congress and the Administration tweaked the rules for

adjustments to the caps and gave themselves a little wiggle room.

The sequesterable base has expanded somewhat since 1990.

So-called "emergency" spending is not subject to the caps. Congress and the Administration must agree to designate something an emergency. Otherwise, there is no real limit to what they can call an emergency. The outlay caps for 1999 and 2000 have been adjusted upward by \$25-\$30 billion⁶ for emergencies and other requirements, most of it for routine operating costs of government. (Only 8 states have total budgets in excess of \$25 billion per year.⁷)

In 1997, a bipartisan group of House Members attempted to amend the balanced budget act to require the President and Congress to agree on a Joint Budget Resolution, to add nominal dollar caps for entitlement spending (enforced by sequestration), revenue enforcement, and rules to close the "emergency" loophole.

⁶The Budget and Economic Outlook, Fiscal Years 2001-2010. January 2000, Congressional Budget Office.

⁷ Statistical Abstract of the United States, The National Data Book, U.S. Department of Commerce, Economics and Statistics Administration, Bureau of the Census.

Elements of that amendment are reflected in most subsequent budget process reform legislation.

BUDGET PROCESS REFORM THIS YEAR —

The President's Budget last year raised the possibility of a joint budget resolution and argued the need to tighten controls over emergency spending. This year's Budget proposes to change the discretionary spending caps. It argues that the new caps should grow to keep pace with inflation. The Budget also supports enhanced rescission.

The Senate Budget Committee maintains that paygo rules do not apply to legislation, the effect of which would be to diminish an on-budget surplus but not cause the government to incur an on-budget deficit.

A number of bills have been introduced to codify the Senate Budget Committee position, including the Nussle-Cardin bill H.R. 853.

Several bills (including Nussle-Cardin) would require Congress to pass a joint Resolution. (See diagram at page 42.)

The Nussle-Cardin bill, reported from the House Budget Committee, addresses most of our Committee recommendations, with one major exception. The joint resolution would contain amounts for entitlement spending, but it would not include enforceable entitlement caps.

Congressman John Spratt (D NC), Ranking Democrat on the House Budget Committee, has introduced enhanced rescission legislation. It seems likely that the same majorities in both bodies that supported line item veto (since declared unconstitutional) will support enhanced rescission in its place.

The Senate Budget Committee Chairman has introduced legislation to shift to a biennial budget and appropriations cycle. Two hundred forty-five House members signed on to House Resolution 396 supporting biennial budgets and appropriations.

Several bills and resolutions seek to ensure that Social Security Trust Fund surpluses cannot be used to pay for non-Social Security activities—and once again to "take Social Security off-budget".

Heaven knows how many times Congress will pass such legislation, but the amount they spend for everything else ultimately will determine whether or not Social Security Trust Fund receipts are used to pay for other programs, activities and functions of government.

Most of the legislation currently before congress is intended to scratch this year's itch, i.e., to re-write (or clarify) paygo rules for an era of surpluses, to address in some fashion the embarrassment surrounding emergency spending, and/or to convert to a biennial budget cycle.

Most of these bills would not eliminate the duplication, overlap and redundancy in existing law nor truly reform the process to meet future needs. Most do not claim to do so.

ENFORCEMENT BASED ON EXPENDITURE LIMITS

Decision-makers in democracies that have balanced budgets (including our own) by and large agree—the key to budget discipline is expenditure discipline. H.R. 853 would not establish limits on entitlement spending, but it moves in that direction—proposing to write into law direct spending targets.

There is no objectively right level for Federal spending. The right level best is judged by taxpayer support expressed as a willingness to pay taxes sufficient to pay the bills. If political leaders reach agreement on how much government should spend, and keep spending within budgetary limits, we are unlikely to return to a regular regime of rising deficits and debt.

The Committee for Responsible Federal Budget supports H.R. 853, but we believe that there should be caps for mandatory as well as discretionary spending. Caps should be expressed in nominal dollars. They should be adjustable for actual changes in economic conditions and demographics, where such factors affect spending levels, e.g., entitlement caps should go up to accommodate rising unemployment. Automatic changes to the caps should be rare and strictly proscribed in law. Congress and the President should be able to change the caps at any time—provided any Member of the House and Senate may demand a separate vote solely on that issue.

The caps contained in the most recently enacted joint budget resolution should continue in force until new or amended caps are enacted.

Caps should be enforced through sequestration, and sequestration should operate to create incentives for committees to conform expenditures for programs within their jurisdictions to the limits contained in the budget. Thus sequestration should be triggered only when aggregate spending for a major category (discretionary or direct spending) exceeds the total cap. But once triggered, sequestration should reduce spending only for programs in the offending categories, i.e., categories that caused the overage.

Sequestration should be triggered, at the beginning of the year, if spending is projected to exceed statutory limits. Sequestration should be triggered any time in the first three-quarters of a fiscal year, if new legislation is projected to cause an overage. If legislation enacted in the final quarter of a fiscal year is projected to cause an overage—or if actual expenditures for the fiscal year just completed exceed statutory limits—the caps for the new budget year should be adjusted downward to make up the difference.

EXCEPTIONS, E.G., CONTINGENCIES, EMERGENCIES, AND NEW PRIORITIES.

The foregoing enforcement section points out that so-called emergency spending is exempt from statutory caps that otherwise limit discretionary spending. The Administration and many Members of Congress criticize the abuse of this provision. Most budget process reform proposals attempt to address the problem.

Many would establish a contingency fund as part of the fix.

With the advent of expenditure caps, however, another issue has arisen. The caps tend to become floors. Outlays from prior years' budget authority may crowd out current priorities. Caps have tended to become more restrictive, in the out-years, 3-5 years after adoption of the most recent revisions.

Caps are the most effective expenditure mechanism ever attempted to place real limits on Federal spending and enforce the limits we set. But Members of Congress begin to feel as if there is no truly discretionary money in the budget at all.

The question is: How to create room under the caps to fund new high priority programs and initiatives—or at least to put such new initiatives on equal footing with programs and activities that are “in the base”?

Should there be some sort of “Sunset” rule that requires Congress and the President to reauthorize all existing expenditure programs, on a rotating basis, over some period of time?

Should there be a higher barrier than exists in current law, e.g., points of order or super-majority votes, to impede funding for programs that are not reauthorized on schedule?

Is there a way to create a pot of truly discretionary money under the caps?

How much is too much? Demand truly does appear to expand to subsume available resources—and in subsequent years seems to equal last year’s spending, plus inflation, plus an allowance for new initiatives.

Political pressures to increase spending are not new. What is new, or worse than it used to be, is the assumption that

everything in the base is inviolable. Therefore, any new program, activity or priority must mean a real increase in government expenditure. It appears that part of the emergency problem is the desire to take credit for spending above the baseline for high priority initiatives.

Is there a way to accommodate that demand within an expenditure-limited environment and if so how?

Is it possible to provide a real contingency fund—one that would not be expended as part of the regular annual appropriations process? How?

TECHNICAL ISSUES

ACCRUAL ACCOUNTING. Government operates a number of insurance programs and accounts for them on a cash basis. The annual inflows and outflows of cash provide little indication of the long-run subsidies provided to the beneficiaries of those programs. The cash flows provide little warning of problems looming over the horizon. For example, the problems of the thrift industry and the consequent threat to the financial health of the government’s deposit insurance fund were known long before the extent of the problem showed up in the fund’s cash flows.

If accounting for the fund had been done on an accrual basis, the Congress might have been induced to act more quickly, thus saving tens of billions of dollars.

Similar problems afflicted the government's credit programs before the Credit Reform Act of 1990 (CRA).

Cash accounting often made it appear as though a new loan guarantee program reduced the deficit because of the fees it charged.

In actuality, those fees were not sufficient to cover the contingent liabilities created for the government in the long run. Conversely, direct loan programs looked far more expensive than they actually were in that the large cash disbursement occurring when the loan was made was recorded immediately, whereas loan repayments were reflected in the budget as funds were received.

The CRA fixed the problem by accounting for credit programs on a present value basis. The excess of the present value of the outlays associated with a program compared to the present value of its receipt measures the subsidy provided to borrowers.

Many advocate a similar approach to accounting for insurance programs. Estimating future liabilities may be more difficult than with credit programs, because insurance programs often insure against catastrophic events that have a very low probability; e.g. the explosion of a nuclear plant. Small changes in the analysts' estimate of the probability of a catastrophe can mean very large changes in the estimated cost of a program and the subsidy that it conveys. But underwriting, i.e., projecting risks and costs accurately, is the essence of insurance. The subsidy conveyed by many insurance programs is much easier to estimate; e.g. veterans' life insurance and mortgage insurance. It has been suggested that we start gradually with the easiest cases and further study how to deal with those that pose difficult conceptual problems.

There also arguments for applying accrual concepts to the analysis of tax provisions that have long-run impacts that differ considerably from their short-run impacts, e.g., under reasonable assumptions traditional IRAs and Roth IRAs impose the same revenue loss over the long run. However, the truncated time horizons used by the budget process to evaluate tax changes makes the Roth IRA appear much cheaper.

CAPITAL BUDGETING

Capital budgeting is a very popular concept with many individuals and groups for many reasons. On the one hand, proponents argue that the private sector, State and local governments use capital budgeting to match expenditures that have long-term benefits to streams of revenue to be realized over the useful life of physical assets. On the other hand, many experts fear that a capital budget for the Federal government would create a privileged class of expenditure. They fear an overwhelming temptation to include high priority items, along with a lot of pork barrel spending, in the capital budget.

Many differences derive from discussions of a Federal capital budget as if it applied only to the expenditure side of the budget. If it were necessary to identify and raise revenues to pay for capital expenditures—and budget for depreciation—the capital expenditures would appear as costly as any other budget outlays.

Even if capital expenditures appeared as costly as other government programs, there is a risk that the label "investment" could create a cache and advantage expenditures included in that category.

That leads to the problem of definitions. Reasonable people can and do disagree about just what constitutes capital expenditures in the Federal sector. Education is included as a capital expenditure in the Special Analysis that accompanies presidential budgets. Some experts say all defense spending—including hardware—should be scored as an operating cost to the government. Thus, they worry about the capital budget concept expanding to include inappropriate (but popular) programs.

The President's Commission to Study Capital Budgeting report makes major contributions to this debate, especially in the area of definitions. That Commission reached the conclusion that the issue should be considered in broader context by a new budget concepts commission.

The Federal budget already reflects "budget authority", "contract authority", or "new obligation authority" in the year in which we commit to major long-term investments. Investment outlays are recorded as they occur. The budget impacts would not be much different if we had a capital budget.

The real problems around Federal investment spending derive from competing priorities and presentation.

Outlays from prior year commitments impinge on high priority spending in the budget year. Decision-makers may be tempted to lease rather than purchase physical assets to avoid very large commitments of budget authority up front and very large outlay tails.

Leasing may prove counterproductive. Leases may impose a larger mortgage on future resources than purchases because the government will have to enter new agreements when the leases expire.

Future costs are not reflected in the budget. The budget does record contractual commitments for as long as those commitments continue. Nonetheless, it is not at all clear that investment spending is disadvantaged in current budget debates.

Spending for programs that create jobs and other visible benefits are very popular back home. Spending for highways and airports received preferential treatment in legislation before Congress last year, notwithstanding generally tight budgetary restraints.

Capital budgeting is one of a series of problems around presentation and priorities posed by the current budget process. Reform

should address all of those issues. Given the attention focused on capital budgeting in recent years, reformers probably should pay close attention to any bias against investment spending that may exist in the current or proposed budget processes.

TRUST FUNDS

Experts and non-expert cynics both have remarked that there is no trust in Federal trust funds. That is unfortunate because such funds exist largely to assuage anxiety around very popular programs. The "trust fund" nomenclature is familiar to most people and we think we know what it means. But Federal trust funds are subject to none of the rules and regulations intended to protect and maintain fiduciary responsibilities in private trust funds.

Federal trust funds are an accounting device, generally intended to keep track of dedicated receipts and calculate obligations (implied or statutory) for government to deliver specific payments or services based on those payments.

We probably ought to abolish the term trust fund from the budget vocabulary. But that would be very hard to do.

Budget process reformers should consider creating substantial barriers to the establishment of new trust funds. To the extent possible a reformed budget process should more accurately describe trust fund programs in terms that describe what they are supposed to do and how they are supposed to work—in language most people can understand.

When Congress and the President dedicate revenues from specific sources to pay for particular programs, they create a presumption with regard to appropriate expenditure levels. Sometimes they write those expenditure levels into law, in the form of entitlement benefits and formulae. If dedicated receipts fall short of amounts needed to fund planned expenditures, there often is tremendous pressure to make up the short-fall from general revenues.

In the case of the Highway program, Congresses and Presidents have spent significant general fund resources on trust fund programs since the trust fund was established. Nonetheless, there is tremendous pressure to spend all trust fund collections on highway trust fund program.

The difficulty with this presumption about appropriate levels of expenditure for specific programs best can be illustrated by an extreme example. If we found ourselves in another World War, almost everybody would agree that we could cut back on trust fund programs, and redirect resources to fight the war. The principal also holds true in less extreme circumstances.

Priorities change over time. Congresses and Presidents must be able to redirect resources away from lower priorities as new, higher priorities emerge. That is the difficulty with earmarking huge parts of the budget years into the future. And that kind of earmarking is the main point of most so-called trust funds in the Federal budget.

Budget process reform should focus on ways to clarify the fact that those trust fund reserves held in the form of U.S. government debt are liabilities, not assets, on the government's balance sheet.

A reformed process should disclose whether dedicated taxes likely would be sufficient to meet future commitments.

The process should disclose future claims on general funds to meet trust fund obligations—and the implications for other programs, for future flexibility, the overall size of government, tax burdens and future borrowing.

MANDATES

There are two major issues around mandates—

1. Almost all economists, experts and analysts agree that political decisions to direct the use of resources toward public policy purposes ought to be transparent—that political leaders be accountable for such actions.
2. There is a great deal of controversy within the economic/ analytic/ expert community about the budgetary treatment of mandates, i.e., when a mandate becomes a tax.

The Clinton Administration proposed health care reform, and recent Social Security reform debates, illustrate dramatically the temptation to employ mandates to direct resources to specific public purposes without raising taxes. It is not always easy to determine exactly at what point a mandate stops being a mandate and becomes a tax. This may be a topic for a new budget concepts commission. In the meantime, it is imperative to make such distinctions based on

the characteristics of the proposed activity—not on labels.

RELIANCE ON “SCOREKEEPERS”

Budget enforcement relies to an extraordinary extent on Congressional Budget Office and the Office of Management interpretations of budget concepts and scorekeeping conventions.

Experts play a crucial role to inform the political debate. Policymakers ought to have the best possible estimates of likely impacts of proposed actions before they enact economic policy legislation. But the experts are most comfortable and effective when there exists broad consensus around concepts and clear definitions of terms.

The professionals at CBO and OMB are not supposed to make policy. CBO and OMB are no more comfortable than their political masters when their decisions seem to direct rather than inform policy. Both policymakers and the professionals who serve them do best when there is wide understanding of and agreement about what ought to be reflected in the budget, how and why.

January

President's Budget Submitted to Congress

House Budget Committee
Formulates Budget Resolution

Senate Budget Committee
Formulates Budget Resolution

House Floor Votes

Senate Floor Votes

Budget Conference Committee
Reports our Concurrent Resolution on the Budget

April

House Floor Votes

Senate Floor Votes

•Concurrent Resolution on the Budget does not require President's signature
•Spending Allocations and reconciliation instructions (optional) sent to Committees of jurisdiction

House Authorizing
Committees Report
Changes
in Law to comply
with Budget Resolution

House Appropriations
Committees Report
Appropriations bills
consistent with
Budget Resolution

Senate Appropriations
Committees Report
Appropriations bills
consistent with
Budget Resolution

Senate Authorizing
Committees Report
Changes
in Law to comply
with Budget Resolution

House Authorizing Committees'
recommendations submitted to
House Budget Committee

House: 13 Separate
Appropriations Bills

House: 13 Floor Votes

Senate: 13 Separate
Appropriations Bills

Senate: 13 Floor Votes

13 Conference Committees

13 House Votes
on Conference Reports

13 Senate Votes
on Conference Reports

President may sign or veto
the 13 appropriations bills

House Votes
on Reconciliation

Senate Votes
on Reconciliation

Budget Reconciliation Conference Committee
Sub-Conferences held by Authorizing Committees

House Votes on: Reconciliation Bill

Senate Votes on: Reconciliation Bill

President may sign or veto
Reconciliation Bill

September

RECOMMENDATIONS

1. **JOINT BUDGET RESOLUTION.** Congress and the president should agree on one budget for the country. So long as the two policy-making branches of government work from separate budgets, there really is no such thing as a budget or fiscal policy plan for the country.

The Joint Budget Resolution should include fiscal policy goals—aggregate revenues and expenditures, surpluses or deficits, debt levels and/or debt reduction targets.

2. **EXPENDITURE LIMITS.** Expenditure discipline is the key to budget discipline.

There is no objectively right level for Federal spending. The right level is the one we will pay taxes to support over a reasonable period of time. If political leaders agree on expenditure limits, and keep spending within the limits they set, we are unlikely to return to a regular regime of rising deficits and debt.

There should be separate caps for defense, and non-defense discretionary spending—separate caps for large entitlement

programs and a residual category for “all other” direct spending—and additional caps as needed. Caps should be enacted as part of the joint budget resolution.

Caps should be enforced through sequestration. Sequestration should be triggered by a breach of the aggregate limit(s) for discretionary or mandatory spending. Automatic reductions ought to apply only to the categories that cause the breach.

3. **PAY-AS-YOU-GO (PAYGO)** discipline should be maintained. Joint Budget Resolutions should spell out the amounts of any projected surpluses available to offset entitlement increases and/or revenue reductions. Entitlement increases and revenue reductions, in excess of amounts contemplated by the budget, should be subject to pay-as-you-go rules.

4. **RAINY DAY FUND – “EMERGENCIES”.** Most States maintain “rainy day” funds as buffers against unanticipated budgetary pressures. Surprises almost always cost money. It is important to set aside a reasonable reserve against emergencies and other unforeseeable contingencies.

Nothing can keep Congresses and Presidents from enacting so-called emergency spending in excess of any amounts set aside for contingencies. Coupled with strong rules governing the use of such funds, however, budgeting for contingencies could do much to eliminate the embarrassing, recurring pattern in recent years of very large so-called emergency appropriations bills. Further to ease pressures for emergency appropriations, Presidents should not be permitted unilaterally to make loans to States to meet matching requirements, nor should they be able unilaterally to waive repayment for such loans.

5. BIENNIAL BUDGETS, APPROPRIATIONS, AND TAX CYCLES. A biennial budget cycle should free up significant resources in the executive branch and on Capitol hill—resources that could be redirected to more pressing priorities.

But biennial budgets coupled with annual appropriations and tax legislation almost certainly would prove to be unsatisfactory. There should be substantial barriers to enactment of spending and tax legislation in non-budget years, else Congresses and Presidents well might drift back toward an annual cycle as spending and tax legislation seems to be more compelling than authorizations and oversight.

7. AUTOMATIC CONTINUING RESOLUTION. An automatic continuing resolution at or below the level of the caps contained in the most recently enacted budget should provide stop-gap funding in the event Congress and the President cannot agree on some or all regular appropriations bills.

If there are no caps, the automatic continuing resolution should hold spending below the current level, to provide an incentive for passage of regular appropriations bills.

8. SPENDING IS SPENDING AND RECEIPTS ARE RECEIPTS. THE BUDGET SHOULD DISTINGUISH CLEARLY BETWEEN OUTLAYS AND REVENUES.

There should be strict limits on offsetting receipts, user fees and other net outlays. "User fees", "offsetting receipts" and "negative outlays" have been sorely abused in recent years to make the government seem smaller, and spending seem lower, than actually is the case. There should be carefully crafted rules to define what constitutes a user fee, and what ought to be netted against program outlays, and those rules ought to be rigidly enforced.

Programs that have all the characteristics of Federal grants should not be reflected in the budget as tax expenditures.

9. ENHANCED RESCISSION. The House and Senate Appropriations Committees should be required to report, and the leadership in both bodies should be required to schedule votes on presidential rescission proposals within a specific period of time. Otherwise, any member of Congress should be able to offer a highly privileged, non-debatable motion to proceed immediately to consideration of the president's rescission proposal(s).

11. BUDGET CONCEPTS COMMISSION. Basic budget concepts and definitions best may be addressed in a Budget Concepts Commission comprised of experts including, but not dominated by, representatives of the Administration and Congress.

Much has changed since the last Budget Concepts Commission in the 1960's. The Committee believes that it is time for a new Commission.

Moreover, the Committee believes that new Budget Concepts Commissions should meet at regularly scheduled intervals—perhaps every decade or every twenty-five years.

A concepts commission is the best venue in which to address technical issues such as--

- A shift from strict cash accounting to accruals for insurance programs—and perhaps for a limited number of other governmental financial activities. For example, employees' full accruing retirement costs under the old military and civil service retirement systems could be charged as agency cost and recorded as budget authority. That is the way FERS is treated in the budget today.
- The distinction between mandates and taxes. There always will be political dimensions to any budget-related issue; but issues such as accrual accounting and what to include in the budget can seem downright arcane. Political discourse around such issues should be informed by expertise.
- How to account for or score Federal government investments in private securities. There are a number of proposals currently under consideration for Treasury to make such investments. The 1967 Budget Concepts Commission never considered the issue. There is no consensus among experts regarding the proper budgetary treatment of such investments. The Committee believes that a Budget Concepts Commission can best address these issues.

ANOTHER POINT OF VIEW

Robert Reischauer, President of the Urban Institute, a member of our Board and former Director of the Congressional Budget Office articulated the views of experts who disagreed with those of the Committee at the meeting we convened last fall to discuss these issues. We have invited Bob to summarize his comments here.

1. JOINT BUDGET RESOLUTION. This sounds good in theory but it won't work. Congress and the President would wrangle over the contents of the JBR until August and it would become another source of delay. Messy as the Congressional Budget Resolution (CBR) may be, it reflects and is consistent with the system of divided government.

In the 1980's I suggested a two-step process. The President would send a budget to Capitol Hill and Congress would pass a skeletal CBR containing economic assumptions, total revenue and spending (and dividing spending among defense, non-defense and mandatory categories).

Once Congress passed the CBR, the President would prepare a second budget, conforming to the CBR plan.. Then Congress would pass another concurrent resolution, containing committee allocations and reconciliation directions.

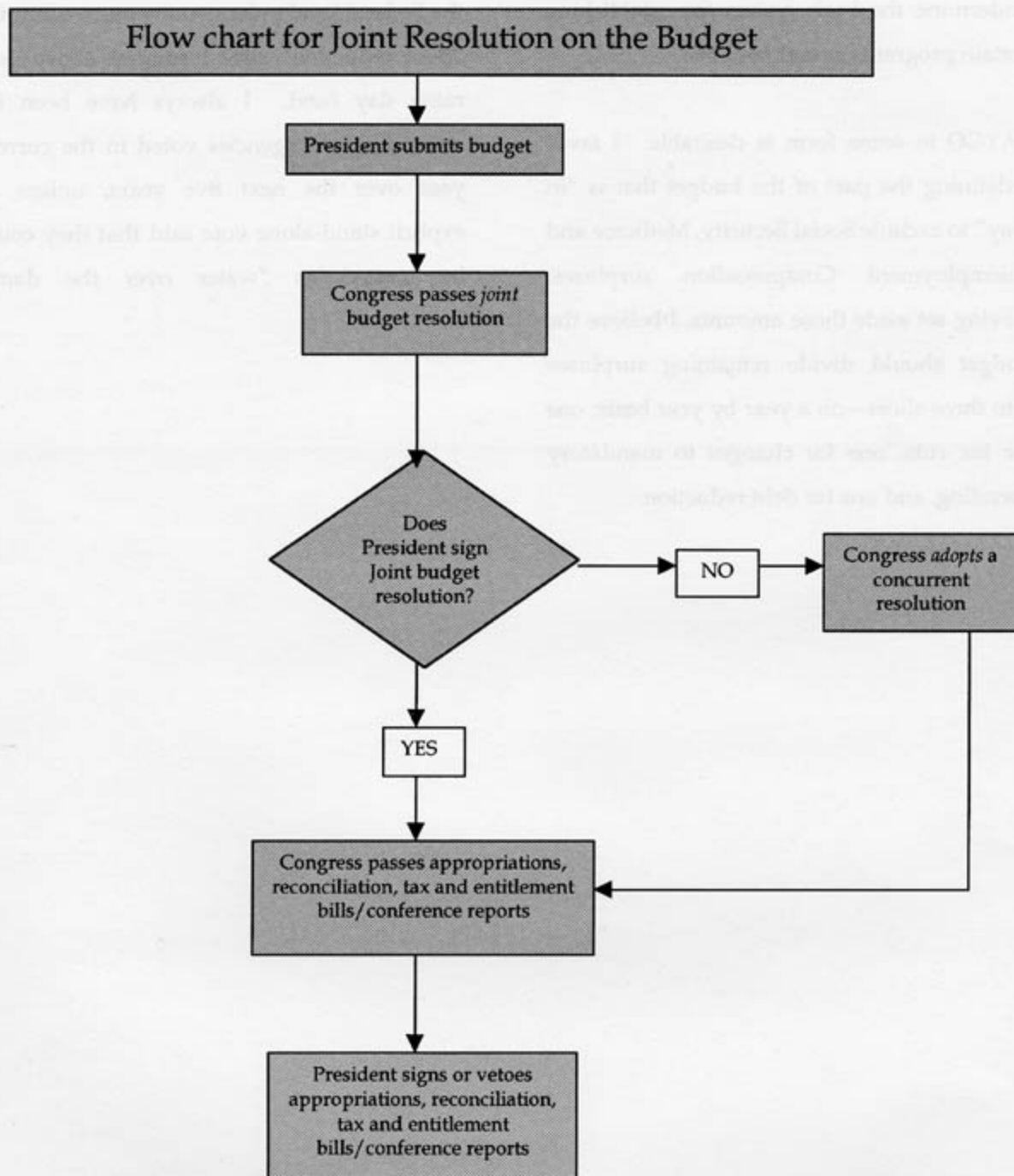
Finally, Congress would pass, and the President could sign or veto appropriations and reconciliation legislation. That system would have been very cumbersome. At the time, however, we were facing huge deficits; Congress and the President seemed incapable of cooperation, and I thought my cumbersome system was preferable to Gramm-Rudman-Hollings. Now I am not even sure about that.

2. EXPENDITURE LIMITS. Expenditure limits are fine for discretionary spending, providing they are set for no more than 5 years at a time. There must be a mechanism for revisiting the limits and there must be wiggle room such that provided by the emergency provisions in current law. I do not believe that there ought to be separate caps for defense and non-defense spending. Separate caps may preclude trade-offs and that is unwise.

I do not favor entitlement caps. They would undermine the basic reason for establishing certain programs as entitlements.

3. PAYGO in some form is desirable. I favor redefining the part of the budget that is "in play" to exclude Social Security, Medicare and Unemployment Compensation surpluses. Having set aside those amounts, I believe the budget should divide remaining surpluses into three slices—on a year by year basis: one for tax cuts, one for changes to mandatory spending, and one for debt reduction.

4. RAINY DAY FUNDS don't make a lot of sense at the Federal level unless you want to count the "debt reduction" slice I suggest above as a rainy day fund. I always have been for amortizing emergencies voted in the current year over the next five years, unless an explicit stand-alone vote said that they could be treated as "water over the dam".



Source: Committee on the Budget
U.S. House of Representatives
Majority Staff

Other Experts' Opinions—Feedback from Fall Meeting

BARRY ANDERSON, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE took advantage of this opportunity to make a strong case for a new budget concepts commission. He said that the environment today is similar to the environment that argued for a commission in the 1960's.

The 1967 President's Budget Concepts Commission report includes a brief list of reasons that the Commission was formed—

"Confusion arising from the number of competing concepts of budget totals currently used or stressed in the President's budget message and the relationships between them."

(Lack of agreement on) the appropriate accounting treatment of individual items or groups of items and the effect of such treatment on the budget totals," and

"The search for better congressional and public understanding of the budget program and more up-to-date availability of budget information."

In the 1960's confusion arose because the President's Budget contained three separate budget presentations: national income accounts budget, administrative budget, and consolidated cash budget. Today there is just as much confusion around on-budget, off-budget, and unified budget presentations. Congressional and public understanding of the budget is no better today than in the 1960's.

In the 1960's technicians and policymakers were unhappy with accounting for loans, business-type receipts, and debt financing other than borrowing.

Today their counterparts are concerned about budgetary treatment of tax credits and a large number of purely financial transactions including transfers of Treasury securities to trust funds and federal purchases of private marketable securities.

We continue to benefit from the legacy of the 1967 commission, especially the forceful case they made for a single federal budget that comprises all federal fiscal activity.

But that was then and this is now. The budget process and the environment in which it functions have changed and today there is a real need for a new commission on budget concepts.

In 1967, there was no explicit Congressional Budget Process and no BEA⁸. The country had not experienced runaway peacetime budget deficits. Uncontrolled mandatory spending was primarily an academic concern.

Baby boomers were entering the labor force, not preparing to retire. The tax code and most federal policies seemed much simpler then.

The case for a single comprehensive budget remains as compelling today as in the 1960's, but that does not answer questions about when, how and what federal activities are to be scored in the unified budget. To illustrate that point, Barry offered a series of examples —

- *What is the right budget horizon?*
- *Shift from cash to accruals—for what?*
- *Expenditures and Receipts—how to distinguish between them?*
- *Seigniorage and coinage—similar activities should be treated similarly.*

- *Potential Arbitrage—how to treat gains and losses due to government borrowing at the risk-free rate and investing in risky assets.*
- *Probabilistic budget scoring.*
- *Assets acquired through long-term leasing.*
- *Non-appropriated fund instruments, eg., military PXs.*

In conclusion, Barry pointed out that this is not an exhaustive list of issues —but that the list certainly is long enough and weighty enough to argue the need for a new commission. He said that public scrutiny of budgetary gimmickry is useful but no substitute for careful assessment of larger conceptual issues. What exactly is an outlay? What is a receipt? What is a trust fund? How should the budget recognize long-term commitments?

Technicians cannot answer such important questions alone. The policy dimensions are too far-reaching.

A new nonpartisan commission on budget concepts would greatly enhance and bring order to the current debate on reforming the budget process.

⁸ The Budget Enforcement act, Title XIII of the Omnibus Budget Reconciliation Act of 1990, amended as part of reconciliation bills in 1993 and 1997.

SUSAN IRVING, ASSOCIATE DIRECTOR FOR
FEDERAL BUDGET ISSUES, GENERAL
ACCOUNTING OFFICE

It is important to remember that the 1974 Act did not seek a specific result in terms of the deficit. Rather, it sought to assert the Congress' role in setting overall federal fiscal policy and establishing spending priorities and impose a structure and timetable on the budget debate.

Underlying the 1974 Act was the belief that the Congress could become an equal player only if it could offer a single "budget statement" with an overall fiscal policy and an allocation across priorities. Prior to 1974, the congressional budget was the cumulative result of individual pieces of legislation. The Congress did not examine or vote on overall spending or revenues.

The Act was crafted in recognition of existing power structures in the Congress. It carefully avoided giving the budget committees anything like the power, or even the coordinating role, of OMB. Among its most important elements was the creation of CBO. This eliminated the Congress' dependence on for numbers and analysis by giving Congress an independent source of budget numbers.

It is not until the deficits of the 1980's that we see the budget process changed into a process designed to drive deficit reduction.

It is not until 1985, and the law commonly referred to as Gramm-Rudman-Hollings that the Act was amended to reflect the changing focus of the process—from increasing Congressional control to reducing the deficit.

Both the original GRH and the 1987 amendments sought to achieve a balanced budget by establishing annual deficit targets to be enforced by sequesters if legislation failed to achieve them. Measured against its stated objective, GRH failed.

The perceived failures of GRH led to the Budget Enforcement Act (BEA). BEA seeks to limit congressional action and so to influence the result.

Unlike GRH, BEA holds Congress accountable for what it can directly control through its actions, and not for the impact of the economy or demographics, which are beyond its direct control. And on those terms, BEA has been a success.

GRH showed us that no process could force agreement where one does not exist. In contrast, BEA established a process to enforce a previously reached agreement. One could argue that the recent experiences with the discretionary caps under BEA emphasize the first point. There no longer exists substantive agreement that the caps are realistic so there is greater use of exemptions.

I would argue that the BEA succeeded on its own terms. The PAYGO mechanism succeeded in preventing either significant entitlement expansions or significant revenue reductions. For most of its history, the caps held. For most of its existence, the issue in BEA has not been whether it succeeded or failed but on the limitations of its ambition. BEA did not seek to trim existing entitlement programs—and it has not done so. What then about a budget process for the future?

We ask a great deal of our budget process. We want it to surface the important choices in a way we can understand and focus on them. We use it both to determine fiscal policy and to drive program management. In the Results Act world, we turn to the budget to tell us something about the cost of obtaining a given level of results. We want to understand the full cost of choices when we make them.

GAO has previously suggested some broad goals for a budget process. It should:

- Provide information about the long-term impact of decisions while recognizing the increased uncertainty that comes with long-term projections or simulations;
- Provide information and be structured to focus on the important macro trade-offs.
- Provide information necessary to make informed trade-offs between different tools; and
- The process must be enforceable, provide for control and accountability and be transparent.

It is still an open question whether a budget process must be designed to advance a particular fiscal goal or whether it could be designed as a vehicle for Congress to assert a fiscal goal and its priorities.

It can be instructive to look at how other countries have thought about the advent of budget surpluses. In a report GAO issued last fall, we discovered that a number of industrial nations had found ways to look behind the immediate budget window and move beyond single deficit measures.

They sought to adopt a new fiscal paradigm and a family of measures that included debt as a share of the economy.

Clearly, the budget debate must find a way to deal with the near-term *and* the certain knowledge that these surpluses, although welcome, will be overwhelmed by a demographic tidal wave unless there are changes in the structure of Social Security and Medicare. And these are not the only long-term cost pressures facing us.

REPRESENTATIVE JOE BARTON (R TX)

Congress passed bipartisan balanced budget agreements in 1982, 1985, 1987 and 1990. None balanced the budget. The strong economy deserves more credit than anything Congress or the President have done to balance the budget and produce projected surpluses.

Nonetheless, we learned from our earlier experiences: what matters in budget agreements is what Congress and the Administration agree to enforce and how they enforce it.

In 1995 and again during consideration of the 1997 budget agreement, Charlie Stenholm, David Minge and a lot of other Republicans

and Democrats joined me to introduce budget process reform legislation based on effective expenditure limitation. We continue to believe that the budget process needs reform and we continue to work with other members and groups outside government toward that goal.

Priorities for reform should include—

- Joint Budget Resolution. For all the reasons articulated in the discussion paper prepared for this meeting and by many of the speakers here, it is imperative for Congress and the President to agree on one budget for the country.
- Caps for both Discretionary and Entitlement Spending

There should be separate Defense and Non-Defense discretionary caps. There should be separate caps for big entitlement programs. Sequestration should be triggered by breach of the overall limit for discretionary or entitlement spending—but it should reduce only the categories that caused the overage. Caps should be adjusted for changes in actual economic conditions and numbers of human beneficiaries.

Congress and the President could change the caps by simple majority vote. There should be no super-majority vote requirement. But congress should be forced to vote up or down on whether to increase spending over the amounts contained in the most recently enacted budget. That vote should not be buried inside a big omnibus bill.

Establish a Rainy Day Fund and close the emergency loophole. I support the Nussle-Cardin bipartisan budget process reform bill. It does not go as far as I would like, but it would be a big step in the right direction.

Biennial Budgeting is important to reduce the time and resources that the executive and legislative branches devote to budgeting, provide greater certainty to program managers and mitigate upward pressure on spending. But biennial budgets would not produce those desirable outcomes. Appropriations and tax legislation also would have to shift to a biennial cycle. Of course, a two-year cycle would be most effective in concert with the other changes recommended above.

REPRESENTATIVE PORTER GOSS (R FL)

With Representatives Nussle, Cardin and many others on both sides of the aisle, I have

worked to produce a bipartisan approach to reform the budget process.

More recently, the Rules Committee has focused on biennial budgeting. There is so much support for that idea that this Congress just might pass a law at least to test a two-year budget cycle.

As Chairman of the Subcommittee of the Rules Committee that has jurisdiction over congressional process, including the budget process, I am keenly aware that even H.R. 853 goes too far for some and does not go far enough for others.

The most contentious items in the bipartisan bill are the automatic continuing resolution and the PAYGO rules. I am confident that we will work out something on those issues, to satisfy a majority of the House, and I expect that we will take up budget process reform in this Congress.

We look forward to working with all of you to enact sound budget process reforms. The current process is not working well.

We have to fix it. I congratulate Jim Nussle, Ben Cardin and all the other Members who have worked so long and so hard to get the issue to this point. And I hope that all of you will work with us to help us write a good bill into law.

REPRESENTATIVE JIM NUSSLE (R IA)

The chart at page 41 illustrates the budget process under H.R. 853, the *Comprehensive Budget Process Reform Act of 1999*. That bill creates a joint budget resolution and a reserve fund for emergencies, a lock box to ensure savings from floor amendments actually reduce spending, and an automatic continuing resolution to avoid government shutdowns.

It reaffirms the special budgetary status of Social Security, strengthens budget enforcement and accountability for federal spending and the debt limit, lengthens the budget horizon to ten years, improves budgeting for long-term liabilities, relaxes existing PAYGO rules and reforms the Byrd rule.

REPRESENTATIVES MINGE (D MN) AND STENHOLM (D TX)

Both of these Members stressed the difficulty of passing any budget process reform legislation. Representative Stenholm recalled that he worked on budget process reform legislation with the Co-Chairman of the Committee for a Responsible Federal Budget, Tim Penny, before Tim left Congress. More recently, he and Representative Joe Barton have worked on these issues. Representative Stenholm reiterated his support for extending expenditure caps to cover entitlements as well as discretionary spending — providing that sequestration if necessary affects only those categories of entitlements that caused the spending overage.

Representative Minge reminded the group that many Democrats are very concerned about any change in PAYGO rules. He said Democrats seek to enforce revenue levels in the budget as well as direct spending. Mr. Minge emphasized that the Nussle-Cardin bill is a carefully crafted compromise, that more changes may yet need to be made before any bill can be written into law and asked the group to continue to work with them to enact good, strong budget process reforms.

CONCLUSION

Budget process reform is inevitable. The current rules impose politically unrealistic limitations on Congress and the President given large and growing surplus projections. Further, existing rules do little to inform debates about long-term challenges such as Social Security, Medicare and tax reform.

We hope that this project and this publication will prove helpful as Congress and the Administration consider changes to the process this year and in the future.

BUDGET PROCESS REFORM PROPOSALS

	President's Budget Proposals	H.R. 853 ⁱ	S. 92, S. 93 ⁱⁱ and S. Res 5	Barton-Stenholm Bills ⁱⁱⁱ	Spratt Proposals and H. Res. 396	CURRENT LAW
Joint Budget Resolution	Yes	Yes, unless President vetoes in which case the House and Senate conference concurrent resolution.	No provision.	Yes	No provision in either	No
Budget Functions	21 including Social Security and Medicare.	Joint resolution contains defense and non-defense discretionary, direct spending, and other subsets of discretionary spending if deemed necessary. Budget Committee reports contain BA and Outlays for Budget Functions.	Define "major functional categories" as defense and non-defense discretionary spending and, if deemed necessary, other subsets of discretionary and direct spending.	No provision	No provision in either	Requires budget resolution to include BA and Outlays for major functional categories (currently 19).
Biennial Budget and Appropriations	No provision	No	Yes	Yes	Yes H. Res. 396 No Spratt proposal	No
Discretionary Caps	Yes but let separate transportation caps expire, and establish a new cap for Land Legacy. Caps should grow with inflation and accommodate special treatment for public housing.	Yes	Yes	Yes	No provision	Yes

BUDGET PROCESS REFORM PROPOSALS

Provision	President's Budget Proposals	H.R. 853 ¹	S. 92, S. 93 ² and S. Res 5	Barton-Stenholm Bills ³	Spratt Proposals	CURRENT LAW
Lock-Box for Discretionary Savings	No provision	Yes	No	Yes	No provision	No
Emergency Provisions		Narrows definition, creates direct and discretionary reserve funds, Budget Committee Chairmen determine whether emergency satisfies definition.	Narrows definition and creates point of order against legislation that does not satisfy new definition. Point of order can be waived by majority vote.	Tightens definition. President cannot unilaterally waive State Match or waive repayment of loans for State match. Creates reserve fund and rules for use of reserve funds.	No provision	Big loophole in current law. Emergency is anything President and Congress agree to label emergency.
Automatic CR	On-Budget surplus not subject to PAYGO	At previous year's level.	Lower of prior year enacted. President's request, or annualized rate in most recently enacted CR.	95% of previous year.	No provision	No
PAYGO	Yes	Does not apply to on-budget surpluses.	Does not apply to on-budget surplus.	Does not apply to on-budget surpluses.	No provision	Applies to on-budget and off-budget surpluses.
Protect Social Security	No provision	Yes	Yes	Yes	No provision	Yes
Baselines	Current Services, i.e., current year Plus inflation and other adjustments to hold program levels constant.	Spending caps or last year's level.	No provision	Caps or last year's level.	No provision	Projections of current policy with and without inflation and other adjustments to hold program levels constant.

BUDGET PROCESS REFORM PROPOSALS

Provision	President's Budget Proposals	H.R. 853 ¹	S. 92, S. 93 ² and S. Res 5	Barton-Stenholm Bills ³	Spratt Proposals H. Res. 396	CURRENT LAW
Accruals	Yes with more time to develop a satisfactory framework for moving insurance to an accrual basis.	For insurance programs, excluding social insurance, retirement and medical insurance programs.	No provision	No provision	No provision	No
Entitlement offsets for discretionary spending	Yes	Yes	No provision	No provision	No provision	No
Indefinite Spending	No provision	Prohibits indefinite authorizations.	No provision	No provision	No provision	No provision
Justification for direct spending	No provision	Required in President's Budget and House Committee Reports.	No provision	No provision	No provision	No provision
10-Year CBO Estimates	Yes	Yes	No provision.	No provision.	No provision	CBO provides 5-year estimates and has been providing 10-year estimates in recent years.
Enhanced rescission	No provision	No provision	No provision.	Yes	Yes Spratt H. Res 396 No provision	No

¹ H.R. 853, the *Comprehensive Budget Process Reform Act of 1999*. Introduced by Representatives Nussel (R IA) and Cardin (D MD), reported from the House Budget Committee.

² Legislation introduced by Senator Pete V. Domenici, Chairman of the Senate Budget Committee.

³ H.R. 2599 (1995), H.R., 4142 (1996), H.R. 2003 (1997). Representative Minge (D MN) was the principle Democratic co-sponsor of H.R. 2003