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## **Improving the Federal Budgeting Process**

**William A. Galston**

## Acknowledgments

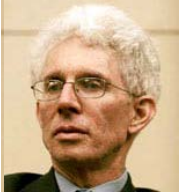
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**B**udgeting is one of the most important areas of policymaking. Through budgets, countries set priorities and influence the economy. The ability to make timely and sensible fiscal choices is regarded as one of the hallmarks of sound governance.

The Congressional Budget Act of 1974 laid out the current process, which, while adequately responding to concerns of the time, created a system of rules that have proved inadequate in altered circumstances. The intense polarization of the two political parties makes it hard to reach agreement, and increased transparency inhibits real deal-making. Entitlement programs and other “mandatory spending” now consume 55 percent of the budget, leaving less than half the annual budget to the discretion and oversight of the annual appropriations process. And the budget committees—intended to help Congress consider priorities within overall spending and revenue levels—were layered on top of longstanding centers of fiscal power, resulting in jurisdictional overlap, duplication, and delay.

Not only is the current budget process unable to address our most important fiscal challenges, but also Congress—the key player in this process—is widely regarded as dysfunctional. When the Congressional Budget Act became law nearly four decades ago, the struggle between Congress and the president over fiscal policy was the dominant concern, mandatory spending was relatively modest, and long-term fiscal sustainability was barely a cloud on the distant horizon. Today, our challenges are very different, testing once again our capacity for self-examination and self-renewal.

This report does not address specific budgets or budget targets, which high-level commissions have considered in detail. Instead, it lays out a menu of mid-level reform options that can help the budget process work better. While these reforms cannot overcome our deep partisan and ideological division, they can help us frame our choices more clearly and make those choices more cleanly. Despite our differences, there is broad agreement on the objectives of budget process reform: timeliness; transparency; democratic control; better alignment of priorities with overall commitments across the full range of fiscal tools; and improved public trust and confidence in the process.

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## Reform Options to Enhance Timeliness and Efficiency

- Reestablish the norm of executive branch punctuality in submitting a budget to Congress
- Establish a default budget resolution if Congress fails to adopt one on time
- Prohibit consideration of non-budgetary legislation until both chambers have agreed to a budget resolution
- Make congressional compensation dependent upon timely completion of annual appropriations
- Pass legislation allowing for the automatic extension of appropriations from one fiscal year to the next
- Require the president and OMB to use the CBO baseline
- Restructure congressional committees to eliminate jurisdictional overlap, streamline responsibilities and increase efficiency
- Alter the membership of the budget committees to reduce delay, add expertise and bring key members into budget negotiations from the start
- Give the president expedited rescission authority

## Reform Options to Increase Transparency

- Display proposed changes in outlays in a single, unified format
- Provide a more complete picture of the nation's fiscal condition by more fully accounting for long-term budget implications
- Better account for risks assumed by federal credit and insurance programs as well as GSEs and government-owned corporations

## Reform Options to Improve Accounting

- Compile total government outlays in each policy area, allowing for a comparison of all spending across policy priorities
- Create enforceable long-term budgets for all forms of direct spending
- Include outlays for emergency spending, based on multi-year averages, in the annual appropriations

**B**udgeting is one of the most important areas of policymaking. Through budgets, countries set priorities and influence the economy. The ability to make timely and sensible fiscal choices is regarded as one of the hallmarks of sound governance. In democracies, it affects public trust and confidence in the institutions and processes of self-government.

The Congressional Budget and Impoundment Control Act of 1974 (commonly known as the Congressional Budget Act, or CBA), which laid out the current process, represented a response to what many regarded as a dangerous imbalance between congressional and presidential power. As the Government Accountability Offices’s Susan Irving says, “[I]t sought to assert the Congress’s role in setting overall federal fiscal policy and establishing spending priorities and to impose a structure and a timetable on the budget debate.”<sup>1</sup>

To carry out this intention, the Congressional Budget Office (CBO) was established as a legislative counterweight to the Office of Management and Budget (OMB). The House and Senate budget committees were created to enhance congressional capacity to deal with revenues and expenditures as a whole rather than piecemeal. The annual budget resolution was supposed to provide the blueprint that appropriators would then flesh out. And the timetable would ensure that appropriators would have ample time to consider options within the overall limits and to produce the requisite legislation.

The process that the 1974 Act established was not created, Irving emphasizes, to achieve any particular fiscal result. It was intended, rather, to create a practical framework that would allow Congress to respond to the president as an equal player with its own fiscal policy and allocations among priorities.

The CBA looked great on paper, and for a while it worked reasonably well. As concern about budget deficits grew during the early 1980s, however, the limits of the act became more apparent. Congress responded with a series of ad hoc devices, including the Gramm-Rudman-Hollings Act (1985) and the Budget Enforcement Act of 1990. The former never lived up to expectations, and the latter—which proved effective for much of the 1990s—was ignored and then scrapped as deficits turned into surpluses and Congress became impatient with enforced limits.

Portions of the CBA are still working well, especially CBO, one of the few remaining bastions of honest, neutral competence. On balance, though, the results have been disappointing, increasingly during the past decade. Today, few citizens of the United States are satisfied with the government’s management of fiscal policy. Not only is the federal budget badly out of balance, with worse to come in the next decade, but also the budget process is nearly broken. Not since early in

2009 has the Congress managed to pass an annual budget resolution, which is the first step toward completing the budget.<sup>2</sup> Only four times in the past 35 years have the appropriations bills been completed prior to the beginning of the new fiscal year.<sup>3</sup> (1996 was the last time Congress successfully discharged this responsibility.)<sup>4</sup> All too often, Congress staggers from one temporary, short-term appropriations bill to the next, months into the fiscal year, before funding the government for the remainder of the year. And appropriations frequently take the form of an “omnibus” that staples together multiple bills without adequately reviewing any of them.

To explore these issues, the institutional innovation project in the Governance Studies Program at the Brookings Institution brought together a working group for a full-day, off-the-record consultation. Participants included three former CBO directors, former chairs or ranking members of the House Budget and Appropriations committees, and budget policy experts from the government, think tanks, and academia. In addition, the project reviewed a wide range of budget process proposals, some offered by elected officials, others by reform commissions. All of these views influenced this report, but its conclusions and recommendations are solely the author’s responsibility.

Major commissions and study groups have proposed specific budgets or budget targets, along with measures to enforce them once they are adopted. This report does not address these issues, for two reasons. First, doing so would be duplicative at best and would fall short of the precision and detail previous work has achieved. Second, the targets and frameworks are inherently controversial. For example, while many budget experts believe that fiscal policy should aim to stabilize the national debt as a percentage of GDP over the next decade, others argue that the costs of doing so would exceed a reasonable estimate of the benefits. Economists Kenneth Rogoff and Carmen Reinhart warn that a debt to GDP ratio above 90 percent would impose a structural limit on economic growth; others (Paul Krugman, for one) have countered that the evidence supporting this warning is less than compelling.

There are, of course, no completely neutral procedures. Still, some promote relatively uncontroversial goals—for example, procedures that make it easier for citizens to understand what their government is doing (and make it easier for government itself to understand what it is doing); increase the probability that government will be able to fulfill its fiscal duties as defined by law; or enhance government’s ability to monitor and enforce its decisions. This report offers a menu of such mid-level procedural reforms in the hope that beginning with areas of potential agreement can smooth the path for the difficult substantive decisions we can no longer avoid.

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## THE POLITICAL ENVIRONMENT FOR FISCAL POLICY

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**A**long with most Americans, participants in the working group view our national politics as all but broken. The intense polarization of the two political parties makes it hard to reach agreement, even on straightforward issues. Compromise has become a dirty word, and the informal norms that once promoted civility and responsibility have collapsed. An earlier generation of legislators shared the memory of military service and postwar consensus; the current generation shares only the experience of endless partisan warfare. Congressional leaders are less willing (and at times less able) than they once were to defy their caucuses in the name of agreement across partisan lines. Even in these circumstances, rules and processes are important. But they can only do so much to counteract powerful conflict-promoting forces.

Another key change has been increasing transparency and the near-disappearance of the proverbial smoke-filled rooms. (Not only are the doors now open, but also no one is allowed to smoke.) While openness may comport with contemporary democratic norms, it also inhibits real deal-making. As one congressional veteran put it, “When we opened up our markups on the Appropriations Committee, all it did was let the lobbyists in.” And he added, “The cardinal rule ... in all of the budget negotiations is that you negotiate by night and you vote by day.”

There have also been important structural changes since Congress enacted the CBA. In 1974, according to Alice Rivlin, annual appropriations accounted for the lion’s share of the federal government, and mandatory programs other than interest accounted for barely one-tenth.<sup>5</sup> Today, programs such as Medicare, Medicaid, Social Security, and other federal retirement systems add up to 55 percent of the budget, a share that is inexorably rising as the population ages and health care costs rise faster than most other sectors of the economy.<sup>6</sup>

It is understandable that rules designed nearly four decades ago to determine annual appropriations have proved inadequate in altered circumstances. Not only does mandatory spending lie outside the appropriations process, but also its basic structure differs fundamentally. In the case of appropriations for discretionary spending, the “default” setting is not to spend: absent affirmative congressional action, departments and agencies are deprived of funds. (That’s why gridlock can lead to a government shutdown.) In the case of mandatory spending, however, the default is to maintain current programs. To change their spending trajectory, Congress must legislate reforms. In polarized circumstances such as we have today, agreement is difficult at best, so these programs continue on autopilot, and the share of the budget under control of the appropriations process continues to shrink. This



is a problem, not only for fiscal policy, but also (as Eugene Steuerle has argued) for democratic self-government.<sup>7</sup>

The CBA has also created some structural problems within Congress. Because committees in existence before 1974 were determined to safeguard their jurisdiction, the new House and Senate budget committees were layered on top of longstanding centers of fiscal power. In the view of many members of Congress as well as outside experts, the arrangement has led to overlap, duplication, and delay. Alice Rivlin has argued that “Reforming the budget process will be next to impossible unless the Congress is willing to revamp the whole committee structure.”<sup>8</sup>

Her concerns are widely shared. A veteran appropriator has called the budget resolution an “institutional press release” that lacks the force of law and obligates members to expend political capital better reserved for actual appropriations. When the budget resolution is delayed (as it almost always is), it becomes even harder to get appropriations bills done on time. (The truncated congressional calendar with its three-day work week doesn’t help either.) Considerations such as these led one former CBO director to advocate repealing the 1974 Budget Act virtually entirely, leaving only the CBO intact. And even budget experts who defend the current two-phase system in principle agree that excluding mandatory spending and tax expenditures from the CBA process makes it impossible for the act to accomplish its primary purpose—namely, allowing the Congress to compare total spending across different substantive areas and to set its own priorities among them rather than ceding that terrain to the president.

Budget experts also question the broad jurisdiction of the Ways and Means Committee. A former CBO director recalled testifying before that committee on energy and tax policy and wondering why a body without substantive expertise in the energy area should be presiding over it. Worse, as several workshop participants emphasized, the current division between appropriators and tax-writers makes it institutionally impossible to oversee, let alone control, total resources flowing to specific sectors via different fiscal tools, such as appropriations, tax expenditures, and credit subsidies.

When agreement between the parties is difficult to achieve, as it is today, Congress has turned to rules to reach budgetary goals. Here, it is important to distinguish between two different functions of rules—forcing agreements and *enforcing* agreements. The former usually fails, frequently because it is legislated only after competing parties and factions were unsuccessful in reaching an agreement. In such a case, even artful rules won’t suffice to find common ground. The acid test was the Budget Control Act—passed in 2011 to resolve the debt ceiling crisis—that established the so-called “super-committee.” The hope was that the threat of mandatory sequestration hitting both domestic programs and defense would catalyze a bipartisan agreement to reduce the deficit by a modest \$1.2 trillion over



the next decade. In the event, even huge future cuts in the defense budget were not enough to induce agreement, and many participants in the negotiations seemed to believe (or hope) that Congress would find a way to evade sequestration before mandatory reductions began in January of 2013.

That brings us to enforcement of agreements the parties have managed to reach. Here the record is somewhat better: for example, a recent study shows that the enforcement mechanisms established in 1990—caps on discretionary spending and pay-as-you-go (PAYGO) provisions for mandatory spending—made a difference over a period of seven years.<sup>9</sup> Still, as hard as it is to reach consensus on long-term fiscal policy, it is usually even harder to keep the policy on track for more than a few years. Indeed, lack of confidence in the enforceability of long-term agreements is a major impediment to reaching them at all.

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## REFORM PROPOSALS

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**T**here is broad if not universal agreement on the objectives of budget process reform. They include: timeliness; transparency; democratic control; better alignment of priorities with overall commitments across the full range of fiscal tools (outlays, tax expenditures, and subsidies for loans and insurance, among others); and improved public trust and confidence in the process. This section reviews various reform options and discusses which are most likely to meet the crucial tests of effectiveness and political feasibility.

### What Not to Do

The working group considered a wide range of possible reforms designed to promote one or more of these objectives. Several well-known proposals garnered little support. For example, biennial budgeting sounds good in theory: spend the first year of the two-year cycle passing a two-year budget and devote the second year to oversight. Working group members did not believe that it would work that way in practice. One quipped that biennial budgeting was akin to saying that if there were 25 hours in the day, he'd spend the added hour jogging. Another could think of only one argument in its favor: "If you cannot pass a budget resolution, you might as well be embarrassed only every other year."

Biennial budgeting might make sense if two conditions were satisfied. First, legislators must face meaningful penalties for failing to meet budget timetables. Those incentives should be in place and have demonstrated their effectiveness before moving to change the budget calendar. Second, there would have to be robust safeguards—for example, super-majority procedural thresholds—against the proliferation of "emergency" supplemental appropriations that would also certainly

occur in the second year of the cycle. Neither of these conditions is close to being satisfied today.

Nor was there much support for capital budgeting. Again, this idea makes sense in principle. Encouraged in part by the tax code, businesses distinguish between long-term investments and outlays for current expenditures. If government uses public resources for, say, infrastructure projects that will yield returns over a period of decades, why shouldn't the government's books reflect that fact? The difficulty lies not in the logic of the proposal but in the political dynamic it would create. If capital budgeting made it easier to appropriate and spend public dollars on "investments," there would be intense pressure to place more and more items in that category. This dynamic is already evident in political rhetoric, which adopts the rhetoric of investment to bolster support for each party's favored outlays. At this juncture, it's hard to make the case for procedural change that tilts in the direction of increased spending.

Nor did working group members support a balanced budget amendment. Yet again the logic is attractive: if today's politics and processes conspire to generate unsustainable fiscal policies, why not create a counterweight with real teeth? But economic realities pull in the other direction. If there is a compelling case, as many argue, for deficit spending during cyclical downturns, then the real goal should be complying with some target over a full cycle rather than year by year. In addition, many budget experts believe that the appropriate metric for fiscal policy is not literal balance but rather deficits that do not increase the burden of debt as a share of GDP.

Moreover, a balanced budget amendment tacitly assumes that Congress has more control over the bottom-line deficit than in fact it does. Many categories of expenditures are open-ended, and factors such as excess inflation in health care can push spending above projections. To be sure, it is possible to place mandatory programs under an overall budget. (For more on this, see below.) But that would not close the second gap: while the deficit depends on the relation between spending and revenues, the revenue side of the budget responds to economic conditions over which the government exerts at best limited control and that no one can forecast with precision. There is certainly a case for restraints on spending, which Congress and the president can substantially control, but a significantly weaker case for a law—let alone a constitutional provision—that embodies contrary-to-fact assumptions about the scope of congressional control.

The working group also turned thumbs down on a suddenly salient piece of our fiscal procedures—the debt ceiling. As a former CBO director put it, our current system of managing the debt limit is “insane.” While we may not be able to get rid of it entirely, we should consider options such as “more closely integrating the debt limit decisions with the spending limit decisions.” Simply put, a decision to fund outlays in part through borrowing is also—or certainly ought to be—a promise to

pay interest and repay the principal on debt that our spending commitments make necessary. Proponents of the debt limit retort that we can do that perfectly well by putting interest and principal at the head of the queue when debt hits the legal limit. In practice, however, certain categories of expenditures—Social Security and Medicare, for example—represent promises to current beneficiaries as solemn as our undertaking to our creditors, and efforts to legislate preferred positions in the queue of claimants would simply recapitulate the substantive debates over programs and priorities that a polarized Congress has been unable to resolve.

## Timely and Efficient Budgeting

The budgeting process begins when the president transmits his proposed budget to Congress. While this is supposed to happen by the first Monday in February, it often does not. As the House Budget Committee has recognized, it is virtually impossible for a new president to comply with this timetable at the beginning of his first year in office, and there is a strong case for pushing back both the executive and legislative branch timetables in those years.<sup>10</sup>

But delays often occur in other years (including 2012) with much less justification. Although it may not be constitutionally feasible to legislate punishments for executive branch tardiness, the norm of complying with the required timetable should be reinforced. For example, Congress could adopt a rule mandating an oversight hearing whenever the president misses the deadline. It would be helpful if editorial boards of major publications served as guardians of the process and made it their practice to criticize dilatory chief executives.

Still, the president pales in comparison to Congress as a source of delay. Congress last approved a budget resolution on April 29, 2009,<sup>11</sup> and it last completed its required appropriations bills on time in 1996.<sup>12</sup> One possible response would be to establish a default budget resolution that would automatically take effect if the House and Senate do not agree on one of their own by April 15.

Of course, the default setting would have to be crafted carefully so as not to create perverse incentives for one party to get its way by stonewalling the other. As one working group participant has observed, “all rules that set out reversionary levels create incentives to obstruct action.” For example, defaulting to the president’s budget would shift the balance too far toward the president’s party in Congress. Conversely, defaulting to a budget below current spending levels would give the advantage to those forces in Congress who favor reducing the deficit through spending cuts rather than revenue increases. All things considered, it would make most sense simply to default to current policy—that is, to the aggregate of existing appropriations levels, modified by whatever multi-year spending limits may be in effect.

→ Reestablish the norm of executive branch punctuality in submitting a budget to Congress.

→ Establish a default budget resolution if Congress fails to adopt one on time.

→ Prohibit consideration of non-budgetary legislation until both chambers have agreed to a budget resolution.

To reduce the chance that this mechanism would be triggered, the House and Senate could move to make it difficult to bring matters to the floor unless and until a budget resolution is adopted. For example, Senators Ben Cardin (D-MD) and Kelly Ayotte (R-NH) have co-sponsored an amendment to the CBA that would make it out of order in the House or Senate to consider any legislation after April 15 unless they have adopted the concurrent resolution on the budget for the forthcoming fiscal year. In an emergency, three-fifths of the members could waive or suspend this requirement. In the same spirit, Senators Jeff Sessions (R-AL) and Olympia Snowe (R-ME) have proposed amending the CBA to prohibit the Senate from considering appropriations bills until it agrees to a concurrent budget resolution—again, with a three-fifths waiver provision. A parallel amendment might prohibit floor consideration of any non-budgetary legislation after September 1 until all appropriations bills for the next fiscal year have been completed.

→ Make congressional compensation dependent upon completion of a budget.

Some believe that even tougher steps are required—specifically, linking congressional compensation to the budget timetable. One member of the House has proposed putting funds for salaries and expenses of members and their offices in escrow after May 15 and holding those funds until the House and Senate have agreed on a budget resolution.<sup>13</sup> Another member has proposed amending the Legislative Reorganization Act of 1946 to impose a daily reduction in congressional pay after April 15 that would escalate until work on the budget resolution has been completed.<sup>14</sup> No Labels, a non-partisan civic group (of which the author is one of many co-founders), has proposed cutting off congressional pay if all appropriations bills are not sent to the president by September 30.<sup>15</sup> Legislation that would do just that, the “No Budget, No Pay Act” was introduced in the House and Senate in December, 2011.<sup>16</sup>

These proposals are blunt instruments, to be sure. But it may be that the pattern of unending gridlock sporadically interrupted by short-term continuing resolutions is so deeply entrenched that only a radical change in incentives can break it.

→ Congress should pass a law allowing for the automatic extension of appropriations from one fiscal year to the next to avoid government shutdowns and short-term fixes.

There is an alternative strategy for avoiding short-term continuing resolutions after September 30: Congress could enact a law automatically extending the previous year’s appropriations level into the next fiscal year—again, subject to multi-year spending limits. Among its other consequences, this step would render most government shutdowns a thing of the past. Intriguingly, Sen. John Thune (R-SD) and Sen. Mark Udall (D-CO) have independently offered legislation to do just this.

Some House Republicans favor legislation that would transform the budget resolution into a legally binding joint resolution that would be sent to the president for his signature after the House and Senate reached agreement.<sup>17</sup> The argument for this approach is straightforward: by allowing the president to participate in deliberations over the budget framework, the joint legislative-executive product would strengthen the subsequent appropriations process. But that presupposes the best-case outcome—namely, agreement across party lines, which, increasingly in

recent years, our divided government has found hard to reach. While this proposed legislation does provide for a default non-binding resolution in the case of a presidential veto, many congressional veterans believe that its most likely effect would be to further retard a process that is already much too slow.

→ To make budget debates more coherent, the president should be required to use the CBO baseline.

Year after year, disagreements between Congress and the president over appropriate baselines slow the budget process and confuse the public. In 2012, for example, substantial portions of the initial budget committee hearings on the president's budget were consumed by wrangling between Republicans and the acting OMB director about the right metric for measuring the impact of the president's proposals. If even budget experts had a hard time sorting out the competing claims, it's easy to imagine the impact on citizens trying to follow the proceedings. To create the conditions for a more productive debate, some working group members backed changes in the Congressional Budget Act that would require the president to use the CBO baseline in his budget submission. He would be free to offer other metrics as well. But both Congress and the public should be empowered to make apples-to-apples comparisons so that the discussion can focus on the real decisions that need to be made about overall spending and revenue levels and about national priorities within those constraints.

→ Congressional committees should be restructured to eliminate jurisdictional overlap, streamline responsibilities and increase efficiency.

Changes in the congressional committee structure are among the hardest reforms to achieve. Most members are more willing to yield ground on policy than on jurisdiction. It is no accident that of all the reforms the 9/11 Commission recommended, Congress has made the least progress streamlining the proliferation of committees and subcommittees with overlapping responsibility for intelligence, defense, and homeland security.

Still, members of the working group were highly critical of the multi-layered committee structure that oversees the budget process, and many proposed changes. Some were radical—for example, bringing revenues and spending under the aegis of the same committee in both the House and Senate, a move that would transform the House Ways and Means Committee as well as the Senate Finance Committee. For her part, Alice Rivlin has proposed a package of organizational reforms that would eliminate the blurred distinction between authorizing and appropriating, remove mandatory programs from the jurisdiction of the tax-writing committees, and replace the current structure in each chamber with a small number of program committees plus a revenue committee and a budget committee.<sup>18</sup>

A complete overhaul of the congressional committee structure may be too radical a proposal to stand a chance. Still, budget reform is unlikely to succeed unless Congress acknowledges that its current ramshackle jurisdictional structure is part of the problem. Layering new reforms on top of current arrangements, as was done in 1974 to mute opposition from existing committees, would probably end up making things worse.

During the working group, a veteran appropriator questioned the utility of the budget resolution and, by implication, the budget committees. The resolution, he said, compounds the political difficulties of the budget process by forcing members to make hard votes twice: “The minute you pass [the budget resolution] you take a round of hits because the political parties kick the hell out of each other ... and then you get to the appropriations and you’ve got to do it all over again.” A budget expert responded, “I understand what you’re saying but you need some kind of a total within which to work. I can’t imagine coming up with appropriations without some parameter.”

Both arguments have merit. Not only is the current process politically fraught, but it also reduces the chances of getting to the annual finish-line on time. If the budget resolution is delayed by months, or scrapped altogether, then the odds of producing appropriations bills by September 30 shrink. On the other hand, the point of creating the budget committees and resolutions was to provide a legislative counterweight to the president’s ability to propose overall spending and revenue levels.

→ Alter the membership of the budget committees to reduce delay, add expertise and bring key members into budget negotiations from the beginning.

Even if fundamental reform of the committee structure remains beyond reach, there are steps Congress could take within the current structure to reduce delay. One possibility would be to integrate the budget committees more fully into the broader process—for example, by making the chairs of the Ways and Means and Appropriations committees the co-chairs or revolving chairs of the House Budget Committee, and similarly for Finance and Appropriations in the Senate. Members of the House Ways and Means and Appropriations committees and their corresponding committees in the Senate could be granted an increased share of the seats on their respective budget committees, with emphasis placed on members with substantial expertise and institutional influence in different sectors of the budget. To increase buy-in from congressional leadership, the majority and minority leaders in the two chambers could be made members as well.

Because legislation governing revenues and appropriations must fall within the parameters established by the budget resolution, having the leaders of the committees charged with those responsibilities at the bargaining table from the beginning would probably reduce the substantial friction that now exists among the moving parts of the budget process. Still, our expectations should be modest. As one veteran appropriator put it, “Focusing on changes on the Budget Committee ... is like changing batboys because the St. Louis Cardinals aren’t hitting very well.”

Finally, a proposal known as expedited rescission authority could not only improve the efficiency of the budget process but also rebalance a system that may have overshot its original reform objectives.

Although the 1974 Budget Act was designed to strengthen the fiscal powers of Congress versus a presidency that some believed had grown “imperial,” many



→ Effective rescission authority should be given back to the president, balancing legislative and executive control of the budget.

observers now think that the Act went too far in the other direction. When control of government is divided between the political parties, the president's budget is often set aside as soon as it is made public, and the need to keep the government functioning makes it hard for the president to veto 11<sup>th</sup>-hour funding bills. The ability of Congress to present the president with take-it-or-leave-it propositions weakens the president's fiscal hand to an extent that has proved counterproductive.

The original act, framed in the shadow of the Nixon-era impoundment crises, sharply limited the president's power to reduce spending below congressionally appropriated levels. Although the president was allowed to propose permanent reductions (rescissions) in specific items, the proposals would go into effect only if Congress voted approvingly within 45 working days after receiving them from the president, and nothing required Congress to bring them up for a vote. Typically, rescissions died a quiet unnoticed death.

By the mid-1990s, leaders in both parties agreed that the president needed more fiscal authority, and Congress passed legislation giving the president a line-item veto.<sup>19</sup> Within two years, the Supreme Court declared this law unconstitutional on the grounds that it violated the separation of powers between the legislature and the executive.<sup>20</sup>

Leaders in both parties now support legislation, dubbed "expedited rescission authority," that would expand the president's range of effective choices in a manner that would pass constitutional muster and would force the Congress to act on those choices in a timely manner. Under this proposal, the president would identify for possible cancellation specific provisions in an appropriations bill that increase domestic spending and would return them to Congress for reconsideration. Congress would then have a limited period to consider the president's proposal before having an up-or-down vote on whether to approve it. In an era of sharp political polarization, nowhere more than in the House of Representatives, the chair and ranking member of the House Budget Committee cosponsored legislation that would enact this change—one of the few that might proceed without the kind of controversy that has produced so much gridlock in recent years.<sup>21</sup>

## Transparency

Public trust in the budget process has eroded along with the declining reputation of the federal government in general and Congress in particular. One source of mistrust is the widespread belief that insiders are playing a kind of shell game designed to conceal what is really going on. Politicians regularly inveigh against the budget process: "Only in Washington," they proclaim, "is a spending *increase* described as a *cut*."



→ All the changes in outlays from one year to the next should be displayed in a single, unified format.

From the standpoint of ordinary common sense, the critics have a point. Consider a family that takes a vacation in the same location each year. Between this year and the next, prices for travel and lodging rise so that the cost of the vacation increases by \$500. The family faces a choice: spend the extra money to maintain its usual vacation, or change its plans (a shorter vacation or a different vacation spot) to maintain the same overall outlay as in the prior year. The first strategy increases spending to maintain the same lifestyle, while the second holds spending constant and trims the family's lifestyle.

In effect, the current congressional practice for discretionary spending tries to have it both ways. Because the baseline incorporates adjustments for inflation and other factors, it represents the cost of maintaining "current services," the programmatic equivalent of the family's lifestyle. Reductions relative to the baseline are typically described as cuts, even when year-over-year appropriations rise. So if the family were to shorten its vacation by a day, bringing the increase in cost down to \$400 from \$500, in budgetary terms, that \$400 increase could be described as a \$100 cut.

Conversely, as the Peterson-Pew commission points out, some programs, such as the child tax credit, are not indexed for inflation, so their real value declines over time.<sup>22</sup> If Congress offsets only a part of this decline, budget offices and the press would report this action as an increase, even though current services are being curtailed.

From a technical standpoint, the current procedure is perfectly defensible. It is not entirely neutral in its effects, however. (It is hard to imagine a budget procedure that would be.) In every political system, and especially in ours, the status quo enjoys an advantage over proposed changes.

Whatever the fiscal effects of the baseline may be, its political effects are anything but benign. The gap between this procedure and the common-sense understanding that average Americans bring to it exacerbates public mistrust. Given its single-digit approval rating, Congress has a powerful incentive to send a reassuring message to the citizens it purports to represent: we are not going to play games that conceal what we are doing.

While there is no perfect solution, one approach is to present—in a single unified format—all the sources of change in outlays between one year and the next. The baseline would begin with the current fiscal year's spending levels and then add successive tranches—inflation, population, and current law—before estimating the effects of proposed legislative changes. This would not eliminate the bias toward the status quo, of course. But it would allow the press and interested citizens to assess the consequences of inaction as well as change, and it would give the public a chance to hold their representatives responsible for past decisions as well as new proposals.<sup>23</sup>

→ In their budget proposals, the president and Congress should provide a more complete picture of the nation's fiscal condition by, among other things, more fully accounting for long-term budget implications.

Although a more complete baseline will improve transparency, other reforms are required as well. There is wide agreement that the current budget process does not adequately reflect either the country's fiscal condition or the resources that are in fact being devoted to specific priorities.

For example, in some cases, accounting for federal programs on a cash basis obscures the expected flow of revenues and expenditures over time and fails to offer Congress and the American people an accurate balance sheet. An analogy: consider the case of a family that has a 15-year home mortgage with affordable monthly payments but a balloon payment in the final year. A snapshot of the current year's revenues and expenses would not reveal all the relevant facts about that family's finances. (Nor would a ten-year projection.)

To address this difficulty, many budget experts favor shifting toward "accrual" accounting, which takes into account the value of revenues and expenditures over their lifetime. As the GAO puts it, accrual-based measures "add a long-term focus to the federal government's financial picture by providing more information on longer-term consequences of today's policy decisions and operations." Often (though not always), applying accrual accounting to the federal budget increases cost estimates and annual deficits.<sup>24</sup>

This change could draw on an existing analytical resource. At the end of each fiscal year, the Treasury prepares, and the GAO audits, a comprehensive report on the nation's fiscal condition.<sup>25</sup> Utilizing a version of accrual accounting, it provides crucial metrics such as long-term unfunded liabilities and the size of the shift in fiscal policy needed to stabilize the nation's debt as a share of GDP. This report is usually transmitted to the Congress in the week before Christmas and receives so little publicity that most citizens and policymakers are unaware of its existence.

This report is imperfect, as auditors and experts have pointed out. According to the GAO, the federal government has been unable to demonstrate the reliability of significant portions of its financial statements or to show that it had fully reconciled differences between accrual and cash deficits.<sup>26</sup> And some budget experts believe that accrual accounting improves the accuracy of the government's books only modestly while diminishing transparency and confusing the public. Nonetheless, it offers some significant supplements to the current budget process. At a minimum, both the president and Congress could be required to incorporate key benchmarks from the GAO report into their own budgets in order to better account for the long-term implications of their proposals.

Relative to standard practice in the private sector, current accounting procedures for federal credit programs (loans and loan guarantees) and insurance programs take into account explicit borrowing costs but understate the risks inherent in these activities, which shift these risks to taxpayers. For example, the volume of student loans outstanding has risen sharply and now exceeds total credit card debt. At the

→ The budget should more clearly account for risks assumed by federal credit and insurance programs as well as GSEs and government-owned corporations.

same time, diminished job prospects for young adults are making it harder for them to repay the debt they have incurred during post-secondary education and training. Shifting toward private sector procedures—for example, using fair market values to calculate costs—would provide policymakers and interested citizens more accurate information about the cost of long-term commitments and would permit a more informed choice among different instruments of public policy.

Since the mortgage meltdown, the federal government has assumed explicit responsibility for the housing-related Government Sponsored Entities (GSEs), and experience has shown that the Postal Service will seek backup support from the government as an alternative to bankruptcy. In these circumstances, it makes little sense to exclude the prospective fiscal impact of entities such as Fannie Mae, Freddie Mac, and the USPS from the federal government’s books. Whether Fannie Mae and Freddie Mac should be moved fully on budget during their federal conservatorship, as a bill recently passed by the House would do, is less clear.<sup>27</sup>

## Accountability

As many budget experts have observed, two features of our current budget process—one formal, the other substantive—have reduced its accountability to regular democratic review. First, the current method of presenting budget information makes it very difficult for everyone—insiders as well as average citizens—to determine the total resources government policy is directing to specific functions. To pick the most obvious example, tracking the appropriations devoted to housing in the Department of Housing and Urban Development’s annual budget doesn’t begin to reveal the federal effort in that sector. For an accurate picture, we need to look at the panoply of government programs, including loan guarantees, subsidies to Fannie Mae and Freddie Mac, and of course the home mortgage interest deduction and other pro-housing features of the tax code.

To close this information gap, the 1974 Act should be amended to require both the executive and legislative branches to include in their respective budget proposals the complete array of government support going to each policy priority, by means of direct appropriations, tax expenditures, grants, etc. This could be done by mapping funding onto existing budget functions.<sup>28</sup> Implementing some version of this proposal could reconfigure public discussion of fiscal policy. At the least, it would produce a much better informed debate about national priorities.

The second problem goes to the heart of our fiscal woes. As noted earlier, the share of the overall budget under the control of the annual appropriations process has declined sharply in recent decades, and the bulk of our outlays now occur through mandatory or “direct” spending—entitlement programs and tax expenditures. Rules rather than budgets govern outlays in such programs, and the sum of individuals who take advantage of their eligibility under the rules determines total spending.

→ Total government support in each policy area should be compiled, allowing for a comparison of all spending across policy priorities.

→ To bring a greater share of spending under the control of the annual budget process, Congress should create and enforce long-term budgets for all forms of direct spending.

While the distinction between appropriated and direct spending reflects legitimate policy considerations, the disparate treatment of these two categories ends up distorting the budget process. Because it is even more difficult to amend laws than to agree on changes in annual appropriations, fiscal restraint typically falls much more heavily on discretionary programs, which include investments in long-term public goods such as research, education and training, and infrastructure. The Budget Control Act of 2011 reinforces this imbalance by establishing decade-long caps on discretionary spending while leaving mandatory spending and revenues untouched.<sup>29</sup> By contrast, the Statutory Pay-As-You-Go Act, which President Obama signed into law in February of 2010, excluded a long list of mandatory programs, capped Medicare cuts at 4 percent, and affects only new legislation, not outlays under current law.<sup>30</sup>

To enhance democratic control over budgeting and to restore balance within it, two reforms are essential. First, Congress should create actual multi-year budgets for direct spending and establish a credible enforcement mechanism. A bipartisan group of budget experts has proposed a version of this reform.<sup>31</sup> It includes (a) explicit long-term budgets, (b) five-year reviews that examine the relation between assumptions and performance, and (c) a trigger device that requires explicit decisions to close the fiscal gap when spending exceeds projections, revenue falls short, or both. This trigger would be neutral between strategies for closing the gap: rules could be changed to reduce outlays, increase revenues, or some combination of the two. The only excluded strategy is one that would perpetuate the gap.

Second, Congress should extend this multi-year budget/review process to all forms of direct spending—tax expenditures as well as the large programs popularly known as entitlements. To exclude the more than \$1 trillion in backdoor spending that occurs through the tax code each year would perpetuate the distortion this budget reform is designed to eliminate.<sup>32</sup> There’s no secret about the components of these tax-driven expenditures: the OMB publishes an accounting each year, as do other agencies.<sup>33</sup> The challenge is to integrate these data into our fiscal decision-making.

→ Outlays for emergency spending should be included in the budget.

Finally, we need to improve the way we budget for emergencies such as natural disasters and security threats. While we cannot know exactly which threats will materialize in a given fiscal year, we do have historical experience that enables us to estimate average annual expenditures needed to meet these emergencies. It would make sense to use this average as a benchmark for annual appropriations, with the understanding that lower-than-average outlays in a particular year are not a good reason to cut back on what we provide for the next.

**T**his report is seeing the light of day in decidedly unpromising circumstances. Not only is the budget process unable to address our most important fiscal challenges, but also Congress—the key player in this process—is widely regarded as what Tom Mann and Norm Ornstein have dubbed the “broken branch.” As surveys show, most Americans certainly think so, and many members of Congress privately agree.

Nevertheless, there are some hopeful signs. Citizens across the country are beginning to get behind an agenda designed to “make Congress work,” and individual members of Congress are lining up to sponsor the components of this plan.<sup>34</sup> It is conceivable that the United States is on the cusp of a new era of Progressive reform in institutions and procedures—changes that made government at every level more honest and efficient and that offered citizens new ways of making their voices heard.

When the Congressional Budget Act became law nearly four decades ago, the struggle between Congress and the president over fiscal policy was the dominant concern, mandatory spending was relatively modest, and long-term fiscal sustainability was barely a cloud on the distant horizon. Today, our challenges are very different. What remains the same is our capacity for self-examination and self-renewal.

To be sure, our current circumstances have given renewed visibility to Winston Churchill’s famous observation that Americans can always be counted on to do the right thing—after they have explored all the alternatives. In fiscal policy, surely, we have exhausted those alternatives, and it is time to do what we need to do. By themselves, institutional and procedural reforms cannot overcome our deep partisan and ideological division. But they can help us frame our choices more clearly and make those choices more cleanly. Before we rebuild our fiscal house, we can begin by cleaning it up.

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<sup>1</sup> Susan Irving, testimony before the Senate Finance Committee, May 4 2011, GAO-11-626T.

<sup>2</sup> Bill Heniff Jr. and Justin Murray, “Congressional Budget Resolutions: Historical Information,” Congressional Research Service, March 13, 2012.

<sup>3</sup> Jessica Tollestrup, “Duration of Continuing Resolutions in Recent Years,” Congressional Research Service, April 28, 2011.

<sup>4</sup> *Ibid.*

<sup>5</sup> Alice M. Rivlin, “Rescuing the Budget Process,” testimony before the House Budget committee, September 21, 2011.

<sup>6</sup> *Ibid.*

<sup>7</sup> See, for example, Steuerle’s discussion and table on what he terms “Fiscal Democracy” in “America’s Related Fiscal Problems,” Journal of Policy and Management Analysis, September 8, 2010, available at <http://www.urban.org/url.cfm?ID=1001447>.

<sup>8</sup> Rivlin.

<sup>9</sup> Alan J. Auerbach, “Federal Budget Rules: The US Experience,” National Bureau of Economic Research, Working Paper 14288, August 2008.

<sup>10</sup> See page 9, section IV on biennial budgeting and enhanced oversight in “Repairing Washington’s Broken Budget Process,” a report from the House Budget Committee, December 7, 2011 at <http://budget.house.gov/UploadedFiles/BPRsummary.pdf>.

<sup>11</sup> Heniff Jr. and Murray.

<sup>12</sup> Tollestrup.

<sup>13</sup> H.R. 3799, “Do Your Job Act,” introduced by Rep. Tom Latham (IA-4) on January 23, 2012.

<sup>14</sup> H.R. 4036, “Pass a Budget Now Act,” introduced by Rep. Bill Johnson (OH-6) on February 15, 2012.

<sup>15</sup> No Label’s “No Budget – No Pay” proposal is part of its “Make Congress Work” plan. The No Budget – No Pay proposal is at <http://action.nolabels.org/issue/no-budget-no-pay/> and the Make Congress Work plan is at <http://nolabels.org/make-congress-work>.

<sup>16</sup> H.R. 3643 and S. 1981 were introduced on December 13, 2011 by Representative Jim Cooper (TN-5) and Senator Dean Heller (NV), respectively.

<sup>17</sup> H.R. 3575, marked up and reported out by the House Rules Committee on January 23, 2012.

<sup>18</sup> Rivlin.

<sup>19</sup> The “Line Item Veto Act” became Public Law 104-130 on April 9, 1996.

<sup>20</sup> *Clinton v. City of New York*, 524 U.S. 417 (1998).

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<sup>21</sup> A bill along these lines, H.R. 3521, passed the House by a vote of 254-173 on February 8, 2012.

<sup>22</sup> Peterson-Pew Commission on Budget Reform, “Getting Back in the Black,” November 2010, at <http://budgetreform.org/document/getting-back-black>.

<sup>23</sup> The Budget Control Act of 2011 further complicates the baseline debate by incorporating discretionary spending caps into the baseline calculations until 2012.

<sup>24</sup> Government Accountability Office, “Measuring the Deficit: Cash vs. Accrual,” available at <http://www.gao.gov/special.pubs/longterm/deficit/>.

<sup>25</sup> The “Financial Report of the United States Government” is prepared by the Department of the Treasury, in coordination with OMB, and audited by the GAO.

<sup>26</sup> GAO, “Measuring the Deficit.”

<sup>27</sup> H. R. 3581, which passed the House by a vote of 245 to 180 on February 8, 2012.

<sup>28</sup> For an example of how this might be done, see the Peterson-Pew Commission on Budget Reform, “Getting Back in the Black,” Table 3, p. 31.

<sup>29</sup> For a thorough analysis of the BCA, see Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan, “The Budget Control Act of 2011,” Congressional Research Service, August 19, 2011.

<sup>30</sup> Office of Management and Budget, “The Statutory Pay-As-You-Go Act of 2010: A Description,” available at [www.whitehouse.gov/omb/paygo\\_description/](http://www.whitehouse.gov/omb/paygo_description/).

<sup>31</sup> The Brookings-Heritage Fiscal Seminar, “Taking Back Our Fiscal Future,” April 2008. For a more comprehensive proposal, see the Peterson-Pew Commission, “Getting Back in the Black.”

<sup>32</sup> For a discussion of the budget impact of tax expenditures see Donald B. Marron, “How Large Are Tax Expenditures,” Tax Notes, March 28, 2011 at <http://www.urban.org/uploadedpdf/1001526-Expenditure-Estimates.pdf>.

<sup>33</sup> “Analytical Perspectives” is a supplement to the president’s budget and include a chapter on tax expenditures, at [http://www.whitehouse.gov/omb/budget/Analytical\\_Perspectives](http://www.whitehouse.gov/omb/budget/Analytical_Perspectives).

<sup>34</sup> No Label’s “Make Congress Work” plan at <http://nolabels.org/make-congress-work>.