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Testimony of

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A Comparative Study on International Multi-Year Budgeting

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TESTIMONY OF MAYA C. MACGUINEAS ON
A COMPARATIVE STUDY ON INTERNATIONAL MULTI-YEAR BUDGETING

Good morning, Mr. Chairman and Members of the Subcommittee. Today, I have been asked to comment on biennial budgeting. Thank you for the opportunity to testify. It is a privilege to appear before the Subcommittee. I am the President of the Committee for a Responsible Federal Budget. Our Co-Chairs are Bill Frenzel and Leon Panetta and the Board is made up of many of the past Directors of the Office of Management and Budget, the Congressional Budget Office, and the Chairs of the Federal Reserve Board and the House and Senate Budget Committees. Our focus is on the federal budget and related process issues.

Not long ago, the Committee published a report on budget process. In a collaborative process with experts inside and outside of government, we developed a number of budget process recommendations. One of those recommendations was that the federal government move to biennial budgets, appropriations and tax cycles.¹ I will discuss the arguments in favor of that proposal today, as well as some of the possible challenges.

The Committee favors biennial budgeting for a number of reasons. First of all, the present budget process is simply not working. Budget resolution deadlines are regularly missed, appropriations fall behind schedule, and too many gimmicks (many of them related to timing) are employed. The result is a budget process that has become less meaningful over time.

We see moving to a two-year budget cycle as a way to free up resources – both time and money – for other more productive purposes. Congress spends a significant amount of time trying to meet specific deadlines and slapping together what often amount to ad-hoc

¹ Other recommendations include: Joint budget resolutions; expenditure limits; PAYGO; automatic continuing resolutions; rainy day funds; a clear distinction between spending and revenues; enhanced rescission; and a Budget Concepts Commission. <http://www.crfb.org/pdf/2000/RecommendationforReform.pdf>

policy responses. Furthermore, Congress spends too much time during the annual appropriations process repeating work it did the previous year. Our Committee feels that it would be far better if Congress spent more of its limited time grappling with oversight and long-term planning. As our Co-Chair Leon Panetta has pointed out in previous testimony, it is ongoing spending needs rather than a careful evaluation of programs that tend to drive decision-making. Both Congress and the Executive Branch face this dilemma. An additional year in the process would free up substantial time for Members to focus on program review, strategic planning, oversight, evaluation, and reform.

Under biennial budgeting, one can imagine a pattern where, in the first session, Congress lays out its priorities and sets corresponding funding levels, and in the second, it focuses on reviewing existing programs and planning how to make necessary changes. Take for example, the newly released Scorecard from the Office of Management and Budget. There is a wealth of information in this document that could be used to help better allocate resources if only there were more time in the process to contemplate and implement the findings. Budgeting should not feel like being trapped on a sped-up treadmill. It should allow for thoughtful contemplation and analysis of the best use of limited resources. The budget is, after all, a reflection of our national priorities. However, impossible deadlines currently stand in the way of maximizing the outcomes of such an important process.

Biennial budgeting would allow for better planning. Under the current process, final appropriations levels are determined at the same time the agencies (who are often operating under continuing resolutions) are determining their own budget requests for the following year. As a result, there is too little information on which to base important decisions, reflecting the fact that the current sequence is too compact to be effective.

Furthermore, organizations that receive government funding for things such as basic research would also be helped in their planning efforts to have longer budget cycles. Finally, less regular changes to tax laws would lead to increased stability in the economy at large. I do not intend to oversell the change. Moving from one to two years would not

give individuals or organizations a long-term sense of stability about funding or tax laws, but a longer window would at least be an improvement.

A longer cycle would also create better managerial incentives. Currently, agency heads face pressures to spend all of their budgetary allotment so they do not end the year with a surplus. The conventional wisdom is that having money left over at the year's end undermines the ability to ask for similar or greater funding levels for the next year. With a longer cycle, managers would be better able to spend their budgets in accordance with their needs rather than in a race against the clock. This would likely lead to overall lower levels of spending, a critical component of budget control.

Finally, on a topic near and dear to the Committee's heart, biennial budgeting could help to improve deficit reduction efforts. Deficit reduction targets over a longer time period would allow for more gradual phase-ins of the changes, which in turn make them more likely to be adopted and adhered to. Furthermore, there would be fewer opportunities for special interests to lobby for budget busting exemptions and special projects.

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

There is also a concern that we would see a dramatic increase in the number of supplemental appropriations bills. We believe that to avoid this back-end way of moving back to what would effectively be a single-year cycle, strict restrictions would have to be adhered to on what qualifies for supplemental spending. Supplementals should only be used in the case of emergencies not as a means to increase spending in general budget areas. And as we recommended in our report, Rainy Day Funds should be included in the

budget to provide for unforeseen spending needs. Fund levels would be based on historical emergency spending levels and what constitutes an emergency would be carefully and narrowly defined.

Though in many ways the purpose of biennial budgeting is to distinguish between budget and non-budget legislation, doing so in practice could be challenging. As the Congressional Budget Office has pointed out, authorizing legislation can sometimes include significant amounts of mandatory spending and tax legislation is often considered in the form of freestanding bills outside the reconciliation process. The question that inevitably arises from this is ‘Would these policies be considered in the first year of a biennial budget cycle where budget matters are taken up or in a second, where non-budget issues are the focus?’ Certainly, this challenge – and others – can be addressed, but working out the details of and the transition to biennial budgeting must be done with care.

While recognizing these reservations, we clearly believe that shifting to biennial budgets, appropriations, and tax cycles would be advantageous for the Administration, Congress and the country. The past few years have not been good ones for the budget process. While the Committee recently released a statement commending the House for passing its appropriations bills in a timely and relatively gimmicky-free fashion, the bigger picture is quite bleak. Budget surpluses have been replaced with structural budget deficits. The debt is growing at an alarming pace. The baby-boomers’ retirement is only three short years away and yet there is no indication that Congress will implement a Social Security reform plan, let alone greatly needed changes to Medicare. To top it all off, we are still moving in the wrong direction as the budget that was passed this year actually enlarged the deficit.

Biennial budgeting is not going to resolve any of these real budget challenges on its own. Just as Germany and Britain have had to take actions to deal with their own domestic pension crises, for instance, the United States has a number of difficult policy choices to face up to. No amount of process reforms will replace the need to grapple with and

address these challenges. However, once Congress and the Administration come together to confront the hard choices they must make, changes to the budget process can provide both procedures to keep the budget on track as well as useful enforcement mechanisms.

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

Thank you again for the opportunity to testify today, I look forward to your questions.