

STATEMENT OF

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Mr. Chairman, I am pleased to appear before this Committee to discuss strengthening the budget process and implementing a biennial budget for the federal government. My statement this morning will review briefly the current budget outlook and the progress already made in improving the budget process before turning to a review of the key features of S. 2629, the proposed Budget Reform Act.

NARROWING THE BUDGET GAP

As a result of budget action last year and the onset of a recession, the prospect for federal deficits this spring was very disturbing. For fiscal years 1983 through 1985, high and rising deficits appeared probable, even assuming a moderate economic recovery. Implementation of the First Concurrent Budget Resolution for Fiscal Year 1983 promises significant progress toward altering this gloomy outlook. Under the assumptions of this resolution, budget projections show a substantial reduction in the deficits that would otherwise occur and the elimination of their widening pattern over time. Nonetheless, the deficits foreseen for each of the next three years--in the range of \$140 to \$160 billion (and still assuming economic recovery)--indicate that the Congress will need to redouble its efforts to bring revenues and outlays closer together to ensure long-term economic health and stability.

Although the goal of the Congress must be to reduce the deficit, immediate restoration of a budget balance could endanger economic recovery and would create widespread economic dislocation. In order to reduce budget deficits without disrupting the economy, an achievable multiyear plan to bring revenues up and spending down will be needed. The magnitude of the necessary changes will require a strong and enforceable budget process that will facilitate addressing problems in all parts of the budget. Unless the process deals effectively with slowing spending growth in national defense and entitlement programs as well as discretionary accounts and unless it is effective in phasing in some growth in revenues, the budget deficit outlook will not improve.

PROGRESS UNDER THE CURRENT BUDGET ACT

The Congressional Budget Act of 1974 was intended to increase Congressional control over the federal budget and to establish an orderly schedule of budget actions. The budget act originally established an annual iterative budget process. The Congress would set tentative budget totals in a first resolution in May (by which time all authorizing legislation was to have been reported out of committee); second, do all the detailed work on specific appropriations and tax laws; and third, make binding decisions on budget totals in a second budget resolution to be passed in September just before the fiscal year began. Reconciliation was to allow for final

adjustment--that is, reconciling the detailed changes just passed with the spending and revenue totals in the second resolution.

Experience with the budget process has revealed that there simply is not time between January and September for such a lengthy and iterative process of decisionmaking. The hard decisions to cut spending or raise taxes must be made early in the year, not left to September when the budget year is about to begin. Hence, the first resolution has become increasingly important and the second increasingly a formality. This year's first concurrent resolution recognizes this necessity by explicitly stating that the first concurrent resolution will become binding if a second concurrent resolution has not been adopted by the beginning of the new fiscal year.

A related development has been the use of reconciliation instructions in the first, rather than the second, budget resolution for the past three years. Before the spring of 1980, the Congressional budget process had little impact on entitlement spending. Each year's budget resolutions included assumed legislative savings to be accomplished by amendments to entitlement program authorizations, but these legislative savings were rarely enacted. The first concurrent resolution for 1981 included reconciliation instructions directing committees to report amendments to mandatory spending programs. The Congress enacted a reconciliation bill that provided about \$5 billion in outlay savings. The fiscal year 1982 reconciliation instructions called for much larger outlay savings and

extended the scope of reconciliation by requiring multiyear spending reductions and by mandating reduced authorizations for discretionary programs. In 1983, the reconciliation instructions continued to address mandatory spending and were extended to set revenue goals for the tax committees.

The budget process has also been expanded to cover direct and guaranteed lending, an area of federal activity not originally specified in the provisions of the budget act. Federal credit activity rapidly expanded during the first five years of the Congressional budget process. While direct spending for these activities was relatively small, there was a growing recognition that the impact of federal credit, including loan guarantees, on the economy was significant. The budget resolutions for fiscal years 1981 and 1982 were expanded to set targets for total direct and guaranteed loans and to allocate those targets among the budget functions. The first resolution for fiscal year 1983 went further, requiring new credit authorizations to be subject to appropriations limitations and the credit budget to be allocated among committees of jurisdiction, and establishing the targets as ceilings upon enactment of the second budget resolution. These extensions of the budget process into the credit area give promise of better control over the total impact of the government on the economy.

Another important change is the growing acceptance of the multiyear nature of budget decisions. The budget resolution (including the

reconciliation sections) now includes spending and revenue targets for the upcoming budget year and for two years beyond. This change recognizes several facts. First, most of the outlays in the upcoming year are locked in so that substantial changes in priorities can only be accomplished over a longer period. Second, abrupt changes in the tax code or in entitlement programs, in particular, are disruptive. A multiyear approach allows for phasing in changes. Moreover, focus on the upcoming budget year alone was an open invitation to creative accounting and fund-shifting. Multiyear targeting has strengthened the budget process by allowing for a longer-term plan incorporating a feasible and responsible transition to changed priorities.

The changes that have been implemented under the budget act underscore its flexibility. In response to serious economic and budgetary problems, the Congress has been able to modify its procedures. These changes have been sensible, have acknowledged flaws in the process, and have permitted the Congress to begin to address the serious problem of deficit reduction. It may be the appropriate time to incorporate these changes formally into the budget process.

PROBLEMS WITH THE CURRENT PROCESS

Timing and Workload

No one needs to remind the Congress of the problems associated with its heavy workload and the time devoted to the consideration of annual authorizations and appropriations. For several years, final action on appropriation bills has been delayed until well into the fiscal year. Much of the government has been funded under continuing resolutions, leading to widespread uncertainty and program inefficiencies in many agencies. The credibility of the Congress is certainly not enhanced by this failure to pass budget resolutions and appropriations on time. This year's treatment of the first resolution as potentially binding to eliminate the need for a second one should help ease the workload problem somewhat, but there are still problems that need to be examined.

Many factors have contributed to the tardiness in enacting appropriations. One major problem is simply policy differences among Members. But changes over the years in the way the Congress goes about its business also make it harder to pass appropriations on time. At the end of World War II, 95 percent of federal spending was permanently authorized. Since then, as the Congress has sought to exert greater control over federal programs, the use of annual authorizations has increased. In recent years,

nearly 20 percent of all budget authority requiring current action has been subject to annual authorization. Understandably, the annual review of programs increases the Congressional workload, limits the time available for oversight, and makes it difficult to meet deadlines imposed by the Congressional Budget Act.

The requirement that legislative committees report authorizing legislation by May 15 has posed problems for the Congress. Because of the difficulty in meeting the budget act deadline, committees often report skeletal bills by May 15--only to have the bills fleshed out by committee amendments during floor consideration--or seek waivers of the reporting deadline.

The failure to enact authorizations on time strains the appropriations process. The Appropriations Committees often must omit funding for the unauthorized programs from their bills, thus forcing supplementals, or may delay consideration of the bills altogether. This has been part of the reason for not passing all appropriations bills by the beginning of the fiscal year and, consequently, relying on continuing resolutions.

Need For Policy Deliberation

As the budget process has been carried out in the last few years, it has forced the Congress to make a great many far-reaching decisions after only

a limited opportunity for deliberation and debate. The agenda has been too full, and the time for its consideration too short, to allow anyone to be confident that all the implications of the various options have been examined or that the draftsmen have succeeded in accurately capturing the will of the Congress.

The Congress must make immensely important and difficult policy decisions on social security, tighter entitlements, adapting defense investment to budget realities, and setting priorities among the nondefense discretionary programs. The nation cannot afford any legislative blunders, substantive or technical, as the Congress struggles with issues having so large an impact on the security of the country and the well-being of the people. The deadlines of the budget process must not be allowed to overwhelm the need for quality in what is being decided.

BUDGET REFORM ACT OF 1982

The Budget Reform Act of 1982, S. 2629, introduced by the Chairman, directly addresses a number of the shortcomings in the procedures established by the Budget Act of 1974. It attempts to strengthen enforcement mechanisms while ensuring flexibility, and it cuts the overload of the budget process by reducing the number of steps in the process and spreading them over a longer time period. The major provisions of S. 2629 are:

- o The establishment of a biennial budget--budget decisions in the first session of Congress, oversight in the second;
- o Requirements for a single binding budget resolution, followed within 60 days by enactment of a reconciliation bill;
- o Replacement of the current 13 appropriations bills by a single omnibus appropriations bill;
- o Requirement of a super majority roll call vote of 2/3 for revisions to a budget resolution; and
- o Establishing January 1 of even-numbered years as the start of each fiscal period.

Strengths

Some of the provisions of this bill write into the statute procedural innovations that have already occurred in practice. These include making the first budget resolution binding from the start (a strengthening of this year's procedure), including reconciliation, and eliminating the need for the second resolution. S. 2629's proposal to allow 60 days for completion of work on the reconciliation bill seems like a sensible response to the current too-short deadline. In this regard, it might be possible to give even more

time for reconciliation by pushing forward, say to November, the date for completion of all action in the first session.

The requirement for a single omnibus appropriations act, consistent with the first resolution and enacted well in advance of the start of the fiscal year, is an interesting mechanism to ensure compliance with the first resolution and to ensure timely passage of appropriations measures. It has the obvious virtue of significantly reducing the number of bills that have to be enacted each year. More importantly, such an omnibus appropriations act would also more clearly expose in one place the trade-offs that need to be made among programs.

The most innovative change in the bill is the move to a biennial budget. Many budgetary decisions are already made in advance. Interest on the national debt is paid as a result of a permanent appropriation. Large portions of the budget are devoted to social security and other entitlement programs. Few would claim that we would be better off if the Congress had to decide every year whether to have a social security or unemployment insurance program. Rather, a strong case can be made that most federal programs would benefit from the stability associated with a longer budget cycle. A biennial budget could significantly reduce the workload of the Congress and the federal agencies.

By completing spending and tax bills in the first session of every Congress, it would be possible to use the second session for program oversight and for the searching review of major policy actions that is so needed. During the oversight period, committees could devote themselves to issues requiring protracted hearings and study. For example, our progress in integrating credit into the budget process will do little good unless we better understand how federally assisted credit affects the economy. Priorities in discretionary spending cannot be set effectively until the federal-state relationship is thoroughly examined. The biennial schedule would make it possible to address these kinds of issues.

The quality of budget decisions could be maintained or improved if appropriations for many programs were made every other year. Unexpected demands that occur in the second year could be accommodated by supplemental appropriations, but this practice should be the rare exception. Biennial budgeting would also decrease the uncertainty that makes it so difficult to manage some federal agencies today. Agencies could make longer-range plans without concern for disruptions caused by the inability of the Congress to enact annual appropriations on time.

State and local governments would benefit from biennial budgeting. Currently, the uncertainty of federal funding has an adverse effect on program effectiveness and execution at the state and local level. These governments do not know from year to year what to expect from the federal

government. If the Congress authorized and appropriated for these programs on a two-year or longer basis, state and local governments could plan far more efficiently.

Programs with long lead times, such as highways and many defense items, can only be harmed by the uncertainty of annual funding. A two-year cycle could bring greater certainty and savings to the defense procurement process. Finally, enacting a budget plan to reduce the budget deficit in two-year chunks would increase public confidence that the Congress will stick with the plan.

Problems

There are a number of problems with S. 2629 that could be easily remedied. While the bill requires the President to submit credit limits in his budget proposal, it does not require the Congress to do so. I believe that including credit limits in the budget resolution would be a desirable change. (Language establishing coverage of the resolution should also permit inclusion of tax expenditures.) In addition, the bill as written still requires authorizing bills to be reported early in the first session, at the same time budget legislation is being prepared. Authorizing legislation is an activity that is more closely linked to the oversight and broad policy role that the bill places in the second session. I would recommend that authorizing legislation (except for changes forced by reconciliation) be shifted to the

second session. (If this was done, the sequence of activities for different committees would be that given in the attached table.)

One problem that is not so easy to remedy is the tentativeness of economic assumptions developed so far in advance of the beginning of the budget period. When the President submits his two-year plan in January of the odd-numbered year, it is for a fiscal period that does not begin for another year and will not be completed for three years. We all know that the economic outlook can change quite swiftly, and unforeseen circumstances can significantly alter outlay and revenue estimates based upon the early economic assumptions. Some mechanism for easily updating these estimates without formally amending the first resolution may be advisable.

This brings me to S. 2629's requirement for a supermajority to change the first budget resolution. I agree with the objective of the provision which is to strengthen control of the budget process. But the fact is that a budget resolution exerts control by limiting legislative action that deviates from dollar totals in the resolution. These dollar totals may change for three reasons: a change in the economy, a technical change regarding spendout rates or tax-collection rates, or because the Congress decides to change policy. The first two reasons certainly should not require a 2/3 vote. I would also question the need for a 2/3 vote when the Congress determines that a budget policy change has to be made. Much can happen in two years

that no one could have foreseen. Some flexibility is needed because economic or domestic and foreign policy requirements can change swiftly and unpredictably.

CONCLUSION

The Budget Reform Act of 1982 would incorporate a number of major improvements into the budget process. It adopts the informal amendments to the budget process that have evolved over the past eight years and goes beyond them to the important shift to a longer term process--a biennial budget.

If the Congress is reluctant to move in one step to a biennial budget, it could experiment with biennial budgeting by requiring:

- o Two-year Authorizations. Such authorizations would be a prerequisite for biennial appropriations.
- o Selective Use of Two-Year Appropriations. The shift to two-year appropriations could be started by shifts to two-year funding for activities that either need longer time horizons or those that change little from year to year.

In addition, the budget process could be strengthened by requiring:

- o **Binding Multiyear Numbers.** The out-year targets should be made binding for reconciliation and direct spending. In practical terms, this could be implemented by requiring multiyear scorekeeping and by requiring future presidential budgets and budget resolutions to be compared to the baseline established by the out-year figures.
- o **Binding First Resolution.** The provisions established by Section 7 of the First Concurrent Resolution for 1983 making the first resolution binding in the absence of enactment of a second resolution by the beginning of the fiscal year should be continued. A logical progression would be for the first resolution to be revised during consideration of the next year's resolution.
- o **Reconciliation in the First Resolution.** The practice used in the past two years of including reconciliation instructions in the first resolution should be continued. The proposed time period in S. 2629 of 60 days from enactment of the resolution could be tried out.

While I have some reservations about the details of S. 2629, the bill provides an excellent framework for shaping the next reform in Congressional budgetmaking. CBO is prepared to provide whatever assistance your Committee needs as you continue your deliberations.

SCHEDULE OF LEGISLATIVE ACTIONS UNDER S. 2629

Legislative Action	First Congress		Second Congress	
	First Session	Second Session	First Session	Second Session
Budget Resolutions	X		X	
Appropriations	X		X	
Fiscal Period Begins		X		X
Authorizations		X		X
Oversight				
Budget and appropriations		X		X
Program review and authorizations	X		X	
Contingencies (Supplementals, revised budget resolutions, emergency authorizations)		X		X