

Statement of  
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Mr. Chairman, I am pleased to appear before this Committee to discuss the experience of the last seven years under the procedures of the Congressional Budget and Impoundment Control Act of 1974. The federal budget has been the dominant issue facing the Congress both this year and last, and the budget process has been stretched and expanded in new ways. Members of Congress, Congressional staff, and the Congressional Budget Office have all labored long and hard to produce budget resolutions, reconciliation bills, and a tax bill. We at CBO have been particularly hard pressed this year, having to analyze budget proposals from two different administrations and to prepare hundreds of cost estimates to support the reconciliation process, as well as carrying out our normal activities in support of the Budget, **Appropriations**, and authorizing committees.

The prospects for the next several years are for more of the same intense "budgeting" that the Congress has had to face this year. Reconciliation, painful and arduous as it is, is likely to be necessary if the Congress is to achieve the reordering of priorities envisioned in its budgetary plans. Thus, now is a good time to examine the budget process and to consider ways in which it might be strengthened and improved.

The first part of my statement this morning describes the experience under the Budget Act, lessons learned from that experience, and possible changes the Congress may wish to consider.

Then I shall discuss possible ways of further strengthening the process by extending its coverage to off-budget forms of federal activity, and by reducing the number of budgetary decisions the Congress must make each year.

#### EXPERIENCE UNDER THE BUDGET ACT

Counting the dry run conducted in 1975, the Congress has seven times used the procedures of the Congressional Budget Act of 1974 to shape the budget of the federal government for a fiscal year. In each case the Congress has demonstrated that it can make decisions about fiscal policy and the size of the federal budget.

- o The Congress has set aggregate targets and ceilings for expenditures and revenues, and functional targets for spending;
- o It has lived within those targets and ceilings, or has adjusted them, as necessary, to changing economic conditions or policies; and
- o It has established a fiscal policy goal and shaped individual spending and revenue decisions in light of that goal.

This year and last, however, have witnessed a maturing, or coming of age, of the budget process: the Congress, using the inherent

flexibility of the **Budget** Act, has planned for and implemented major changes in the relative priorities of spending programs and the overall magnitudes of both spending and revenues. The results have been dramatic.

In 1980, in its First Concurrent Resolution on the Budget for Fiscal Year 1981, the Congress prepared a plan for a balanced budget, to be achieved not only by cuts in appropriations but also through reductions in spending under mandatory programs and through increases in revenue from the elimination or reduction of tax **expenditures**. To accomplish the reductions in direct spending and tax **expenditures**, the Congress added to the first concurrent resolution the hitherto untried reconciliation procedures established by the Budget Act as part of the second concurrent resolution. Although the planned balanced budget for fiscal year 1981 was ultimately frustrated by the economic downturn during 1980, the Congress did achieve a reduction in the deficit of about \$8 billion through the reconciliation process.

The spending targets in this **year's** First Concurrent Resolution on the Budget for Fiscal Year 1982 reduce sharply the growth of total federal budget outlays while at the same time significantly increasing the relative share of the budget allocated to national defense. The revenue targets assume a three-year cut in both personal and business taxes.

Again this year the Congress has used reconciliation as the tool for implementing changes in spending priorities, only on a much larger **scale--reducing** nondefense spending by \$35 billion in 1982. In addition, reconciliation this year differed from last year in that the reconciliation instructions were extended to cover authorizations as well as mandatory spending programs. Furthermore, the reconciliation instructions contained savings targets for fiscal years 1983 and 1984, enhancing the effectiveness of the **multiyear** targets contained in the first resolution.

#### Lessons Learned

What are the lessons that have been learned from the experience of the last seven years under the Budget Act?

First and foremost, the tremendous inertia of the federal budget makes it very difficult to effect major changes in the composition or size of the federal budget in any one year. More than 75 percent of the federal spending for any fiscal year is mandatory under existing law, or results from decisions made in previous years. This is not undesirable; it **means**, however, that the Congress needs ample lead time to accomplish any major reordering of budget priorities. Thus, if the Congress wishes to balance the budget by 1984, it will have to use multiyear budget targets. This **year's** and last **year's** experience with multiyear budget targets has demonstrated their importance.

The second lesson that has been learned in the last seven years is that major changes in the composition of budget spending cannot be accomplished solely through changes in the portion of the budget requiring current Congressional action, mainly the appropriations bills. Some method, such as reconciliation, is needed to change authorizations and **entitlements**.

After the experience of this year and last, no doubt everyone would agree that reconciliation is not the best way to write legislation. Unfortunately, however, the Congress will continue to face in the years ahead the need to make changes in the levels of mandatory spending programs. Reconciliation is very likely to remain a necessary, though unpleasant, part of the budget process for the next few years.

The third lesson of the last several years' experience is that the first resolution has become the more important of the two concurrent resolutions on the budget required each year. The major budgetary issues facing the Congress each year must be hammered out in the first resolution. By the time the second concurrent resolution is considered, the Congress is much too close to (if indeed, not past) the start of the fiscal year to decide any important questions. Thus reconciliation must be part of the first resolution; May 15th is already very late to start considering

changes to substantive law effective for the next fiscal year, and it is even more difficult to envision such changes being made after the second resolution.

#### Strengthening the Budget Process

Based on these lessons learned from seven **years'** experience under the Budget Act, I draw two conclusions with respect to changes that might be made in the process. First, the preeminence of the first concurrent resolution on the budget each year should be explicitly recognized by making its targets binding. Second, multiyear budgeting should be made a permanent part of the process.

Making the first concurrent resolution binding would recognize that the statutory timing of the second concurrent resolution is too soon after the first for the economic situation to have changed dramatically and too late before the start of the fiscal year to be making important policy decisions. Other changes that logically derive from a binding first resolution would be to make reconciliation a permanent part of the first resolution and to eliminate the requirement for a second concurrent resolution each year. The experience with the reconciliation process to date demonstrates that it takes time, and that this time is not available after the second resolution. Furthermore, making the first budget resolution binding would eliminate the need for a second

resolution unless significant changes occurred in the economic outlook or unforeseen needs arose for legislative action. If the second resolution proved unnecessary, a considerable amount of time and work could be saved.

Making multiyear budget targets a permanent part of the budget process would recognize their evident importance. Moreover, the added credibility of binding multiyear targets, in the light of the severe budgetary problems the Congress faces in the next several years, might encourage Congressional committees to undertake a restructuring of their programs to avoid being forced to make wholesale changes helter-skelter during reconciliation.

#### EXTENDING THE COVERAGE OF THE BUDGET PROCESS

As a tool for examining federal policies on the allocation of resources within the economy, the budget process today is quite limited. It focuses almost exclusively on direct spending by the federal government. One of the most important steps the Congress could take to strengthen the budget process would be to incorporate into the process two other forms of federal resource allocation: credit programs and tax **expenditures**.

#### \$300 Billion of Resources

Through its direct loan and loan guarantee programs, the federal government allocates enormous amounts of credit in our



**economy--\$121.5** billion in 1980, for instance. The federal government also influences investment decisions and resource allocation through its tax policies, particularly through tax **expenditures**. Tax expenditures are revenue losses that arise from provisions of the tax code that give special or selective tax relief to certain groups of taxpayers, either to encourage some desired activity or to provide special aid. The revenue forgone in 1980 from tax expenditures totaled \$181.5 billion. Together these two forms of federal activity accounted for over \$300 billion in resources in 1980, an amount equal to over half of the **government's** direct spending. The federal influence on resource allocation through its credit programs and tax policies may be as important, if not more important than its direct spending programs, because the investment of productive resources is being more directly **affected**.

Not only is the total volume of resources allocated through credit programs and tax expenditures large, but it is also growing more rapidly than direct spending. The revenue forgone through tax expenditures totaled \$43.9 billion in 1970; by 1980 it had more than quadrupled, to \$181.5 billion. In 1970 new extensions of credit by the federal government totaled \$38.1 billion; ten years later that total had more than tripled, to \$121.5 billion. In contrast, direct spending by the federal government grew from \$196.6 billion in 1970 to \$579.6 **billion** in 1980, not quite tripling over the decade.

In some areas of federal activity, the allocation of resources through credit programs and tax expenditures can be far more important than direct spending activities. For instance, direct expenditures in support of housing or **homeownership** are relatively small each year: some \$4.0 billion, or less than 1 percent of spending in 1980. In contrast, housing credit extended by the federal government that year totaled \$44.8 billion and tax expenditures encouraging homeownership and housing production resulted in a revenue loss of \$22.5 billion.

Thus, federal credit programs and tax expenditures are far too important to be left out of the budget process. Let me briefly describe steps the Congress might take to incorporate these activities into the process.

#### Credit Budgeting

The rapid growth of federal credit and the change in the mix of credit programs from actuarially sound insurance programs to subsidized credit programs and loans and guarantees to discrete ventures means that the risk and costs associated with the government's credit activities are increasing rapidly. Traditional budgetary techniques, with their focus on direct spending and taxing, are unable to control credit program levels, particularly for off-budget direct loans and loan guarantees. Consequently, the increases in the aggregate level of resources being allocated

by the federal government through loans and **guarantees--and** of the potential costs of these **activities--have** occurred without any explicit decisions by the Congress that they should occur.

CBO has recommended that the Congress proceed to implement a credit budget immediately. The credit budget will help the Congress be informed about the aggregate level of federal credit for a fiscal year and provide a framework permitting the Congress to begin making decisions about that level and about the allocation of credit among competing needs.

The Congress has already taken some steps toward a credit budget. The first and second concurrent resolutions on the budget for fiscal year 1981 contained aggregate targets for new direct loan and loan guarantee commitments by the federal government. In addition, limitations on the levels of individual programs were included in the appropriations language for many agencies. This **year's** first concurrent resolution for 1982 contained functional as well as aggregate targets for new credit extensions, and again individual programs are being limited through **appropriations.**

After experimenting with credit budgeting this year and last, I believe the Congress is ready to move to the next step: making the credit budget an explicit and binding part of the budget process. **S.265**, introduced by Senator Percy, and H.R. 2372, sponsored by Congressmen **Mineta** and **Bethune**, appear to be appropriate vehicles to that end. I testified yesterday before the

House Budget **Committee's** Task Force on the Budget Process on H.R. 2372. Attached to my statement this morning is a copy of my prepared statement for that hearing.

Toward A Tax Expenditures Budget

Just as the Congress has experimented with a credit budget for two years, I would urge that the Congress experiment with a "tax expenditures budget." Steps short of amendments to the Budget Act could be taken to incorporate tax expenditures into the budget process next spring. For example, the resolution might include just a target for tax **expenditures**, leaving for future years the implementation of binding ceilings and point-of-order provisions. The target could be limited to total tax **expenditures**, or it could be broken down by functional categories. It is also possible under the existing Budget Act to trade off selected new tax expenditures against new direct expenditures by allowing only enough room in the budget resolution to take one route or the other, but not both. As more experience is gained, binding ceilings could be imposed on tax **expenditures**, perhaps starting only with limits on new or expanded tax **expenditures**.

REDUCING THE NUMBER OF BUDGETARY DECISIONS

The procedures of the budget process today force Members of Congress to make so many budgetary decisions each year that they cannot possibly take time to make them in light of thorough review

and informed debate. The process could be dramatically improved by drastically reducing the numbers and frequency of budget decisions that must be made each year.

Currently, for many programs, the Congress must each year debate and pass an authorization bill, set an appropriation level in an appropriations bill, and make provisions for the activity in the concurrent budget resolutions. In addition, this year and last, the Congress may also have had to make decisions about the program or activity as part of the reconciliation process. The results of these multiple, annual actions are a crowded Congressional calendar and delays in the passage of key budgetary legislation. Authorizations are not enacted before appropriations bills must be brought up; the appropriations bills do not get enacted before the start of the fiscal year; and indeed, the Congress barely finishes the budget for one fiscal year before it is forced to begin consideration of the budget for the next year.

It is not clear that a thorough annual review of all federal programs would be desirable even if it were possible. It is hard to think of examples of activities that really need thorough reexamination and redirection each year. Too frequent changes can be counterproductive. Transfer payments need to be predictable, so that **people's** lives are not disrupted. Military capability suffers if signals change too often. Procurement costs can go up, not

down, if production lines are alternately speeded up, slowed down, or even halted pending Congressional **action**. In grant programs, frequent changes and uncertainty of funding are costly and disruptive to the recipients, primarily state and local governments. Indeed, almost all programs would work better if authorizations and appropriations were enacted for several years at a time. About the only exceptions are disaster assistance, military contingencies, or **countercyclical** programs where triggering mechanisms are not **appropriate**.

One alternative to the overcrowded calendar of the annual process would be to move to a biennial budget. I have long believed that authorizations for federal activities should be for a minimum of two, and preferably three or more years. In addition, appropriations for most federal activities could also be placed on a cycle of at least two **years'** length. Furthermore, there are no technical obstacles to setting spending ceilings and revenue floors for a two-year period in a budget resolution.

One can imagine a dramatically different Congressional calendar under these changes. In the first session of any term, the Congress could adopt a budget resolution, **authorizations**, and appropriations for two fiscal years. During the second session Congressional committees would be free to conduct oversight of authorizations and **supplementals**, or revisions to authorizations or

budget resolutions as necessary. The next Congress, considering reauthorizations and appropriations during its first session, would then be able to take advantage of the groundwork done by the previous Congress. It would be free, of course, to revise the budget handed on to it by the previous Congress.

#### CONCLUSION

In the last two years the Congress has dramatically improved its ability to make decisions about the federal budget. The task of "budgeting" in the next several years will continue, however, to be as arduous as it has been in the last two. With that in mind, the Congress should seriously consider steps to reduce the number of budgetary decisions the Congress must face each year. The Congress should also consider taking steps to improve the consideration of credit programs and tax expenditures in the budget process, so that the Congress will better be able to influence the direction of all forms of federal resource allocation.

One of the virtues of the Budget Act is its flexibility. The Congress may "try out" or experiment with new procedures prior to changing Congressional rules or federal statutes. In this fashion, the Congress has already experimented with reconciliation, **multiyear** budgeting, and a credit budget in the budget resolutions for fiscal years 1981 and 1982. My point is that, while one might

want to amend the Budget Act eventually, most of the suggestions I have made **today--including** reducing the number of annual budget **decisions--can** be tried out by the Congress without changes in that law. After several years of experience, if the results are satisfactory, then the law could be amended to institutionalize the new **practices.**