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**“Observations on the Current State
of the
Federal Budget Process”**

Good afternoon. I am going to start by saying that I never say anything very profound, and I'm not likely to break that record today. I say that because what I'm about to say is probably not very surprising, but, nonetheless, I think it needs to be said.

Namely, from where I sit, at least, the Congressional budget process is dead. One might say, “Long live the budget process!” But it is dead for all practical purposes at the moment. And before I explain why I think that is the case and some of the implications, I want to regale you or bore you with a few highlights and “low lights” of the history of the budget process as we have known it in the recent past.

I understand that a number of you are getting training credits for this, so you may like the history lesson that you are getting here, and you can say that it was an important part of your course work.

As most of you know, the Congressional budget process of the modern era started with the Nixon impoundments. For those of you who do not know, President Nixon chose not to spend certain appropriations. Although he did not have a line-item veto, the apportionment power, which the executive branch still has, was used to essentially not spend some funds—effecting an impoundment. The Congress, not surprisingly, was not particularly pleased with that action so, among other things, it eventually fashioned and passed the Budget and Impoundment Control Act, which, in his closing days and weakened position, Nixon signed.

So the modern budget process was created, not as an afterthought but certainly as an ancillary thought to the driving force of the legislation, which was to gather back to the Congress some of the budgetary power that the President had sought to claim as his own.

The Budget Act, which created the Congressional Budget Office (CBO) as well, provided for the Congress to have a much better formulation of the budget in an overarching sense than it had probably ever had. You are all familiar with 13 appropriation bills' being passed

and adding up the budget total at the end of the year. Not much consideration was given, however, to exactly what the effect of individual pieces of legislation was going to be on the budget in any given year. But the Budget Act made provision for a number of legislative vehicles, for lack of a better term, that were to be employed to help the Congress be more responsible in certain areas.

The law said that there should be a first budget resolution early in the year, which would lay out the plan for the Congress for the year. There was to be a second resolution a little later in the year to accommodate significant changes in economic outlook, fiscal needs, and the like. And at the end of the year, if necessary, there was to be a reconciliation bill that would conform the plan with what was at that point actuality or reality. And that was how the process was supposed to go. It almost never went that way. There were a number of years in which there were a first budget resolution and a second and even a year in which there was a reconciliation bill—roughly what the framers of the law had in mind.

But starting in 1981, the Budget Act was basically turned on its head. Specifically, there was a reconciliation bill, but it followed shortly after the first budget resolution, which not long thereafter became the second budget resolution as well. And in 1981, reconciliation was used to implement a whole range of policies, which affected taxes, entitlements, the jurisdiction of authorizing committees, and the appropriation process in very broad ways.

The first reconciliation bill, which was mostly aimed at spending, if you will, had 59 subconferences between the House and Senate. Resolving the differences between the two took almost a month even though the bills were actually quite similar when they passed in both Houses. It was later that year that the equivalent of a second reconciliation bill (although we did not call it that) implemented much of the tax policy of the Reagan Administration, plus a lot of tax policy added by the Congress. Then, ultimately, there was another budget resolution.

But the whole process had changed dramatically—from an accounting system, a measure of responsibility, a guide for spending to one of actually implementing a great deal of policy. And that really remained the way the process worked for a number of years. It was added to, subtracted from, multiplied, and changed. We had Gramm-Rudman-Hollings intervening and adding a number of barnacles or enhancements, depending upon your view.

As the budget process ran the show, many of the normal actors were shunted aside. That is to say, the authorizing committees thought that their power was being usurped by the budget committees' process. The appropriators certainly thought that their unique powers were being thwarted or constrained, which of course in both cases was part of the idea but, nonetheless, not an idea that they were comfortable with.

As a result of that, I would suggest, there were other processes that the Congress used to pursue with vigor that were diminished. A prime example is oversight. The authorizing committees in the past, in addition to the appropriation committees, mainly were charged with oversight. They would call up cabinet secretaries or administrators and ask them pointed questions about the programs they were running and how they were doing it.

That happens almost not at all anymore. In part, I would suggest, it is because of how the budget process discouraged the authorizing committees. But that is one of the ancillary effects of how the budget process evolved. Along the way, the budget process made a lot of enemies. It made enemies of the authorizers, the appropriators, and sometimes the leadership. Meanwhile, the original proponents went away. Too many of them retired and died, and those few who were left to support the process were worn down.

So we get to the modern-day history and why I think that it is easy to say the process is dead. As most of you are aware, this was the first year since 1975 that the Senate has not passed a budget resolution. There have been other occasions when we did not have a conference report, when we did not have agreement between the Houses, but never a time when the Senate did not pass a resolution.

We have very few enforcement tools left, among the more modern mechanisms at least: pay-as-you-go and discretionary caps on appropriations. Those were the result of the 1997 budget agreement, and they expired at the end of September. The Senate has extended them until April, as I recall, for a few months, but they are not likely, at least at the moment, to be very effective. So we had no budget plan this year, and we have no enforcement mechanisms.

You can see the result of that situation, I would suggest, at least in part, in the failure to pass appropriation bills. Certainly, it reflects a difference in policy. Yes, it is a political argument. Yes, the question is how many votes you have on the House or Senate floor. But without at least the cover, the backdrop, the support from a budget resolution and a budget agreed to by the Congress, it is very difficult to forward any particular appropriation bill contrary to what the President wants, which leads me to the largest implication, I think, of where we find ourselves today. And that is that much of the budgetary power that was implemented in part by the Congress in the wake of Nixon impoundment and the utilization of this budget process, much of that power has evolved back to the President. Now, the President's budget is the only game in town. Now, the President's veto is the only power in town when it comes to budgetary decisions. So the Congress has given up, I think, a large measure of what it had grabbed back from President Nixon. That, coupled with the fact that there is very little oversight going on in the authorizing committees, I think, makes it very easy for the President to economically and actually impose his will on the Congress in these matters.

Now, what would one do about that? I am not sure. There are probably ways to resurrect the current process. We were discussing this yesterday at CBO, and someone likened the process to a zombie. And someone else said well, maybe, just an organ transplant patient. Given the, shall we say, sarcastic wits that survive at CBO, the debate quickly became whether the organ in need was a brain or a heart. Then there was some discussion about the viability of reviving the patient. That is not clear. Your guess is probably as good or better than mine. I know that the incoming chairman of the Budget Committee of the Senate, Senator Nickles, says that he wants to try to resurrect the process. He is talking about having reconciliation; he is talking about budget resolutions—things that we used to have. However, I think that he is going to have a tough time. I think it will be a number of years before the Congress again asserts itself in a systematic way and reasserts its own power in the budget process over that of the President.

To what end is not clear. How soon, how fast, and how easy that will be are also not clear. But I think what is clear is that without this kind of process (something that forces the Congress to agree on some broad outlines on what it wants to do for a spending plan), without its arguments and its votes against a President, the Congress is going to be dominated by any President—until the Congress learns again how to grab back some of that budgetary power.

This is not new. In some ways, the history of the budget process, to the extent that we have had one, goes well beyond 1972 or 1975, when I started. The process, of course, goes back to the beginnings of the Congress with the constitutional requirement that the Congress initiate spending and revenue bills, but there has certainly been more back-and-forth between the executive branch and the Congress in this last century than in the first. Nonetheless, the Presidential power for budgeting has waxed and waned. One might say that the power belonged exclusively to the Congress in the early days. It was the only entity that actually had bills and added them up. Then, in the early 1900s, it may have unfortunately required the executive branch to develop an executive budget and send it to the Hill. After that, budgetary power tended to evolve toward the executive branch. So this situation is not new. For the Congress, the power has waxed and waned in some ways, particularly in the last century. But I do think that with the current budgetary climate and particularly with the impending retirement of my generation, it is truly an unfortunate time for the Congress to be without the ability to fashion a budget.

I say that because, as many of you have heard me say before, the outlook for the near term, that is, the next 20 or 30 years, is not particularly appealing if you are one of my kids. The programs for the elderly will go from currently spending about 7 percent of GDP (gross domestic product) to somewhere in the neighborhood of 16 percent or 17 percent of GDP. That is about, as most of you know, what we spend on all federal programs now.

We have collected, on average, 18 percent of GDP in federal revenue since World War II. So, under current law, we will be spending most of that—at least—on programs for the elderly, which will take us to the largest peacetime fiscal shift in history. We will either have to dramatically raise taxes, cut spending on these programs, cut spending on other programs, or borrow from our kids. It is not clear that we can borrow that much for very long. If we were to borrow something like 10 percent of GDP, which in today's terms would be roughly a trillion dollars a year—that is probably not sustainable for very long.

So we are coming to a large change in fiscal policy, as I said, the largest peacetime change this country has ever seen. And to have a Congress without the tools to respond both to the executive branch and to develop its own plans and its own policies is not a situation that we would say is ideal. And, frankly, I do not think we have much time to facilitate the fiscal future and the economy for our children. As I said, my generation begins to retire in earnest in 2010, and by 2030, the number of folks in Medicare and Social Security will have doubled from 39 million to roughly 80 million. Meanwhile, we will have added very few workers.

So we have to accommodate this future somehow. That is very clear. What is not clear is how the Congress will respond, and how it can respond without a more complete budget process. With that, I think I will quit and entertain questions to find out what is on your mind.