CBO TESTIMONY

Statement of
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on
H.R. 853, the Comprehensive Budget
Process Reform Act of 1999

before the
Committee on the Budget
U.S. House of Representatives

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NOTICE

This statement is not available for public release until the hearing begins at 11:00 a.m. (EDT), Thursday, May 20, 1999.

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Mr. Chairman, Congressman Spratt, and Members of the Committee, thank you for the opportunity to testify on H.R. 853, the Comprehensive Budget Process Reform Act of 1999. That bill reflects the work of the Committee's Task Force on Budget Process from the 105th Congress, which was headed by Congressmen Nussle and Cardin. It responds to many of the concerns and complaints about the budget process that have been voiced by Members of Congress and others in recent years.

The task force, which worked closely with the House Rules Committee, held several hearings on major reform issues and heard from many witnesses. The members of the task force should be commended for their hard work and thorough analysis of these thorny budget reform issues. They have produced a wide-ranging and ambitious measure.

The major purposes of H.R. 853 are to encourage early budget agreement between the President and the Congress, improve planning for emergencies and budgeting for federal insurance, reinvigorate legislative oversight and review of federal programs, end the threat of disruptive government shutdowns, and allow more flexibility in the use of budgetary offsets. It would seek to accomplish those goals by converting the budget resolution into a measure that would become law, creating a reserve-fund procedure for emergency spending, establishing new requirements for the review and reauthorization of federal programs, moving toward an accrual basis of accounting for federal insurance programs, putting in place automatic continuing appropriations, modifying pay-as-you-go (PAYGO) rules to clarify the use of projected on-budget surpluses, and making other changes.

My testimony will make the following major points about H.R. 853:

- Enacting the budget resolution into law could change the Congressional budget process into a joint legislative/executive budget process. That change might have significant advantages, including potentially swifter resolution of policy differences between the President and the Congress and more timely action on budgetary legislation. However, when broad policy differences were substantial, the President could veto the joint budget resolution, and a budgetary stalemate could emerge. In that case, fallback procedures in the bill would allow the Congress to adopt a budget resolution under the legislative-only process that is currently in place.

- Automatic continuing appropriations would address a major problem in the budget process—the annual threat of a government shutdown caused by lapsed funding authority. That change is intended to eliminate the funding crisis that awaits policymakers and federal agencies each year and may also have beneficial effects on the legislative process. However, enacting automatic funding for discretionary programs would also remove one of the true action-forcing deadlines in the budget process and could favor the continuation of funding at the current rate.

- The procedures for an emergency spending reserve and the new accounting provisions for federal insurance have the potential to improve planning for unanticipated expenses and provide explicit information on long-term budgetary commitments. Whether those changes would be likely to improve budgetary control and accountability is unclear.

- Proposed changes that would require the periodic review and reauthorization of federal programs might also help promote the goals underlying the Government Performance and Results Act of 1993.

The following is a brief overview and analysis of the major features of the bill.

Converting the Budget Resolution into Law

Title I of the bill would convert the concurrent resolution on the budget into a joint resolution that would become law. April 15 would remain the target date for final enactment. The contents of the joint resolution would generally be restricted to aggregate budget levels (total spending, revenues, deficit or surplus, and debt) and broad spending breakdowns—for mandatory, discretionary (defense and nondefense), and emergency spending. Functional categories of spending and reconciliation instructions would be included in the accompanying committee reports instead of in the text of the resolution itself. If the President vetoed the joint budget resolution, the Congress would be authorized to adopt, under expedited procedures, a concurrent resolution that would serve as the budget resolution for Congressional enforcement purposes (points of order, committee allocations, and reconciliation instructions).

Providing for a budget resolution in law could make overall budget agreement with the President a primary focus of the Congressional budget process. Whatever its merits, that provision would represent a major shift from the original purpose underlying the Congressional Budget Act of 1974. That act was intended to give the Congress, through the adoption of a concurrent resolution on the budget, the means to establish and enforce its own budget priorities independent of the President.

Some Members and observers trace the recent record of budgetary delay and gridlock to the budget process set forth by the 1974 act. But it is not clear that the existence of an independent Congressional budget process has exacerbated delays. It is also not clear that carving out a formal role for the President in that process will foster overall agreement and pave the way for timely action on budgetary legislation. However, in years when budgetary conflict between the President and the Congress is intense, having a formal mechanism for reaching broad agreement may have advantages. As proponents point out, converting the budget resolution into a law effectively formalizes the informal budget summitry of recent decades, but it has the added advantage of scheduling summits early each year. When overall differences were large and could not be bridged, the President would veto the resolution and the Congress, using the bill's fallback procedure, could move forward with its own alternative plan much as it does now. When overall differences were small, the statutory budget resolution would seem to make little difference one way or the other.

By formalizing budget summitry, however, the joint budget resolution might also change the dynamics for reaching agreement. Budget summits have been informal and irregular, and the number and composition of the participants have varied. Budget summits have not occurred every year and have not always led to final agreement. In some years, particularly following multiyear budget agreements, they have not been needed. In others, the magnitude of the differences precluded agreement. Simply formalizing the process through a joint budget resolution would probably not make overall budget agreement easier, and it might simply highlight and sharpen differences by eliciting a veto when agreement could not be reached.

Because of the bill's fallback procedure, the Congress would still be able to adopt a concurrent budget resolution in the event of a veto. That provision would guard against some of the procedural delays on budgetary legislation that the Congress would face because of an impasse with the President over the budget resolution. However, since the fallback procedure would not go into effect until a veto occurred, the Congress would still have to reach its own consensus on the budget resolution before it could move forward under that procedure.

The bill would simplify the budget resolution principally by removing functional categories of spending and reconciliation instructions from the text of the resolution and placing them in the committee report. That change could help to better focus Congressional debate on broad budget priorities. It would also remove provisions of the resolution that could create further obstacles to final agreement with the President and might have uncertain meaning if enacted into law. However, such a change could also make the resolution less clear as a guide to policy and might raise questions about the status of reconciliation instructions to committees under House and Senate rules.

Creating a Reserve Fund for Emergencies

Title II of the bill would set up a reserve fund for emergency spending that is intended to encourage planning for emergencies, subject emergency spending to budgetary constraints, and establish criteria for emergency spending. The current exemption for designated emergencies from enforcement under the discretionary caps and PAYGO would be repealed.

The bill provides a statutory definition of emergency. In general, it defines a budget emergency as any unanticipated situation that requires federal spending to mitigate, prevent, or respond to "loss of life or property, or a threat to national security." The President's budget and the joint budget resolution would be required to include emergency spending levels as a separate spending category (divided into discretionary and mandatory amounts). Those levels would have to equal the average of the amounts enacted for emergencies over the previous five years.

When the House or Senate considers legislation with emergency spending, the Budget Committee Chairman must certify that those amounts are for an emergency as defined by law. Any legislation that would exceed the emergency spending levels established in the budget resolution must be referred to the Budget Committee. If the committee decides that the spending fits within the statutory definition of emergency, it may then amend the legislation with a provision exempting the emergency spending from the discretionary caps or PAYGO requirement, as appropriate.

Budgeting for emergency spending is inherently difficult and uncertain. Emergency funds are provided for a wide variety of purposes, are administered by many agencies, and are often unpredictable. Yet experience shows that emergencies will indeed arise and on a fairly regular basis. Since the Budget Enforcement Act of 1990 (BEA) went into effect, annual emergency spending unrelated to the Persian Gulf War (which was offset by foreign contributions) has fluctuated between about $1.5 billion in 1991 and about $21 billion this year, averaging nearly $9 billion a year. The exemption for emergency spending from BEA enforcement procedures may have been used as an excuse to avoid planning for emergencies and may also have served as a loophole in some years for unnecessary or excessive spending.

The bill's reserve-fund procedure would help to promote better planning for emergencies. It would establish useful guidelines and budgetary controls, enforced under the budget resolution, that would inform the debate and help policymakers more effectively judge both the merits and the appropriate magnitude of emergency funding measures. In particular, the codification of an accepted definition of emergency spending would clearly be an improvement over the current "anything goes" situation.

Under certain circumstances, the reserve-fund procedure could become cumbersome and could slow consideration of measures to fund emergencies. Emergency spending typically is included in a number of regular and supplemental appropriation bills each year. Depending on when the budget resolution is adopted, action tends to be concentrated between June and September. Under H.R. 853, emergency reserve amounts would be released by the Budget Committee Chairmen as qualified bills were reported and considered. That could become a daunting task when multiple appropriation bills were reported or were pending before the Congress.

Whether the bill's emergency spending reserve would hold costs below historical averages is unclear. Fashioning a purely budgetary mechanism to reduce or eliminate the need for emergency spending would be difficult at best. To reduce the pressure to provide emergency funds, the Congress would need to make changes in the programs that fund emergency needs—for example, to incorporate measures to mitigate the costs of natural disasters. Uncertainty is likely to remain a central and unavoidable element of any process designed to budget for and control emergency expenses, but with or without a new emergency spending reserve, enacting into law an appropriate definition of what constitutes an emergency should help reduce abuses.

Strengthening Accountability for Federal Spending

Title IV of H.R. 853 would make several changes intended to improve the accountability and legislative oversight of federal programs. It would require Congressional committees to establish a timetable for reviewing all programs within their jurisdiction—including existing entitlements—at least once every 10 years. It would also prohibit the Congress from considering legislation that provides mandatory spending for a new program or authorizes discretionary appropriations unless the legislation would expire after 10 or fewer years. The bill would allow the Chairman of either the House Budget or the House Appropriations Committee to offer a floor amendment that would make mandatory spending for a new program subject to annual appropriation.

One of the most vexing reform issues facing lawmakers is how to achieve a proper balance between the rigors of the budget process and the need for effective program oversight. Many lawmakers and observers are concerned that too much attention is focused each year on budgetary matters and that the important work of reviewing and evaluating the performance of federal programs is too easily pushed aside. For example, as of the beginning of this year, nearly one-fifth of total 1999 discretionary appropriations funded programs for which the underlying authorizations of appropriations had expired.

The changes proposed by H.R. 853 are designed to enhance oversight and accountability. They also implicitly acknowledge the link between effective oversight and budgetary discipline. In 1993, the Congress passed the Government Performance and Results Act (GPRA) to require federal agencies to establish strategic plans and performance measures. Performance measures for federal programs are now included in the President's budget alongside the funding requests for those programs. The act's basic intent is to provide performance measures that can help lawmakers hold agencies accountable for achieving program objectives and to allow funding priorities to be based in part on whether agencies have lived up to their own standards of performance. Regular legislative review of federal programs, as envisioned by H.R. 853, could help support the goals underlying GPRA.

The new requirements, however, could at times impose a heavy burden on the legislative process. For example, one goal of H.R. 853 seems to be converting permanent authorizations of appropriations to a periodic cycle. But doing so might only exacerbate the current problem of unauthorized appropriations. Expired authorizations are one of the factors that delay the annual appropriation process. Lawmakers must be careful to avoid requirements that will only lead to further bottlenecks for annual appropriations. One option would be to stagger the program-review schedule for committees so that not all such reviews were considered at or around the same time.

Budgeting for Federal Insurance

Title V of the bill, the Federal Insurance Budgeting Act of 1999, would change the budgetary treatment of federal insurance from a cash basis to a more prospective method of recognizing the long-term cost of such programs. The objective is to provide decisionmakers with information and incentives to better control losses in federal insurance. The current budgetary treatment obscures the government's exposure to risk over the long term and fails to motivate a balancing of premiums against losses.

Specifically, this reform would require agencies to estimate the projected insurance premiums and costs, including claims payments and recoveries, over the life of insurance commitments. The change in the present value of projected multiyear losses (or gains) to taxpayers would be reported as outlays (or collections) in the budget. Thus, the effect of an insurance program on the budget surplus or deficit would be the change in the expected long-term gain or loss to the government in the budget year.

For the largest federal insurance programs, including pension and deposit insurance, the effects on the budget would be significant. The key feature of those programs is that their commitments extend far into the future; premium income is likely to arrive steadily, while losses occur episodically and unexpectedly. Under cash-basis accounting for insurance, the current and projected budget years usually show net cash inflows to the government from premiums, with few losses anticipated from insured events. Showing net cash inflows is the norm because premium receipts are expected, but identifying specific future years in which large numbers of pension or bank failures will occur is difficult.

Consider, for example, the Pension Benefit Guaranty Corporation (PBGC), the federal program that insures the defined benefit pension plans of private-sector companies. Every year since it came on-budget in 1981, PBGC has collected more in premiums and other income than it has paid in pension benefits and administrative expenses. In 1998, when its net inflow totaled $1.2 billion, the federal deficit was consequently $1.2 billion lower. For 1999 and 2000, the President's budget projects net cash inflows for PBGC of $843 million and $1 billion, respectively.

Although that budgetary picture makes PBGC appear to be a moneymaker for the U.S. government, cash-based accounting does not acknowledge the liabilities that the agency has accrued but has yet to pay and does not address taxpayers' exposure from the insurance commitments. Although PBGC has assets totaling about $18 billion, it has also accumulated liabilities to current and future retirees that total over $12 billion. PBGC's net assets of $5.4 billion stand in contrast to the agency's report of $15 billion to $17 billion in future losses that are "reasonably possible." Thus, PBGC's overall financial position may not be nearly as strong as that implied by cash-based accounting.

The proposed budgetary treatment of PBGC would balance projections of premium income with the likelihood that claims will eventually be paid—in whole or in part—from those premiums. That approach would report on the long-term financial status of PBGC but by doing so could reduce or even eliminate the reported financial gain to the government from pension insurance. The proposed accounting reform could have a similar offsetting effect on projected premium income from deposit and other long-term insurance programs, whose net effect on the budget under current practice is also to move the budget in the direction of surplus.

One of the major challenges posed by the proposed reform is the difficulty of assessing future losses under various federal insurance programs. The proposed approach has an advantage over cash-basis budgeting in that assigning losses to specific years in order to budget for anticipated costs would not be necessary. Nonetheless, estimating future losses from insurance commitments would require substantial data collection and analysis, and there is no assurance that reliable estimates could be obtained.

The proposed legislation acknowledges the magnitude of that task and the uncertainty of success by authorizing appropriations to pay the cost of the analytical work, delaying full implementation until fiscal year 2006, and terminating the act at the end of fiscal year 2007. The lengthy transition is appropriate and would give agencies with operating responsibilities for insurance programs—as well as the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO)—some time to collect the relevant data, develop and test financial models of those processes, and display the results in the budget documents on a trial basis. The bill would also require extensive public disclosure of the methods used to project losses and provide for public comment and subsequent revision of those methods. Finally, in fiscal year 2005, OMB, CBO and the General Accounting Office would each report to the Congress on the advisability and appropriateness of the new budgetary treatment of federal insurance programs. If the assessments contained in those reports were sufficiently negative, the Congress might want to reevaluate the changes before they were carried out.

A sharp contrast exists between the deliberate approach envisioned in H.R. 853 and the much faster timetable of credit reform, a closely related change in budgetary accounting adopted in 1990. Accounting under credit reform is more straightforward than the proposed accounting change for insurance programs because loans and loan guarantees generally cover fixed periods, whereas the government's insurance commitments extend indefinitely. The new methods that agencies developed for anticipating insurance losses during a period of experimentation and evaluation would be of particular interest.

Creating Automatic Continuing Appropriations

The bill would provide for automatic continuing appropriations in the event that one or more of the 13 regular appropriation bills were not enacted by the beginning of the fiscal year. It would fund programs at the current rate—the level that was provided for the prior fiscal year.

That reform would address the problem of the potential budgetary "train wreck" that awaits lawmakers at the beginning of each fiscal year because of delays in enacting annual appropriations. In the post-World War II era, continuing appropriations (referred to as continuing resolutions, since they are typically enacted in the form of a joint resolution) have been enacted in most years. Until the early 1970s, those measures engendered relatively little controversy. Since then, however, the intensity of overall budgetary conflict has sometimes made it difficult even to enact short-term continuing resolutions, occasionally leading to brief government shutdowns for nonessential activities. In some years, continuing appropriation laws have also become last-minute vehicles for major substantive legislation.

Enacting automatic continuing appropriations would end the crisis atmosphere that surrounds the appropriation process at the end of each session. It would also end the disruptive effects of potential and actual government shutdowns. Further, without the availability of a must-pass continuing resolution, there would be no year-end legislative vehicle to which lawmakers could attach unrelated policy riders.

However, certain cautions are in order. Automatic appropriations would bring an end to one of the only action-forcing deadlines in the budget process, giving an important legislative advantage to defenders of the status quo. For example, a determined minority in the House or Senate that opposed changes in current funding levels could more easily thwart a prevailing consensus in support of those changes. In some cases, that might work to the President's advantage, especially if he had enough legislative support to uphold his veto power. Members of the Committee may wish to work with the Appropriations Committee, to which H.R. 853 was jointly referred, to devise a formula for automatic continuing appropriations that ensures a reasonable level of continued funding but also includes procedures to encourage timely action on regular appropriation bills.

Budgeting in an Era of Surpluses

The bill would change the PAYGO process to require an on-budget surplus (essentially, a surplus excluding the Social Security trust funds) projected for the upcoming fiscal year to be included on the PAYGO scorecard for that year. In general, such a change would make it possible to enact legislation increasing mandatory spending or cutting taxes without offsets up to the amount of a projected on-budget surplus for the year.

That change would add some flexibility to the PAYGO rules without jettisoning the overall budgetary discipline that they now impose, since legislation causing an on-budget deficit would still have to be offset. Further, since PAYGO is enforced one year at a time, PAYGO legislation enacted after the change took effect could require legislated offsets or even trigger a PAYGO sequestration in later years if sufficient on-budget surpluses were not also projected in the sequestration reports for those years. Because the PAYGO requirement is enforced with OMB estimates, the future use of that change would rely on the Administration's budget projections.

Using Current-Year Levels in Baseline Budget Projections

In general, H.R. 853 would require the budget projections used for the President's budget and the budget resolution to be compared with unadjusted current-year levels in addition to current-law baseline levels. The bill would also require CBO's annual economic and budget outlook and cost estimates to include comparable levels for the current year, although CBO already complies with that requirement for the most part.

Some people have expressed concern about the effects of "baseline budgeting." In general, they contend that the future budgetary effect of proposed policy changes should be measured from current unadjusted spending and revenue levels instead of levels that reflect the estimated effect of current policies and economic assumptions carried forward into future years. Although current-year data are available and are typically used in the annual appropriation process to evaluate proposed changes in discretionary appropriations, they are not routinely used in describing the effects of proposals that would change mandatory spending and revenue laws.

Highlighting current-year data in the President's budget, the budget resolution, and CBO's analyses and cost estimates could make those data more accessible and easier to use. However, the current-law baseline remains essential for lawmakers when considering changes to mandatory spending programs and taxes.

Adding a Spending-Reduction Lockbox

The bill also includes a “lockbox” procedure intended to preserve the savings from amendments to appropriation bills that reduce spending. The House passed similar legislation in both the 104th and 105th Congresses.

Under the bill’s lockbox procedure, any Member offering a spending-reduction amendment to an appropriation bill would be allowed to designate whether the savings would be credited to the lockbox, used as an offset for other appropriations, or remain under the Appropriations Committees’ spending allocations. The Budget Committees would be responsible for maintaining a ledger of the appropriate distributions for amendments approved by the House or Senate. For amounts credited to the lockbox, the discretionary spending limits and Appropriations Committee allocations would be lowered by an amount that split the difference between the House and Senate savings.

The bill’s lockbox procedure addresses a concern of some Members that the savings from spending-reduction amendments to appropriation bills approved by the House or Senate tend to be restored or shifted to other accounts once the bill reaches the conference committee stage. The new procedure would “lock in” those savings by reducing the allocations of spending to the Appropriations Committees made under the budget resolution (after appropriation bills had passed the House and Senate) and by reducing the statutory discretionary spending limits (after the bills were enacted into law) by an amount of estimated savings. A lockbox concept was used in the Line Item Veto Act under which the discretionary spending limits were reduced by the total amount of savings from any item vetoes that were not overturned.

The lockbox procedure could improve budgetary discipline, but it might also make the annual appropriation process more complex and less flexible. It might be more efficient and less cumbersome for lawmakers to reevaluate the discretionary spending limits when considering the joint budget resolution than to do so in piecemeal fashion as individual appropriation measures were considered and approved.

CONCLUSION

H.R. 853 is a major budget reform bill. Elements of the measure—such as the emergency spending reforms, the changes in the budgetary treatment of federal insurance, and the new requirements for legislative review and program evaluation—could take positive steps toward addressing certain problems. The major structural reforms in the bill—principally the joint budget resolution and automatic continuing appropriations—could also lead to improvements in the annual budget process but would not be without potentially significant drawbacks.

To some extent, however, the same could be said of all of the major budget process reforms enacted since 1974. In general, major budget reforms should be approached cautiously. They tend to increase overall complexity, shift power, and have unintended effects. Lawmakers will want to weigh all of those factors as they consider the significant changes proposed by H.R. 853 or any other major budget reform proposal.

The extensive changes proposed by the bill also suggest a broader issue of budget process reform that should be addressed at some point: is it time to convene a new commission on federal budget concepts? In general, federal budget concepts are based on the recommendations of the 1967 President's Commission on Budget Concepts. Although the commission's guidelines continue to apply broadly in the budget process, they do not address certain fundamental issues that lawmakers and budget scorekeepers face. For example, various proposals to reform Social Security, especially those that call for personal retirement accounts, raise thorny questions about appropriate budgetary treatment. Further, the dividing line between federal spending and revenue law has become blurred, as evidenced by the increasing use of refundable tax credits as a device for expanding budgetary resources. The use of public/private partnerships, such as those involving military housing and various lease-purchase arrangements, also raises questions of budgetary treatment for which the commission's recommendations provide little or no guidance.

Those and other issues put budget scorekeepers in a difficult position as they seek to apply outdated or incomplete concepts to novel budget policies. That situation suggests the need to reevaluate current budget concepts and to try to reach a consensus on changes that will make them comprehensive, clearer, and more effective.