Statement of Philip G. Joyce[1]

Before the Committee on the Budget

U.S. House of Representatives

July 28, 2015

Chairman Price, Ranking Member Van Hollen, and members of the Budget Committee, thank you for inviting me to share my views on the federal budget process. The views I will express today are informed by almost 25 years of both participating in—and studying—the federal budget process. Over this time, I have developed a great admiration for the institutions of budgeting, such as the Budget Committees, which are often engaged in a rather lonely effort to encourage fiscal responsibility and a more effective use of scarce resources. This committee and its staff are to be complimented for taking up the budget process reform mantle, and recognizing that an effective budget process—including not only procedures and institutions but also appropriate information—is vital to sound public policy.

The budget process has gotten a well-deserved bad reputation in recent years. The question for this committee—or any group focused on budget reform—is the degree to which procedural solutions will assist us in addressing the problems that have been so well-documented, including the failure to come to grips with long-term fiscal challenges and the inability to meet even the most basic budget deadlines. In end, identifying the challenges is the easy part; knowing what needs to be fixed is a lot easier than figuring out which ideas will represent movements in a positive direction. In attempting to help you chart that path, I would like to focus my testimony on two questions:

- What does our experience with the budget process since 1974 suggests in terms of the lessons we have learned about what works and what doesn't?

- Given this experience, what are the important principles of an effective federal budget process to keep in mind as you search for solutions to the problems that we face as a country?

What Lessons Have We Learned since 1974?

Since 1974, when the modern Congressional budget process was created, there have been a number of reforms focused on either the budget process, the budget deficit, or both. These efforts have yielded some lessons that I think are useful to consider in the context of budget reforms that your committee might consider.

The Congressional Budget and Impoundment Control Act of 1974, which established the budget resolution and this committee, was designed to address three major flaws in the process. First,

[1] Senior Associate Dean and Professor of Public Policy, University of Maryland School of Public Policy, pgjoyce@umd.edu

the budget was adopted on a piecemeal basis. That is, there was no point at which the Congress focused on the whole budget. Rather, many separate bills—covering tax legislation, mandatory spending, and discretionary appropriations—were considered. In total, these made up the "budget", but the totals were more or less the accidental result of these many separate legislative actions. Second, the budget was only a one-year-at-a-time phenomenon, with little attention paid to the medium- or long-term budgetary or economic effects of policy. Third, the President had become a stronger player than the Congress in the budget process.

The Budget Act of 1974 attempted to address these shortcomings by establishing a budget resolution, which would represent a comprehensive statement by the Congress of its priorities, would cover multiple years, and would permit the articulation of an alternate path for budget policy to that proposed by the President in his budget. The notion here was that the Congress would first decide on a path for aggregate fiscal policy, and then would impose limits that its committees would be required to adhere that would be consistent with these aggregate limits. Institutionally, the establishment and enforcement of the budget resolution would be under the jurisdiction of the House and Senate Budget Committees. They would be supported in this by the Congressional Budget Office (CBO), which would both establish a multi-year budget baseline (starting point) for budget deliberations, and would provide nonpartisan information on the economic and fiscal effects of legislation over multiple years, in part to ensure that the strictures established by the budget resolution were adhered to.

This was all well and good, except that there was nothing about the budget process created in 1974 that necessarily forced it to confront the large deficits that began to surface by the mid-1980s. The Balanced Budget and Emergency Deficit Control Act of 1985 (later revised in 1987), also known as Gramm-Rudman-Hollings (GRH), attempted to put the budget on a glide path to balance by setting fixed deficit targets, over multiple years. The bill was passed as an amendment to a bill to increase the government's debt limit, partially to give some cover to those who voted for the debt increase. Adherence to these targets was enforced through sequestration. If estimated deficits (as enacted in the budget resolution) would exceed the GRH targets, across-the-board spending cuts were enacted. The sequestration process excluded a significant number of programs, however, including Social Security and most of Medicare.

The Gramm-Rudman-Hollings legislation was a watershed event, because it explicitly focused the budget process, for the first time, on attempting to get a handle on out of control budget deficits. The law set annual targets for budget deficits, with an ultimate goal of a balanced budget within five years. While there is a credible argument that GRH had some effect on spending and deficits, it did not come close to meeting its overall goals. In fact, the fiscal year 1993 budget, which was to be balanced under the revised 1987 targets, had a deficit of $255 billion. The failure of GRH to meet it objectives stemmed primarily from its focus on estimated, rather than actual, deficits. Policymakers tended to meet the projected deficit targets through systematically optimistic forecasts, particularly of economic growth. These optimistic forecasts were embraced by both the President and Congress, and by both Republicans and Democrats. Further, the sequestration process lacked credibility, in part because it exempted large portions of the budget on the spending side, and in part because it included only spending changes, and not automatic tax increases.

The failure of GRH to reduce deficits to manageable levels contributed to the search for a different approach, which ultimately culminated in the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990). This act combined spending cuts and tax increases to reduce 1991-1995 deficits by an estimated $500 billion. It also included a new procedure, called the Budget Enforcement Act (BEA), which combined statutory caps on discretionary programs with a new pay-as-you-go (PAYGO) system designed to prevent new actions from undoing the effect of the deficit-reducing actions enacted in 1990. Under PAYGO, if mandatory spending was increased or taxes decreased, this needed to be accompanied by action to reduce mandatory spending or increase taxes in order to make the overall effect "deficit neutral". Both the caps and PAYGO were enforced on a multi-year basis.

The BEA approach differed from GRH in two main respects. First, it focused on the policy actions first, and THEN on enforcing those actions—attempting to prevent the Congress from undoing the actions already agreed to. Thus, the option of avoiding the deficit-reducing policy actions by assuming that the problem had been solved was not available. Second, rather than one sequestration, there were two, focused on the distinction between discretionary and mandatory spending (and taxes), under the assumption that policymakers should be held accountable for things that they could control. For example, a failure to meet the discretionary caps would lead to a sequestration of discretionary spending rather than all spending.

The BEA approach survived the 1990s. New five-year reconciliation bills were passed in 1993, and again in 1997. These new bills tended to be passed before the prior multi-year agreement expired, in an effort to make changes necessary to respond to changing budget or political realities. The BEA process itself was extended until 2002, but the onset of budget surpluses in fiscal year 1998 ultimately led to its downfall. Congress and the President resorted to loopholes starting in the late 1990s, such as declaring funding for the conduct of the 2000 census to be an emergency. (This seemed to many to stretch the emergency designation more than a little, since the requirement for the decennial census is in the U.S. constitution.)

The 1997 Act represented the final time until 2011 that the Congressional budget process was used to enact a multi-year deficit reduction deal. While there were subsequent uses of reconciliation during first decade of this century, all of them had the effect of adding to deficits rather than reducing them. These included the 2001 and 2003 Bush tax cuts, and the 2003 Medicare prescription drug bill. While a statutory PAYGO law was enacted in 2010, it includes a number of sequestration exemptions that limit its usefulness.

In 2011, there was some movement toward multi-year deficit reduction through the enactment of the discretionary spending caps included in the Budget Control Act. As you know, the Budget Control Act also included sequestration procedures to enforce those discretionary targets. The Budget Control Act also established the Joint Select Committee on Deficit Reduction (the so-called supercommittee) which was to come up with additional deficit reduction. If the required deficit reduction did not materialize, it would trigger additional reductions in the caps, enforced by sequestration. As had been true with the earlier GRH effort, this "fail safe" mechanism did not, in the end, lead to the presumed budget agreement.

Beyond the role of the budget process in trying to influence the path of the budget, however, a disturbing trend began to surface in the operation of the budget process beginning in the late 1990s. According to CRS, for the first 23 years of the budget process after the 1974 Act (fiscal year 1976 through fiscal year 1998) the Congress adopted a budget resolution every year. This meant that not only did the House and the Senate each pass such a resolution, but there was a conference agreement in each year. Between fiscal years 1999 and 2016, however, the budget resolution has become a "hit and miss" proposition. In 8 of those 18 years, there was no budget resolution at all.[2]

[2] I should note that the House has passed a budget resolution every year. In 4 of the 8 years with no budget resolution, the Senate did not even consider one; in the other 4 years both the House and the Senate passed

The appropriations process also has a checkered history over the past four decades. Unlike the budget resolution, the "must pass" nature of appropriation bills means that the Congress has managed to complete the appropriations process (sometimes with partial government shutdowns sprinkled in) every year, but these appropriations are chronically late. In fact, there have only been 3 out of 39 fiscal years since the enactment of the Budget Act where the appropriations process has been completed prior to the beginning of the fiscal year. This has not happened AT ALL since fiscal year 1997. In most of these years, there have been one or more continuing resolutions (CRs) to keep the government operating, although these CRs have grown more numerous, and have covered a longer period, over the years.

Beyond developments at the level of overall budget policy, there have also been important changes in how budgeting is done at the level of individual policies. These changes have resulted in substantial additional credible information being made available to Congress concerning the budgetary effects of policies.

The most important of these developments was the creation of the Congressional Budget Office (CBO), which provided the Congress with objective, nonpartisan information on the costs of pending legislation. Prior to the creation of CBO, information on the costs of policy proposals tended to come from either the executive branch (OMB or Treasury) or from committees of jurisdiction or policy proponents in Congress. These estimates were far from unbiased, and the existence of CBO has provided the Congress with a vastly enhanced ability to understand the effects of policies. This occurs through the formal cost estimating process, but also through lots of informal interaction between CBO and Congressional committees while legislation is being drafted.[3]

In addition to the creation of CBO, however, there were various other changes to the budget process designed to provide the Congress with better information on the effects of policies:

- The enactment of the Federal Credit Reform Act (FCRA) of 1990 required the cost of loans and loan guarantees to be presented on an accrual basis, rather than a cash basis. This change was explicitly designed to correct an imbalance in the budgetary treatment of these loans, where the cash treatment of direct loans made them appear to be the equivalent of grants, while loan guarantees appeared to be free, even though they might eventually have substantial costs.

- The Government Performance and Results Act (GPRA) in 1993, and then the GPRA Modernization Act in 2010, have attempted to bring more evidence on the effectiveness of programs and policies into the budget process.

- The Unfunded Mandates Reform Act (UMRA) in 1995 required CBO to provide information on the impact that federal policies have on lower levels of government and on the private sector.

---

a budget resolution, but there was no conference agreement. See, for the period through fiscal year 2014, Bill Heniff, Congressional Research Service, Congressional Budget Resolutions: Historical Information (February 7, 2014).

[3] For more detail on CBO, see Philip Joyce, The Congressional Budget Office: Honest Numbers, Power, and Policymaking (Washington: Georgetown University Press, 2011), and particularly Chapter 4.

All of these efforts have one thing in common--they recognize the importance of information in the budget process. In fact, many budget process reforms are about introducing better, or more thorough, information for policymakers, in an attempt to encourage both more responsible budget decision making, and the more effective use of scarce resources.

In the end, there are a number of lessons about the budget process that emerge from the experience of the first 40 years.

1. The budget process is better at enforcing compliance with agreements than it is in making those agreements happen. The major failing of GRH, as well as the "supercommittee" process, was that they did not require anything, other than a promise to do something later. The assumption in both of these cases was that the alternative (sequestration) would be so unpalatable as to compel action in order to avoid a fiscal sword of Damocles. This turned out to be wishful thinking. The budget process, as it turns out, is much better are enforcement (as occurred under the BEA) than it is at forcing agreement on painful policies to reduce deficits Any process is limited in its ability to actually make something happen, if the participants to not have the incentive to act. All of the successful efforts at deficit reduction in the last three decades have one basic thing in common. The President and the Congress agreed on a future path for the budget and on a set of policy actions, and then the process was used to enforce compliance with those actions.

2. Even if the budget process cannot force a fiscal target to be met, a consensus on a fiscal goal is an important prerequisite to enacting policies to promote fiscal discipline. Many other countries operate under an implicit or explicit "fiscal rule". This rule may be a balanced budget requirement, or a limit to deficits or debt, as a percentage of GDP, or some other limit. In the U.S., most states have balanced budget requirements, but are really disciplined by the bond markets and the effect that irresponsible budget practices would have on bond ratings and borrowing costs. In the U.S, at least in recent years, we have lacked a consensus on what an appropriate fiscal rule might be, which hamstrings us in our efforts to enact policies to reduce future deficits and debt; we also have lacked a "penalty" (fiscal or political) for the failure to put the budget on a sustainable path.

3. If we had such a consensus, the procedures that have existed since 1974 could serve us well. The budget resolution, and especially its reconciliation procedures, have been quite effective in promoting multi-year policies to reduce deficits (the procedures have also periodically been quite good at increasing deficits as well, of course). That is, once an agreement is reached, reconciliation permits taking a comprehensive approach to deficit reduction, with fast-track procedures in the Senate. This proved to be a quite reliable means to enact deficit-reducing policies during the 1990s. In short, there is no major structural flaw in the 1974 Budget Act that would prevent its use to promote debt reduction now, as occurred in the 1990s.

4. Budget enforcement should be comprehensive, and should encourage participants to reach agreement. A major shortcoming of the GRH process was that some participants (particularly those who opposed tax increases or cuts in major entitlement programs) believed that they were better off with sequestration than they would have been actually agreeing to a deal. If many policies are excluded from enforcement, then the ability of the enforcement process to promote a deal is more limited. I would therefore encourage you to make any enforcement regime be as broad as possible. This might mean not only including all spending, but automatic revenue increases. This also means that enforcement mechanisms should hold policymakers accountable for things that they can control. The BEA, by focusing on enforcing

actions that had already been taken, and by holding Congressional committees responsible for actions under their control (appropriators for discretionary spending, and authorizing committees for PAYGO actions) was more successful in maintaining budget discipline than the GRH process had been. In the end, the GRH process simply encouraged participants in the budget process to "cook the books".

5. The lack of predictability in the budget process has costs, both in dollars and in government effectiveness. While certainly the failure to enact budget policies at all, or on time, contributes to the perceptions of Washington as "broken", this failure is not just bad public relations. The impact of budget uncertainty is real. The clearest impact of this uncertainty relates to the chronic unreliability of the appropriations process. In 2012, I conducted a study for the IBM Center for the Business of Government on the costs of this uncertainty. This study documented many inefficiencies, increased budgetary costs, and compromised effectiveness resulting not only from the rare cases of government shutdowns, but from the routine practice of "government by CR".[4] The costs of this uncertainly also extends to other types of decisions, including the question of whether the U.S. will raise its debt limit in a timely and predictable manner. A recent GAO study estimated that the uncertainly surrounding the increase in the debt limit in 2013 resulted in increased borrowing costs to the federal government in the range of $38 million to $70 million.[5]

6. Information matters. There is substantial evidence that information can have a real influence on budget decisions. In particular, there is wide agreement that CBO cost estimates have a major impact on the design of legislation. Regardless of whether one is a supporter or opponent of the Affordable Care Act, for example, there is little question that the law would look much different were it not for the fact that the drafters had to be concerned about the CBO cost estimate. There are many lower profile bills in each Congress that are adjusted to lower their cost as a result of a preliminary "score" from CBO. Moreover, laws like the Credit Reform Act and the Unfunded Mandates Reform Act have changed the incentives to enact particular kinds of policies.

7. The two branches are on more equal budgetary footing now than they were in 1974. To the extent that one of the goals of the 1974 Budget Act was to promote more budgetary equality between the Congress and the President, it has been a spectacular success. The budget resolution, when it is used, provides the Congress with the means to challenge the President on overall fiscal policy. This is particularly true of the reconciliation process. One need look no further than the budget resolutions produced by this committee over the past several years for evidence of this; the House budget resolutions were widely cited as THE alternative fiscal path to the ones included in Presidential budgets. Moreover, the expertise that resides in CBO and the Budget Committees has given the Congress much more capacity to challenge numbers coming from the executive branch than existed prior to the 1974 Act. CBO is now viewed by most in the media, for example, as the most credible source for budget numbers, and has eclipsed OMB in that regard.

---

[4] Philip Joyce, The Costs of Budget Uncertainty: Analyzing the Effect of Late Appropriations (Washington: IBM Center for the Business of Government, 2012).
[5] U.S. Government Accountability Office, Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches, GAO-15-476: Published: Jul 9, 2015.

Some Principles for Budget Reform

If this committee is going to think comprehensively about budget process reform, it will be important to think seriously about what it is that you think the budget process should be trying to accomplish. To that end, I would like to close by listing several goals of an effective budget process that I think you should keep in mind.

Promoting Fiscal Discipline—According to most budget experts and analysts, current debt levels are unsustainable. The numerous commissions, the supercommittee, in addition to several directors of CBO, Comptrollers General, and even some (but not all) Presidents and many members of Congress have delivered the consistent message that we eventually have to confront the fiscal challenges that we face. Therefore, the budget process must assist in responsible budgeting, which likely means bringing down these debt levels. As I noted above, however, it is unrealistic to expect that we can design a budget process that will force the achievement of some overall fiscal outcome. We CAN design a budget process that focuses on budget enforcement, or that makes it more difficult (through points of order, for example) to engage in irresponsible budgeting. You should not be misled, however, into believing that just setting targets will be enough. The Congress and the President have proved adept at avoiding targets, or "kicking the can down the road" if they do not have the incentives to act. The budget resolution, and reconciliation, for example, can act as vehicles to enact policies, but they cannot force a particular set of policies to be enacted, or a particular economic or fiscal path to be followed.

Providing for Flexibility in Responding to Challenges—The federal government has a particular responsibility to economic downturns and other emergencies. Thus, the budget process must allow such a response. For example, when the deficit rises because of the deterioration of the economy, it is important that this not require spending cuts and tax increases, at precisely the time that they would be most difficult, and economically and politically harmful, to enact them. If it had been imperative that the government reduce its deficit during the recent recession, it would have made state and local governments and individual citizens much more vulnerable to the effects of the economic downturn. Moreover, the federal government needs to be able to respond to potentially costly national security emergencies, natural disasters, or other events that require immediate action.

Legislating in a Timely and Predictable Manner—People who interact with the federal government—those who run agencies and programs, state and local government officials, contractors, and investors—need to be assured that the budget process will function in a timely and reliable manner. When there is uncertainty concerning whether the government will meet its debt and spending obligations, it not only increases the cost of doing business, is also compromises the effectiveness of government activities, resulting in a waste of scarce resources. The budget process, therefore, should perform its basic functions in a timely manner. For the federal government, this means that the President's budget should be submitted when the law says it will be, that there should be a timely budget resolution every years, that all appropriation bills should be passed and signed into law before the fiscal year starts, and that there should not be uncertainly concerning whether the government will meet its debt obligations.

Providing Appropriate Information on Costs and on the Effects of Policies—As noted above, the process created by the 1974 Budget Act—and especially the existence of CBO cost estimates—has contributed greatly to the ability of the Congress to recognize the potential costs of policies before they are enacted. Reforms that force the Congress and the President to recognize the cost of individual policy choices will promote greater attention to policies that have costly future budgetary effects. That is, that if policymakers have to recognize the cost of their actions, it may encourage them to behave otherwise. Therefore, if there are cases where the cost signals being sent are promoting irresponsible action—as was true prior to the enactment of credit reform in 1990—correcting these information flaws is an important focus. Moreover, the budget process should move beyond a consideration of federal budgetary costs, and should consider the broader effects of policies. In the end, a budget process that considers only federal budgetary costs will promote incomplete, short-sighted policies. To that end, the budget process should promote the comparison of both the costs and benefits of policies.

Considering Multi-Year Effects of Policy Actions—Because the federal budget process is an annual process, it tends to have a short-term focus. While the budget resolution's focus on five or ten year costs has been a positive development, it is important to design a budget process that promotes systematic attention to the long-term effects of policies, including benefits and effects beyond the budget window. The caveat here is the obvious one—history suggests that the further out the estimating window goes, the less reliable the estimates become.

Maintaining the Balance of Budgetary Power—While there is less than universal agreement concerning the appropriate balance of budgetary power between the branches (Presidents, not surprisingly, tend to think the Congress is too powerful), it is my view that maintaining an appropriate balance of power between the branches is an appropriate principle to keep in mind as you reform of the budget process. The Congress should thus be wary of reform ideas that shift more power to the other end of Pennsylvania Avenue, or that weaken the budgetary institutions of the Congress. Strong budget committees[6] and a strong, credible CBO are essential to the ability of the Congress to continue to present a strong alternative to the fiscal policy path promoted in the President's budget.

The budget process is important. It allocates more than 20 percent of the goods and services produced in the U.S. economy. It is best, in my view, at two things. The first is encouraging policymakers to confront the real costs of their actions, and providing information that is necessary for them to make budget decisions. The second is enforcing compliance with budget decisions that have already been made. It is less good at forcing people to do things that they do not want to do. Much of the budget process infrastructure that is needed to deal with our current budget imbalance already exists today. The President, through his budget, can propose a comprehensive plan. The Congress, through the budget resolution and reconciliation, can enact legislation that will, on a multi-year basis, reduce the current debt and promote fiscally responsible actions in the future. In reforming the budget process, it will be most fruitful to focus on reforms that enhance the information that is needed to promote good decision making, and to promote timely and predictable budget decisions.

Thank you for the opportunity to share these views. I look forward to answering your questions.

[6] Perhaps even stronger than at present; there have been proposals to make the budget committees into leadership committees; see Philip Joyce, 2011. "Strengthening the Budget Committees: Institutional Reforms to Promote Fiscally Responsible Budgeting in Congress," The Pew Charitable Trusts.