

“Rescuing the Budget Process”

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Mr. Chairman and Members of the Committee:

There is no doubt that the budget process is broken. The clearest evidence is the fact that we are all counting on the Joint Select Committee (JSC)—with its extraordinary powers and unusual composition—to avoid total gridlock or a replay of the near-catastrophic debt ceiling brinkmanship. I am an optimist about the chances that the JSC, with the strong support of the president and the leadership in both houses and both parties, will be able to agree on actions that will stabilize the rising debt and set the federal budget on a sustainable path. However, even if the JSC succeeds, the budget process has failed. Our much-vaunted democracy should not have to abandon its normal decision processes and concentrate power in the hands of an ad hoc group to solve a budget problem. The regular budget process, of which this Committee is an essential part, should have functioned long before now to put in place both a near-term budget and a sustainable long term plan.

Congress has no choice: you have to fix the budget process. But a better budget process will not make budget decisions easy or create the will to compromise and solve problems, without which a diverse democracy cannot move forward. Process can either hamper decision-making or facilitate it, but only at the margins. The current congressional budget process certainly makes it harder to make fiscally responsible budget decisions, for reasons I will get to in a minute. But bad process is a symptom, not a cause of unwillingness to make the compromises necessary to solve hard problems. No process will work well unless the participants in the process want it to work.

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Budget-making is inherently hard. Even the budget of a small town or a small company is difficult to agree on because there are always more claims than resources. The budget of a huge country presents an added dimension of difficulty, since the government's budget affects the economy and is affected by it in ways that are often hard to document and provide room for sharp disagreement. Moreover, in the United States the checks and balances built into the Constitution make budgeting especially complex, and require a multi-stage process that greatly compounds the difficulty of getting budget decisions made.

Countries with Westminster-type parliamentary systems do not consume as much time, energy, or rhetoric in making budgets as we do. The results may not be better, but the process is far more efficient. The prime minister's party or coalition writes the budget and the parliament, after a short debate, approves it. Voting down the budget means a new election, so it is not done lightly.

But our Constitution was not designed for efficiency. On the contrary, coming off a revolution against a king they perceived as dictatorial, the Founding Fathers designed a system of checks and balances that disperses power and slows the decision-making process, sometimes to the point of gridlock. Moreover, since the power centers (or sub-power centers, such as executive agencies or congressional committees) rarely want to relinquish their particular piece of decision-making authority as new actors and responsibilities are added, the process tends to accrete complexities over time until it becomes dysfunctional. The budget process is at that point. It needs complete overhaul to enable it to function effectively within the limits of our Constitution.

Why the process broke down

The Budget and Impoundment Act of 1974, which created the Budget Committees, the Congressional Budget Office (CBO) and the current framework for budget decisions, was a much-needed reform. Before its enactment, Congress theoretically had the power of the purse under the Constitution, but no organized way of exercising it. The executive branch, whose power was much better centralized by the Office of Management and Budget for

the benefit of the President, wielded disproportionate budgetary power. But weaknesses in the 1974 reforms contributed to the break-down of the process we are witnessing today.

First, the process was unnecessarily complicated and hard to understand. The schedule for making budget decisions was lengthy and complex. (In fact, originally there were two budget resolutions.) Even slipping the fiscal year to October 1 did not allow time for all the complex steps to be completed on time. Moreover, the new process had been layered on top of an already redundant committee structure. I testified in 1971 that the distinction between authorizing and appropriating had blurred over the years and budget reform should involve abolishing the distinction altogether. My proposed committee structure had “program committees” with jurisdiction over spending areas (defense, health, etc.), a revenue committee and a budget committee in each house. You can imagine how well that went over!

Second, much of the spending side of the budget—the mandatory programs--was essentially unaffected by the budget process. In 1974 mandatory programs, not counting interest, were only 11 percent of total spending. In 2010, the mandatory portion was 55 percent of the total. Moreover, these programs, especially Medicare and Medicaid, are the main drivers of projected spending over the next decade and beyond.

Third, the time horizon for many decisions was too short. The budget impact of spending programs and tax changes may build up slowly and become increasingly expensive over time (or may be deliberately designed to do that). Over the years, the participants struggled with different ways of taking a longer view (five-year window, ten-year window), but never solved the problem. Moreover, the major retirement programs, which now drive the budget, can only be changed with substantial lead time and are not part of the regular budget process.

Essential Ingredients of an effective budget process

Process reform is normally incremental, but the time for incremental reforms in the budget process is over. The Congress should blow it up and start over from first principles. Let me offer some general prescriptions.

- Include all spending and revenue in the budget process

Under the current process, a dwindling portion of the budget (discretionary spending) is subject to annual scrutiny and increasingly complex rules, while major mandatory programs and the tax code operate on automatic pilot. No wonder the process broke down and the JSC had to be created to bring revenues and mandatory spending into a comprehensive decision process. And no wonder the Congress has chosen to put increasing proportions of spending into the mandatory category and into the tax code.

I am not suggesting that the Medicare or Social Security laws or the tax code be reviewed in detail every year. In fact, changes in retirement programs and taxes should be made as infrequently as possible and with long lead times, so that people and businesses can plan their lives. But the Congress must bring the retirement programs and tax expenditures into a process of periodic review and decision, so that you can actually control the major drivers of the budget, the deficit and the debt. It should vote a comprehensive long-term budget, review actual spending and revenues in relation to the intended long-term budget, and have a process for deciding what to do if the numbers are veering significantly from the intended track.

- Take a longer view

Discretionary spending should be reviewed less frequently. Moving to biennial appropriations would help. It would give the Congress more time for oversight and the executive branch more time for planning and implementation. Mandatory spending and tax expenditures should also be reviewed, perhaps on a five or six year cycle.

- Simplify the structure and reduce the number of decision points

Reforming the budget process will be next to impossible unless the Congress is willing to revamp the whole committee structure with respect to activities that impact the budget. Authorizing and appropriating are no longer meaningful distinctions, and having the major mandatory programs under the jurisdiction of the tax-writing committees is not sensible. A better structure would be to create six to eight program or spending committees, a revenue committee and a budget committee (to put it all together).

Above all, recognize that our Constitution requires willingness to compromise

The Founding fathers bequeathed us a system of checks and balances that make it extremely difficult to get decisions made unless participants work tirelessly to make it work. It requires negotiation between the legislative and executive branches and between the two houses of Congress, even when all are controlled by the same party. It requires negotiation and compromise between the political parties, especially but not exclusively when different parties are in control of one house or one branch. No budget process reform will work well until participants realize that making this complex structure function requires a patient willingness to try to understand each other and to work together to make responsible, sustainable budgets.

Thank you, Mr. Chairman, and members of the Committee