Statement Before the

Committee on the Budget

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Thank you, Chairman Price, Ranking Member Van Hollen, and the members of the Committee for the opportunity to appear before you to discuss *Fulfilling the Budget Resolution and Enhancing Budget Enforcement*.

I have had a long career in budgeting:

- 30 years in budgeting at the *federal level*—as the senior career official at the Office of Management and Budget (OMB); as the Deputy and Acting Director of the Congressional Budget Office (CBO); and at the General Accounting Office;
- 5 years in budgeting at the *international level*—as the Head of the Budgeting and Public Expenditures Division of the Organization for Economic Cooperation and Development in Paris;
- 5 years in budgeting at the *state level*—as the Deputy Director of the National Governors Association; and,
- 2 years in budgeting at the *supra-national level*—as a budgetary expert at the International Monetary Fund.

Over the years, I have seen budgeting from many perspectives, and believe it or not, I think the foundations of our federal budget system are sound. These foundations include: separation of powers; use of obligational (as opposed to cash or accrual) budgeting; generally transparent information on revenues (including tax expenditures), credit programs, and performance assessments; even our elaborate budgetary enforcement mechanisms such as the Anti-Deficiency Act and sequestration. That said, there is undoubtedly much room for improvement.

My testimony today will be focused on three ways to enhance the *usefulness* of the budget:

1. **Emphasize long-term budget projections.** The current fiscal status of the United States Government isn't the fiscal problem of greatest concern: *projections* of our fiscal status over the long-term is. Capital markets, both domestic and international, are currently providing the money we need to finance our ever-growing debt at low interest rates, and despite near-universal recognition that out deficits and debt will be continue to grow, the uncertain status

of other international borrowers and the level of savings looking for "safe" investments as the world ages mean that we can probably continue to finance our growing debt at relatively low rates in the near future.

But our population is also aging rapidly, and baby boomers like myself are retiring in the thousands every month. These demographic pressures coupled with generous programs for the elderly, infrastructure needs, man-made and natural disaster risks, and the public's natural reluctance to support tax increases, result in a very grim fiscal future indeed. Yet despite the wide spread recognition of this grim forecast, and despite the wide spread recognition that certain actions taken today can significantly improve our long-term fiscal future, the President's FY2017 Budget doesn't provide a discussion of the long-term budget outlook until well into the 418-page Analytical Perspectives document.

The importance and impact of today's policies over the long term demands that long-term projections be made an integral part of the budgets for both the president and the Congress. Long-term projections under current policies and how those projections might change under proposed policy changes should be displayed and discussed alongside discussions of short- and medium-term projections under current policies and how they might change.

Recognizing that the longer the projections, the more uncertainty is involved means that it is even more important to be fully transparent about the assumptions behind the projections as well as to display sensitivity analyses about the major factors that influence the projections. Despite these uncertainties, it is far superior to display and discuss the potential long-term fiscal impacts of proposals than to pretend that they don't exist by ignoring them.

2. **Extend caps to entitlement programs and broaden the caps on tax expenditures.** Research I did while at OECD strongly supports that the best system to promote economic growth is through a long-term sustainable fiscal plan that sets multi-year debt-to-GDP goals and then achieves those goals through enforceable caps on all spending, including entitlement spending and tax expenditures.[1] In addition to the current caps on discretionary spending, the US already has caps of a fashion on tax expenditures. That is, both the alternative minimum tax and the "Pease Limitation" on the deductibility of certain itemized deductions limit the use of some—but clearly not all—tax expenditures.

   With respect to caps on entitlement spending, Sweden provides a very relevant and applicable precedent for the US. From enjoying the largest budget surpluses of any OECD country in the late 1980s, Sweden went into having the largest budget deficits in the early 1990s. In a span of just five years, Swedish debt nearly doubled. However, by the late 1990s, the budget had been brought back to balance. Importantly for the US, the Swedish budget

[1] "Design Choices for Fiscal Policy Rules", by Barry Anderson and Joe Minarik, *OECD Journal on Budgeting*, Organization on Economic Cooperation and Development, Paris, Vol. 5, No. 4, 2006.

process itself influenced both the deterioration of public finances and, after reform, its stabilization.

Key elements of the reforms included the adoption of a multi-year budget framework and a top-down budget process that was made more comprehensive by the inclusion of entities that had previously operated off-budget, primarily in the social security field. All open-ended permanent appropriations, primarily various entitlement programs, were abolished and became subject to annual scrutiny and authorization.

Fiscal projections are an important component of Sweden's fiscal framework together with three-year expenditure limits and a budget balance rule, which targets a primary budget surplus of 2% of GDP over the business cycle. Moreover, the Swedish Parliament requires compulsory reporting on the expected long-term costs of new policy proposals. Although long-term (50 year) fiscal projections are not used to trigger adjustments to the medium-term expenditure and budget balance rules, the Swedish public pension system uses them through an automatic balancing mechanism to support the sustainability of the country's system.

The Swedish budget contains about 500 appropriations, including separate appropriations for operating costs, transfer programs, and capital outlays. An important budget reform was to group all appropriations, including entitlements, into 27 Expenditure Areas. These Areas were proposed by Parliament, which wanted a clearer presentation than was afforded by the division by ministry. It was also designed to reflect Parliament's committee structure.

Sweden's multi-year budget framework operates on three levels. The first level articulates the government's fiscal policy objectives in macroeconomic terms—the level of surplus or deficit as a percentage of GDP. Parliament then approves the maximum level of total nominal expenditures, and finally provides an indicative level of funding for each of the 27 Expenditure Areas. This indicative level is less than the maximum level of total expenditures, the difference being a budget margin, whose purpose is to provide a buffer against any forecasting errors so that the maximum level of total expenditure approved by Parliament is not exceeded. For example, the margin might be 1.5% in year 1; 2% in year 2; and 2.5% in year 3.

OECD concluded that the "budget process has shown itself to be quite effective in maintaining aggregate fiscal discipline**."**[2] It is marked by Parliament's acceptance of the binding budgetary constraints. Increased funding deemed necessary for certain Areas have been financed by reductions in other Expenditure Areas and by increases in revenue. For over 20 years, entitlement caps have worked in Sweden, and I believe they are needed and can work in the US.

[2] "Budgeting in Sweden", by Jon R. Blondal, *OECD Journal on Budgeting*, Organization on Economic Cooperation and Development, Paris, Vol. 1, No. 1, 2001, p. 36.

3. **Establish a new Budget Concepts Commission.** The basic concepts underlying the US government's budget are in disarray. Consider that there is no generally accepted practice about how to deal with such things as what the budget should include, how spending and revenues are defined, or how the budget should be displayed to show the economic impact of different forms of spending. It clearly is time for a new Budget Concepts Commission, as former CBO Director Rudy Penner and I wrote last January.[3]

   The 1967 Report of the President's Commission on Budget Concepts addressed some of these issues and led to some reforms, such as the unified budget. But many issues remain unresolved, and a new Commission could address these, including:

   - **The scope of the budget.** Some programs are "on budget" while others are "off budget." Moreover, the way the budget should treat government-sponsored enterprises and other government/private partnerships needs to be clarified.
   - **Defining spending and revenue.** The distinction between taxes and spending has become muddled and needs to be addressed. For example, "tax expenditures" and "offsetting collections" should to be defined more precisely and their placement in the budget reconsidered.
   - **The economic impact of different types of spending.** A new Commission needs to recommend better ways of showing the impact of such things as government purchases of securities, trust funds, capital investments, and loans or guarantees.

   Although the topic of budget concepts may seem dry and technical to most Americans, and even lawmakers, almost all of these issues are important economically and have an important political dimension. How the budget is organized and its components defined and represented gives a particular impression about how much money the government raises and spends, and what it does with that money. The new Commission could also explore changes to budget processes—reconsidering the rules that apply to the Budget Resolution or even the Budget Committee's role in the Congressional budget process. But at the very least I urge the Committee to work with the President to form a new Budget Concepts Commission.

I would be happy to answer any questions members of the Committee might have.

[3] "Time for a New Budget Concepts Commission" by Barry Anderson and Rudy Penner, Economic Studies at Brookings, No. 3, January 2016. See: http://www.brookings.edu/research/papers/2016/01/11-budget-concepts-commission-anderson-penner