Hearing before the House Rules Committee, Subcommittee on Legislative and Budget Process on H.R. 1869, the Biennial Budgeting and Enhanced Oversight Act

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Introduction

Good morning, Chairman Woodall, Ranking Member Hastings, and members of the Subcommittee. Thank you for the opportunity to testify today on the important topic of fixing the budget process, in particular to discuss H.R. 1869, the Biennial Budgeting and Enhanced Oversight Act of 2014, sponsored by Rep. Ribble. It is a privilege to appear before the Subcommittee.

I am the President of the Committee for a Responsible Federal Budget. Our Co-Chairs are Bill Frenzel, Jim Nussle, Tim Penny and Charlie Stenholm, and our Board is comprised of many of the past Directors of the Office of Management and Budget, the Congressional Budget Office and the Chairs of the Federal Reserve Board and the House and Senate Budget Committees. I also served on the Peterson-Pew Commission on Budget Reform, which spent three years developing a collection of recommendations to reform the budget process. The Commission released a plethora of papers that focused on the need to adopt multi-year budgetary targets, automatic triggers, as well as many other budgetary reforms.

I share a belief with many of you and other members of Congress that 1) our federal budget and appropriations process needs major improvements; 2) an improved process can both help force and enforce better fiscal policies; and 3) process reform is not a silver bullet with regard to addressing our nation's long-term fiscal challenges, but it can help.

In just a few weeks, the Budget Act, which sets out the modern congressional budget process, turns 40. And while I don't know if the Act is starting to show its age or we just aren't following its wisdom but it's clear that status quo is no longer viable. Deadlines exist in name only; appropriations continuously fall behind schedule leading to unwanted mini and omnibus legislation, or even worse; a suspension of appropriated funds and a government shutdown. And while Congress remains preoccupied with the next funding vehicle or cliff, the majority of our spending and tax policies are on autopilot, leading to a system where our national priorities are neither fully thought out nor fully funded.

H.R. 1869; the Biennial Budgeting and Enhanced Oversight Act of 2014

The Committee for a Responsible Federal Budget believes that one option to improve the current budget process is to move to a two-year budget cycle, which is the primary objective of the Biennial Budgeting and Enhanced Oversight Act of 2014.

The legislation reforms the congressional budget, Presidential budget submission, and appropriations processes to provide for a new two-year budget, appropriations, and authorization process.

In odd-numbered years, Congress would adopt a budget resolution that would provide annual spending and revenue levels for at least a five-year period. The budget resolution would include an allocation to the House and Senate Appropriations Committees for each of the years in the two-year period (biennium). The Appropriations Committees would then complete appropriations bills in odd-numbered years that would contain appropriations for each of the two years in the biennium.

Under this framework, Congress would use the even-numbered years to focus on oversight of existing programs and authorization legislation for new policy changes. Authorization bills would also be required to have a term of at least two years.

The primary benefit of a biennial budget cycle is the extra time it permits Congress and the executive branch to take a more careful look at our budget and federal programs, particularly those currently on auto-pilot. In doing so, Congress would have more time to conduct proper oversight, and executive branch agencies would be more able to ensure that appropriated funds are spent wisely and effectively.

By eliminating the time-consuming process of producing budget requests and justifications each year, Congress could undertake a review of broader budgetary issues. This could include a more careful review of national priorities compared to our national needs or an assessment of policies over the long term. Further, biennial budgeting would provide agencies with funding stability, while preventing them from incurring unneeded payments for fear of reductions in the following year’s budget.

At the same time, policymakers must ensure that a biennial system allows the flexibility to responsibly deal with unforeseen events that occur between budget cycles. For example, policymakers could implement a process for amending or modifying the budget resolution during the second year, depending on changing circumstances, such as an increase in the deficit or economic downturn.

Importantly, while switching to a biennial budget cycle could be beneficial, it is not a cure to our unsustainable fiscal situation, nor will it by itself fix our broken budget. Addressing these issues will require cooperation, leadership, and political will.

The Benefits of an Elongated Budget Process

Over the years, Congress has mandated that agencies collect a significant amount of data to develop and track performance metrics. However, because of the compressed schedule and political realities, the budget is more and more rushed and legislators have less and less time to adequately use the data they receive to better align the nation’s priorities with what programs we choose to fund and to remove waste and create efficiencies. Moving to a biennial system would give members an entire year to better conduct program evaluation and better set spending and tax levels.

Additional time could also allow for a thorough review of budget practices, rules, and institutions through a budget concepts commission. Such a commission would look into a number of issues, , such as better accounting, particularly for long-term spending programs, fiscal exposures, insurance programs, and programs that are intended to be pre-funded; improving the construction and use of budget baselines; capital budgeting and dynamic scoring issues; tax expenditures; accounting for private securities; leasing and public-private partnerships; and trust funds. As the nature of budgeting evolves, we should also consider appointing freestanding budget concepts commission.

In addition to helping Congress better do its job, a two-year budget cycle could prove beneficial to the executive branch and the agencies. Adding an additional year would allow these agencies to operate on a more stable funding ground, preventing unnecessary payments used to avoid a cut or justify an increase in the following year's budget, and by allowing better long-term planning. Much like how families and businesses would appreciate the stability added by having more certain taxing and spending policies, giving additional time would add stability to executive planning (instead of the current system of short-term extensions, and the fear of looming tax increases and spending cuts created by the lack of a multi-year budget.)

More time would also allow for more strategic planning. Both at an agency level and more broadly, we could use this time to identify long, medium and short-term strategic goals, take note of threats and new opportunities, and set goals and benchmarks for the future.

Other Considerations

Biennial budgeting is not a silver bullet.

Once in place, abiding by the biennial process itself could be a challenge. Congress has not passed a concurrent budget resolution since Fiscal Year 2010, and there is no guarantee Congress will pass them more often under a biennial process. Similarly, the second year does not guarantee that appropriations bills would be passed on time. Due to the lengthened time period between budget cycles, biennial budgeting could also increase the risk of further reliance on supplemental appropriations bills, which could be abused in ways that increase spending beyond what is desirable, and in the most extreme case could effectively create an annual process, biennial in name only.

This specific issue could be avoided through more stringent definitions of what constitutes emergency spending and what could be part of a supplemental appropriations bill, or through other budget reforms. More broadly, solving these issues will require you and your colleagues in both parties and chambers to buy into the process and work to uphold its integrity.

Biennial budgeting also does not solve the elephant in the room – the entitlement programs. Our country's health and retirement programs are on autopilot, and their automatic growth threatens to make an already bad debt situation far worse over the long run. To address these issues, there needs to be a greater focus on multi-year budgeting that goes beyond the discretionary portion of the budget.

Specifically, Congress and the President should agree to a long-term framework which looks at all areas of the budget to bring spending and revenue more closely in line, should give the committees of jurisdiction the opportunity to develop the details in their parts of the framework, and should incorporate the necessary enforcement mechanisms to keep such a plan in place.

Congress and the President should also revisit the budget every few years to decide how to prioritize our tax and spending programs, given evolving needs and the magnitude of our fiscal problems at the time. Such multi-year budgeting has worked in other countries, and it can work here.

Our Debt Problems Remain Far From Solved

While budget process reforms are important, they are not a replacement for the tough budget policy choices that need to be made to address our long-term fiscal challenges, especially because the problems are far from being solved. Currently, debt held by the public is about 73 percent of GDP. That's about twice the historical average and twice as high as the debt was as recently as 2007. It's also the highest our debt has been in our nation's entire history, other than in the period immediately following World War II.

As troubling as these high debt levels are, the greater concern is over their future trajectory. If Congress and the President adhere fully to the statutory caps and pay-as-you go rules, we project debt levels will rise to 76 percent of GDP by 2024. If these rules are bent or broken for the passage of doc fixes, extenders, and other policies, debt levels could reach 84 percent of GDP or more. And over the long run, as the population continues to age and health costs rise, debt will continue to grow to unsustainable levels.

To be sure, substantial deficit reduction has been enacted in recent years – more than $4 trillion through 2024 by our estimates. However, that deficit reduction has come in all the wrong ways – tax rates instead of tax reform, across-the-board discretionary cuts instead of targeted savings, and immediate austerity instead of gradual long-term adjustments.

Because so much of the deficit reduction has focused on the short-term, it really has done nothing to change the long-term trajectory of our debt. In fact, after a few years of stability, debt is projected to begin growing rapidly after 2017. The Committee for a Responsible Federal Budget projects that another $1.5 to $3 *trillion* of deficit reduction is needed over the next decade alone just to bring debt levels below 70 percent of GDP. To bring debt levels to 60 percent of GDP, as many fiscal experts have called for would require between $4 trillion and $5.5 trillion of deficit reduction.

Public debt was 72% of the economy in 2013, and CBO projects it will reach 78% of GDP by 2024. That is twice the historical average of 39% of the economy over the past 40 years. Debt was 35% of the economy as recently as 2007.

While fixing our broken budget process could certainly help policymakers to address our dismal fiscal situation and making fixes stick, process reform is not a substitute for hard choices. The only way to put our debt on a sustainable downward path is to slow spending growth, increase revenue collection, or both.

The Need for Entitlement Reform

Although we should cut low-priority spending throughout government, the most important thing we can do to secure our fiscal future is address the growth in our entitlement programs. At the same time when we have cut defense and non-defense discretionary spending repeatedly since 2010, we have allowed Social Security, Medicare, and Medicaid to continue to grow unsustainably and without review.

As the population ages and health care costs grow, the costs of our major entitlement programs threaten to drive up the debt and crowd out everything else. By the mid-2030s, CRFB estimates 100 percent of the federal government's revenues will go to Social Security, federal health spending, and interest on the debt – and that assumes revenues continue to grow to near-record levels.

That means everything we spend on education, defense, transportation, and all other programs will be money borrowed; and that borrowing will come largely from abroad, assuming of course that global markets continue to allow the United States to borrow such vast sums year to year.

Rising entitlement spending not only risks future resources available for other parts of the budget, but for entitlement programs themselves. The Trustees who oversee Social Security project that in only two years, the Social Security Disability Insurance trust fund will run out of money. Assuming it borrows money from the Old Age trust fund, the Social Security system as a whole will run out of funds by 2033, at which point all beneficiaries will experience a 23 percent immediate and across-the-board cut in benefits, regardless of people's age or financial resources. Medicare faces a similar fate by 2026.

We need to reform these programs now, not wait for these looming swords of Damocles to fall. By acting today, we can gradually adjust the programs to account for people living longer, targeting benefit changes to those most able to bear them, and transition the health care system from one that rewards quantity of care to one that promotes quality of care instead.

Need for tax reform

The tax code is littered with $1.3 trillion of deductions, credits, and other tax preferences. Many of these preferences are expensive, regressive, and economically distorting; they increase complexity, reduce fairness, and let the government pick winners and losers. The higher than necessary rates, narrow base, and sheer complexity in the tax code hurt economic growth by driving up compliance costs, reducing incentives to work, save, and invest, and making it more difficult for us to compete internationally.

The good news is that because our tax system is so broken, there is an incredible potential for reform. By reducing, repealing and reforming tax breaks we can simplify the code, lower rates, promote economic growth, and still set money aside to address our mounting debt.

The best way to achieve this tax reform is to begin with the premise that all tax preferences are gone, and then add them back one by one based on their merits and the cost – in the form of higher rates – of doing so. This is the "zero plan" approach taken by Simpson-Bowles and the "blank slate" approach adopted by Ambassador Baucus and Ranking Member Hatch.

Using a similar approach, Chairman Camp recently put out an excellent tax reform draft which took on many of the hard choices and should serve as an excellent starting point for reform. Tax reform is essential to putting the debt on a sustainable long-term path, and we encourage Congress to move forward to fix our broken tax system.

Conclusion

I would like to conclude by once again reiterating how much our current budget process is failing the American people. This adds significant instability to the economy at a time when the recovery is still fragile. But the instability doesn't stop there. If moving to a biennial system gives the added time needed to focus on important fiscal policy decisions, then we should move to it. Because we need a better process so we all can better serve the American people and also help our economy, we need a multi-year fiscal plan to address our fiscal issues.

Relying on a more rational timeframe for budgeting is one of the process changes we believe will have positive results. Accordingly, while I would urge Congress not to focus on process as a replacement for policy, biennial budgeting or multi-year budgeting would be a useful tool in helping to deal with America's significant budgetary and fiscal challenges.

In addition, this legislation contains a key attribute that is going to be needed for us to conquer our larger fiscal problems: bipartisanship. It is going to take more efforts like this, with members like Rep. Ribble, and the 142 cosponsors of this bill, working together to find common ground to get the job done.

Thank you again for the opportunity to testify today and to the many members of this Committee for your leadership on these critical issues. I look forward to your questions.