

BIENNIAL BUDGETING

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PREFACE

Should the Congress prepare a budget every two years rather than every year, as it does now? This proposed reform, known as biennial budgeting, has received increased attention in recent years. The Congressional Budget Office (CBO) prepared this paper in response to numerous inquiries about the subject.

The paper is divided into four chapters. The first provides background information on the annual character of the current process and a history of proposals to convert to multiyear budgeting. The second chapter describes three bills that reflect different approaches to biennial budgeting. The experiences of the states and of other countries with biennial budgeting are related in the third chapter. The concluding chapter analyzes the potential effects of converting from annual to biennial budgeting.

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SUMMARY

Biennial budgeting is the practice of preparing and adopting budgets for two-year periods. Nine bills to convert to biennial budgeting have been introduced in the 100th Congress.

The central rationale for biennial budgeting is that it would improve the efficiency of the Congressional budget process. Frustration with the current process is high: it is time-consuming, target dates are often missed, and repetitive decisions are made. The solution to these problems, according to proponents of biennial budgeting, is to prepare one budget instead of two over a two-year period. Having fewer budgets could reduce the delay and repetition that plague the current budget process, and could free time for other activities.

Two biennial budgeting approaches have been proposed--the "stretch" and "split-sessions" models. The stretch model would have the Congress prepare a budget for the biennium (the two-year fiscal period) over the two years of a Congress. The split-sessions model would have the Congress prepare a biennial budget during one year and conduct nonbudgetary activities in the other. The bills that take this approach begin the biennium on October 1 of either the odd year (the first year of a Congress) or the even year (the second year of a Congress). The stretch model would begin the biennium on October 1 of the even year.

Few statements can be made with much certainty about the effects of a conversion to biennial budgeting, except that this would be a radical change from the current process. Despite the permanence of much government spending, the *process* of formulating, enacting, and executing budgets is characteristically annual.

One way that biennial budgeting would depart significantly from current practices would be its restriction of certain activities to specified periods. Under the split-sessions model, the Congress is expected to forgo revising the budget during the nonbudgetary year. The pressure to revise the budget would often be strong, however, and no rules of the Congress exist that would prevent it from doing so. With split sessions, moreover, the specialized roles of the budget, appropriations, and oversight committees might leave these committees with significant periods of inactivity.

The stretch model assumes that having a longer period for making budgetary decisions will make missing target dates less likely. The accuracy of this assumption is questionable. Delay is probably inherent to budgeting because of the important decisions that are made in this comprehensive process. In addition, differences over budgetary goals between the Congress and the President, and between the House and the Senate, have been important causes of missed target dates. Biennial budgeting is likely to make it even more difficult to reach compromises over major policy differences, because the stakes will be higher with a two-year budget than with a one-year budget.

Expanding the horizon of the budget by a year will undoubtedly increase errors in budget projections, but the extent of this increase is uncertain. Deficit projection errors caused by economic forecast errors would likely be slightly larger for a biennial than for an annual budget. Deficit projection errors from inaccuracies in technical assumptions, while impossible to predict reliably, could be smaller for a biennial than for an annual budget.

Given that the Congress copes with a substantial amount of uncertainty now, the increase attributable to biennial budgeting might be bearable. In addition, the Congress could compensate for increased uncertainty by changing some of its current goals and procedures. It could accept the unpredictability of the economy, refraining from attempts to "fine-tune" spending and taxing in order to hit specific deficit or economic growth targets. When funding individual programs, it could adopt procedures that would reduce the demand for supplemental appropriations and rescissions.

The experiences of other governments suggest, however, that added uncertainty may at times be quite costly. Most states are subject to effective limits on spending and borrowing, and complying with these limits has become more difficult with the growing uncertainty of revenue streams. This problem is one reason why the states have moved away from biennial budgeting--44 states used biennial budgeting in 1940, but only 19 do now. Many of the remaining biennial states have made major budget revisions in the off-years because of impending deficits. Biennial budgeting is infrequently used in other countries. No developed democracies currently practice biennial budgeting, and developing countries are encouraged to budget annually by multinational creditors.

Finally, biennial budgeting could limit cooperation between the executive and legislative branches by reducing their frequency of interaction. Cooperation might not decrease significantly were the Congress to use fully the time allocated for oversight activities. This would be consistent with the increasing use of oversight in recent years. Using oversight in place of appropriations might also improve the ability of the Congress to understand problems and monitor the Executive Branch.

This course would reduce the amount of influence that the Congress could exercise annually, however. The "must-pass" character of appropriations requires the Executive Branch to negotiate in good faith and to conform to previously enacted law. Therefore, forgoing annual appropriations would mean that the Congress would periodically do without its most coercive tool. In the absence of annual appropriation controls, the Congress might respond by writing legislation more restrictively for agencies that it did not trust. By eliminating agencies' flexibility, these "micromanagement" provisions could force them to act inefficiently. Yet, since it would often be difficult for the Congress to anticipate future conditions, agencies would probably be left with greater discretion than they currently enjoy.

In sum, this analysis suggests that biennial budgeting might not live up to expectations unless the Congress substantially changes its goals and behavior. It would have to accept increased uncertainty about budget outcomes, a reduced ability to be responsive to immediate concerns, and less influence from use of the appropriation process. If these changes were accepted, the Congress could reduce the number of repetitive votes on budget issues, and spend more time on policy planning and oversight. Biennial budgeting could also allow agencies and grantees to spend money more efficiently. But it would not eliminate the delays that come from negotiating important budget decisions.

If the Congress does not wish to change as radically as biennial budgeting would require, it could implement biennial budgeting selectively--for technically predictable and politically stable programs, for example. Although some flexibility might be lost by these actions, the Congress could compensate by subjecting currently mandatory programs to more frequent reviews.

CHAPTER I. BACKGROUND

In this paper, budgeting is defined as the consideration of budget resolutions, appropriation bills, and the portions of authorization bills that authorize or limit spending. Annual budgeting has been the general practice in the federal government. Interest in biennial budgeting has increased, however, and a number of multiyear budgeting reforms have been considered or adopted in recent years.

Annual Appropriations and Authorizations

Appropriations have been made annually since the 1st Congress, and with the adoption of the Budget and Accounting Act in 1921, the President was required to present appropriation requests at the beginning of each calendar year. The Congress routinely considers at least 14 appropriation bills (13 regular and 1 supplemental) each year.

The schedule for considering appropriation bills should not be confused with the time periods for which appropriations are made available. In the early years of the republic, most appropriations were available to an agency for only one year. The Congress now makes most appropriations available for periods longer than a year. In fiscal year 1985, 53 percent of appropriations were permanent in law. The remaining 47 percent were made through the annual appropriation process. Of these annual appropriations (excluding discretionary appropriations for the legislative and judicial branches and the Executive Office of the President), only about one-half (or one-quarter of all appropriations) were made available for only the upcoming budget year. The remaining were multiyear, no-year, or advance appropriations. ^{1/} Thus, while budgeting decisions are made annually, the availability of budgeted funds covers various time periods.

Annual authorization of appropriations is currently a regular practice, but this was not the case three decades ago. Before 1959, only military construction, foreign aid, and the Atomic Energy Commission were authorized annually. With the passage of annual authorizations for the National Aeronautics and Space Administration and military procurement in 1959, the Congress began to rely on annual autho-

1. Multiyear appropriations are available for spending over several specified years; no-year appropriations are available until spent; and advance appropriations are available beginning in the fiscal year succeeding the year for which the appropriation bill is passed. Data compiled from OMB tapes by Allen Schick, *Crisis in the Budget Process* (Washington, D.C.: American Enterprise Institute, 1986), pp. 47-49.

rizations to increase its control of the Executive Branch. Annual authorizations also served the authorizing committees by enabling them to participate in budgetary decisions as frequently as the appropriations committees. By the 1970s, authorizations for the majority of discretionary appropriations were being considered annually, including authorizations for all defense and intelligence agencies, the Peace Corps, the Coast Guard, the National Science Foundation, the Department of Energy, the Department of Justice, and research and development for the Environmental Protection Agency. Not all of the annual authorizations have been enacted in each year, however. In 1987, for example, only a fifth of the nondefense discretionary appropriations that are frequently authorized annually were in fact authorized. 2/ And like multiyear appropriations in annual appropriation bills, some authorizations enacted in annual authorization bills lasted for more than one year. Authorizations for specific military construction projects, for example, were routinely for two years.

The Congressional Budget Act of 1974

The schedule for considering authorizations and appropriations was of major interest during deliberations over the Congressional Budget Act. Two problems were thought to be most serious--the Congress routinely failed to pass appropriations before the beginning of the fiscal year, and the Congress often failed to pass authorizations until the beginning of the fiscal year was near, allowing little time for the appropriation process. The Congressional Budget Act included several provisions that were intended to reduce these delays. First, authorizations were scheduled for early consideration. Section 607 asked that the President submit requests for reauthorizations by May 15 of the year *preceding* the year in which the authorization would begin. 3/ This section also asked the President to submit multiyear authorization requests for new programs. Section 402 established a point of order against considering authorizations that had not been reported by May 15. This provision was intended to speed up consideration of authorizations. The same May 15 date was used as a target for completion of the first budget resolution, and Section 303 established a point of order against considering any bill providing new budget authority before the first budget

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2. CBO data show that although 15.2 percent of nondefense discretionary appropriations were subject to annual authorization, only 3.2 percent were authorized in 1987. Only 10 annual authorization bills were enacted out of the 19 bills that are routinely considered on an annual basis.
 3. This provision has never been successfully carried out.

resolution was adopted. Action on appropriations was intended to be completed by seven days after Labor Day, before the beginning of the fiscal year, which was changed to October 1.

Other multiyear provisions in the Budget Act required the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) to make five-year budget projections, and CBO to provide five-year cost estimates and scorekeeping reports for authorizing legislation and bills providing new budget authority, respectively. In subsequent years, the budget resolutions themselves were expanded to include multiyear projections. The first resolution for fiscal year 1980 included two years of out-year projections for the budgetary aggregates, though separate projections were made for the Senate and the House. By the first resolution for fiscal year 1982, the same projections were made for spending by budget function in both the House and the Senate.

The broader approach of biennial budgeting received little attention during the formulation of the act. Senator Bellmon proposed that each Congress be divided into a budgetary session and a legislative (nonbudgetary) session. Senator Nunn and Congressman Conyers separately proposed that appropriations and authorizations be considered on a staggered basis, with one-half of each being enacted each year. Only one proposal was put into the form of draft legislation. Senators Mondale and Javits proposed biennial budgeting in an amendment (# 601) to S. 1541, the bill being considered by the Senate Government Operations Committee, but the amendment was not accepted by the committee.

Increased Interest in Biennial Budgeting

The first biennial budgeting bill was introduced by Congressman Panetta in 1977. ^{4/} This bill was reintroduced in 1979, and Senator Bumpers introduced another biennial budgeting bill in the same year. The bills were reintroduced in 1981, and other biennial bills were introduced in 1981 and 1982 by Senators Ford, Quayle, Roth, and Coch-

4. A list of biennial budgeting bills from 1977 to the present is contained in the appendix of Michael D. Margeson and James Saturno, "Congressional Approaches to Biennial Budgeting" (Congressional Research Service, July 27, 1987), pp. 19-21.

ran. Hearings were held in these years by the Senate Governmental Affairs Committee and the House and Senate Budget Committees. 5/

Biennial budgeting was also considered from 1982 to 1984 by the Task Force on the Budget Process, chaired by Congressman Beilenson of the House Rules Committee. The task force considered four alternative proposals for reform of the budget process:

- o The *single binding resolution* approach, which would have codified the procedural changes made to the budget process during its first decade, such as reconciliation after the first budget resolution.
- o The *target resolution* approach, which was similar to the original process established by the Congressional Budget Act.
- o The *omnibus budget bill* approach, which proposed that all appropriation bills, revenue bills, and reconciliation of direct spending be considered in one bill.
- o The *biennial budgeting* approach.

The task force recommended the *single binding resolution* approach. It commented as follows on biennial budgeting:

Biennial budgeting. The task force considered the possibility of stretching over a two-year period the entire process--budget resolution, appropriations bills, and authorizations--in order to lighten the Congress' annual workload and provide additional time for other important activities, such as oversight. There were two leading arguments against a two-year system: one was that it did not seem feasible to adopt a budget resolution for a two-year period, given the rapidness with which political and economic circumstance change. The other was concern about having one Congress make decisions that could be binding through a subsequent Congress. Furthermore, several variations of biennial bud-

5. See Senate Committee on Governmental Affairs, "Review of the Congressional Budget and Impoundment Control Act of 1974" (October 6 and 29, 1981) and "Budget Reform Act of 1982" (August 19, 1982); House Budget Committee, "Budget Process Review" (September 14, 1982); and Senate Budget Committee, "Proposed Improvements in the Congressional Budget Act of 1974" (September 14, 16, 21, and 23, 1982).

getting have been proposed, and there is no consensus on which version would be the most practicable.

The task force does endorse providing authorizations for periods of two or more years, as noted above. The task force also encourages the Government [sic: should be "General"] Accounting Office and the Office of Management and Budget to study the feasibility of placing some annually financed programs on two-year funding. Such studies would give Congress a better basis for determining whether it should move to a biennial budget system in the future. 6/

The task force also recommended that committees report more multi-year and advance authorizations, and strongly favored dropping the May 15 reporting deadline for authorizations, believing it had proved ineffective. Furthermore, it wanted to allow consideration of appropriations after May 15 even if the budget resolution had not been adopted.

These and other recommendations made by the task force were accepted by the Rules Committee, and many of them were included in the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as Gramm-Rudman-Hollings). In particular, the timetable for considering the budget was accelerated. The President's budget submission was moved up to January 3, and the views and estimates reports from committees to February 25. The budget resolution was to be enacted by April 15, reconciliation by June 15, and appropriations by June 30 in the House. 7/

In the Senate, the 1984 Temporary Select Committee to Study the Senate Committee System, chaired by Senator Quayle (a cosponsor of Senator Ford's bill), recommended that a select committee be established to study the feasibility of biennial budgeting. In 1985, Senator Quayle proposed an amendment to the fiscal year 1986 legislative branch appropriation bill to establish such a committee, but withdrew the amendment after Senator Domenici offered to hold joint Budget Committee and Governmental Affairs hearings on budget process

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6. Task Force on the Budget Process of the House Committee on Rules, "Recommendations to Improve the Congressional Budget Process" (May 1984), p. 24.
 7. See House Committee on Rules, "Congressional Budget Act Amendments of 1984," Report 98-1152 (October 1984); and Robert A. Keith, "Changes in the Congressional Budget Process Made by the 1985 Balanced Budget Act (P.L. 99-177)" (Congressional Research Service, May 23, 1986).

reform. 8/ With the passage of the Balanced Budget Act, however, attention shifted away from biennial budgeting and the hearings were never held.

The Experiment of Budgeting Biennially for Defense

The most significant move toward biennial budgeting has been the adoption in 1985 of the Nunn-McCurdy amendment to the fiscal year 1986 defense authorization bill (Public Law 99-145). This amendment is reprinted below.

SEC. 1405. TWO-YEAR BUDGET CYCLE FOR THE DEPARTMENT OF DEFENSE

(a) **FINDINGS.** The Congress finds that the programs and activities of the Department of Defense could be more effectively and efficiently planned and managed if funds for the Department were provided on a two-year cycle rather than annually.

(b) **REQUIREMENT FOR TWO-YEAR BUDGET PROPOSAL.** The President shall include in the budget submitted to the Congress pursuant to section 1105 of title 31, United States Code, for fiscal year 1988 a single proposed budget for the Department of Defense and related agencies for fiscal years 1988 and 1989. Thereafter, the President shall submit a proposed two-year budget for the Department of Defense and related agencies every other year.

(c) **REPORT.** Not later than April 1, 1986, the Secretary of Defense shall submit to the Committees on Armed Services and on Appropriations of the Senate and House of Representatives a report containing the Secretary's views on the following:

(1) The advantages and disadvantages of operating the Department of Defense and related agencies on a two-year budget cycle.

(2) The Secretary's plans for converting to a two-year budget cycle.

8. See *Congressional Record*, July 31, 1985, S10557-10562.

(3) A description of any impediments (statutory or otherwise) to converting the operations of the Department of Defense and related agencies to a two-year budget cycle beginning with fiscal year 1988.

The Nunn-McCurdy amendment for a biennial budget was at first wholeheartedly embraced by the Department of Defense. Biennial budgeting for defense received additional endorsements from the President's Blue Ribbon Commission on Defense Management (the Packard Commission), the Center for Strategic and International Studies, and the Heritage Foundation. The President's fiscal year 1988 budget included separate appropriation requests for fiscal years 1988 and 1989 for accounts in the national defense function.

Biennial budgeting for defense quickly declined, however, as several of its initial proponents backed away from rapid implementation. In its April 1, 1986, report to the Congress that was mandated by Public Law 99-145, the Department of Defense stated:

It is important to note that, although many have expressed support for the general concept of biennial budgeting, the concept has not been adequately defined. If not done carefully, it is conceivable that the transition of this idea to implementation may yield a process that would be unsatisfactory to everyone. This is particularly true in view of the current Gramm-Rudman-Hollings legislation that injects an element of uncertainty in the budget process, be it for one or two years' duration. The benefits that may be envisioned through biennial budgeting are perhaps obviated by the threat of Gramm-Rudman-Hollings imposed reductions.

In the Congress, Senator Nunn wrote the Senate Budget Committee on February 24, 1987, to explain that:

The [Armed Services] Committee is recommending a National Defense spending level only for fiscal year 1988 because the President's FY1988 Budget fails to meet the Gramm-Rudman deficit targets after FY1988. The Defense Department submitted a credible two-year budget for FY1988 and FY1989 as part of its FY1988-92 Five Year Defense Plan. Our Committee strongly supports the concept of shifting to a two-year budget. Unfortunately, the President has not told Congress how he plans to pay for his proposed level of Defense spending after FY1988 within the Gramm-Rudman deficit targets, making our job of recom-

mending and adopting a two-year Defense budget extremely difficult.

The Senate passed a bill that authorized about 70 percent of the defense budget for two years. The House passed an annual authorization bill, however, leading the conference of the two committees to agree on an authorization bill that contained some authorizations for fiscal year 1989, but which authorized most programs for only fiscal year 1988. An annual appropriation bill for the Department was included in the continuing resolution.

Through most of 1987, the Department of Defense did not follow its regular schedule for preparing the budget request; instead, it planned to make an "implementation review" of the two-year request in order to prepare budget amendment, supplemental, and rescission requests for fiscal year 1989. However, shortly after the summit agreement was reached for spending plans for 1988 and 1989, Secretary of Defense Carlucci ordered the department to reduce its budget request for fiscal year 1989 by \$33 billion.

The Current Situation

Dissatisfaction with the current process of budgeting has continued, and biennial budgeting is still being discussed as a possible solution. ^{9/} Many Members of Congress have been pressed by the heavy work load that results from the overlapping actions taken during the annual appropriation and authorization processes. They have been embarrassed that the Congress has missed many budget process deadlines, and disappointed with the reliance in 1986 on an omnibus continuing resolution to provide appropriations for fiscal year 1987. ^{10/} An additional impetus for the revival of interest in biennial budgeting was the Balanced Budget Act's ceiling on the budget year deficit, which gave an incentive to shift outlays from the budget year to the current or future years. Some Members believe that biennial budgeting, with its

9. In a recent survey by the Center for Responsive Politics, 86 percent of a sample of 113 House Members and Senators supported biennial appropriations. See *Congress Speaks: A Survey of the 100th Congress* (Washington, D.C.: 1988), p. 34; see also Jonathan Rauch, "Biennial Budgeting Taking Root," *National Journal*, vol. 18 (September 27, 1986), pp. 2318-2319; and Alice M. Rivlin, "Taming the Economic Policy Monster," *New York Times*, January 18, 1987, p. F2.

10. Continuing resolutions provide funding for agencies that have not received appropriations in regular appropriation bills. Traditionally enacted for short periods after the beginning of the fiscal year for one or several agencies, continuing resolutions have been enacted in recent years for many agencies and for the balance of the fiscal year.

extension of the budget period to two years, would reduce or limit opportunities for such artificial savings.

The Administration took a small step toward biennial budgeting in the fiscal year 1988 budget by including planning estimates for fiscal year 1989 for nondefense accounts. In testimony before the House Government Operations Committee, OMB Director Miller stated that he would like to expand biennial budget requests to the whole budget. President Reagan has supported biennial budgeting in addresses on budget reform, but the Administration has not proposed or endorsed relevant legislation.

The Senate discussed biennial budgeting during consideration of the fiscal year 1988 budget resolution. Senator Roth proposed a sense of the Congress resolution that "the Congress should enact this year a biennial budget and appropriations process." The resolution was tabled by a vote of 53 to 45. 11/ This was followed by inclusion of a biennial budgeting provision in the Balanced Budget Reaffirmation Act (Public Law 100-119). Section 201 stated:

It is the sense of the Congress that the Congress should undertake an experiment with multiyear authorizations and 2-year appropriations for selected agencies and accounts. An evaluation of the efficacy and desirability of such experiment should be conducted at the end of the 2-year period. The appropriate committees are directed to develop a plan in consultation with the leadership of the House and Senate to implement this experiment. 12/

Senator Roth has introduced a bill reflecting this approach, which would convert the limitation on the administrative expenses of the Social Security Administration to a two-year limitation. 13/

The summit negotiations between the Congress and the President considered and rejected the adoption of biennial budgeting. However, the agreement reached in November set separate targets for spending for domestic, international, and defense categories for fiscal years 1988 and 1989. The agreement also specified that the President's budget and the budget resolution for fiscal year 1989 should be consistent with

11. *Congressional Record*, May 6, 1987, S6010-6013.

12. See Edward Davis and Robert Keith, "Debt-Limit Increase and 1985 Balanced Budget Act Reaffirmation: Summary of Public Law 100-119 (H.J. Res. 324)" (Congressional Research Service, October 29, 1987).

13. S.1563, described in the *Congressional Record*, July 29, 1987, S10861-10862.

these targets, and pledged that supplementals will not be initiated "except in the case of dire emergency." Section 8001 of the Budget Reconciliation Act of 1987 (Public Law 100-203) established budget authority and outlay targets for defense and nondefense discretionary spending, and created enforcement procedures for these targets. Section 10621(b)(3) of the act stated that it was the sense of the Congress that it should undertake "an experimental multiyear authorization and 2-year appropriation for the Internal Revenue Service." This provision was intended for the process of funding the IRS for fiscal years 1989 and 1990.

