lion in fiscal year 1981. Funding for these programs--Social Security, railroad retirement, military and civil service retirement, unemployment assistance, veterans' benefits, Medicaid and Medicare, housing assistance, and the various types of welfare--has grown at a much faster rate than that of all other federal activities--148 percent faster since 1965 and 55 percent faster since 1971. Whereas payments to individuals accounted for 27.2 percent of federal outlays, or 4.9 percent of GNP in 1965, 48.2 percent of all federal budgetary expenditures, or 11.1 percent of GNP, was devoted to these purposes in 1981 (see Figure 8).

Outlays for federal grants to state and local governments have also increased dramatically in recent years as the Congress has chosen to decentralize new programs by having them administered by state and local governments. Since fiscal year 1965, these expenditures have grown over eight and a half times, rising from $10.9 billion in that year to $94.8 billion in 1981. This latter figure includes $39.9 billion in outlays that are also contained in the payments-to-individuals category, such as Medicaid, Aid to Families with Dependent Children (AFDC), child nutrition, and housing assistance. Excluding this funding, grants to state and local governments accounted for 8.3 percent of all federal spending in fiscal year 1981. While this type of spending has been growing at a faster rate, it has had less than a third of the dollar effect on the growth of total federal outlays than has payments to individuals, since it started from a smaller base.

During fiscal years 1971 to 1981, the growth of net interest outlays (interest on the public debt minus interest paid to federal government accounts) has been another important source of increased budget expenditures (see Table 2). The increase in net interest outlays relative to GNP was not caused by a rapid growth in the federal debt. The total debt held by the public actually grew less than GNP in the 1971 to 1981 period, with the debt/GNP ratio falling from 29.5 percent in 1971 to 27.8 percent in 1981. Rather, interest outlays grew so rapidly because of the enormous increase in interest rates. In 1971 the average interest rate on new issues of three-month Treasury bills was about 4 percent; by 1981 the average rate was over 14 percent. 10/ While most of the increase in current dollar interest rates probably resulted from

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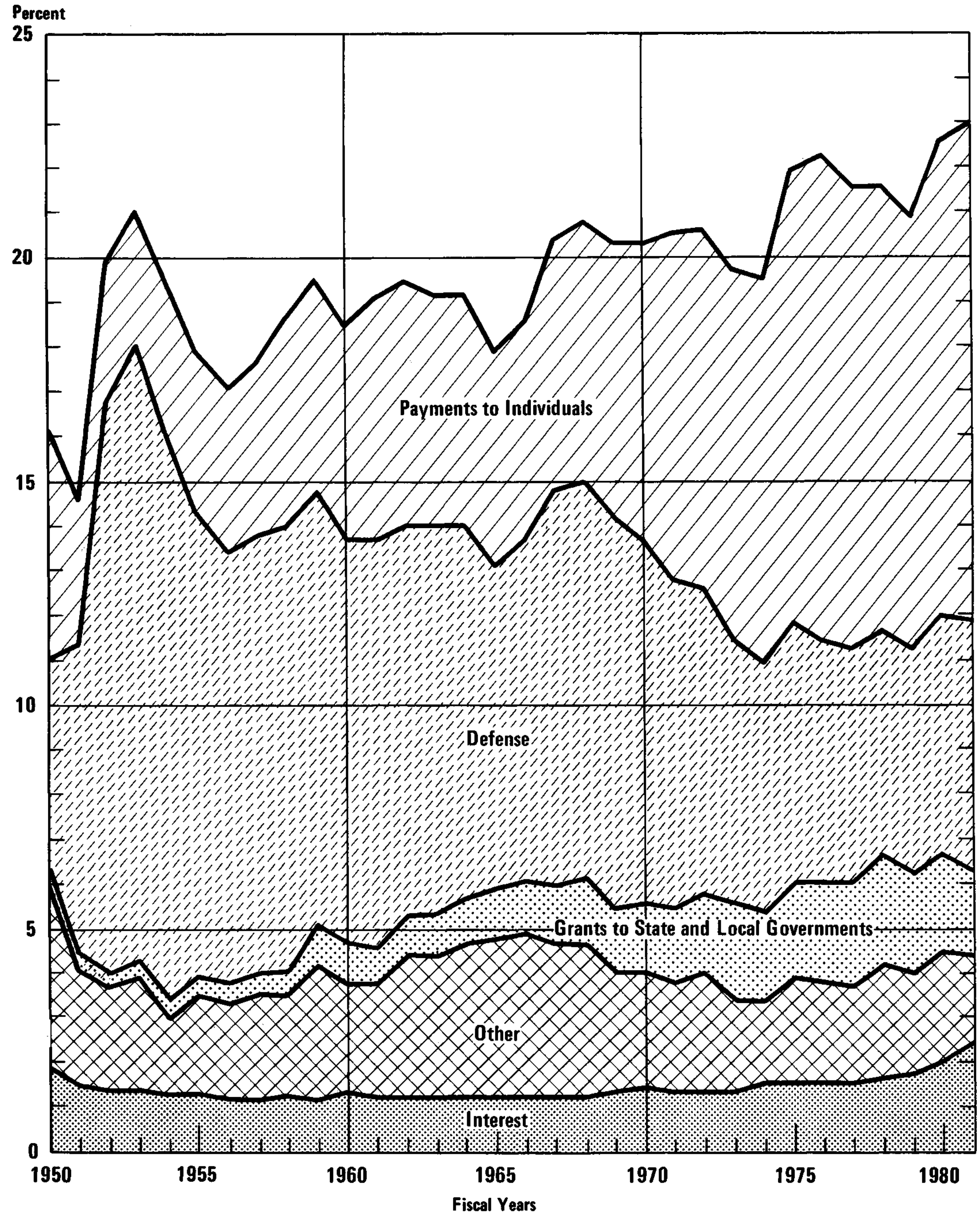
10/ Interest on the debt lags behind current market interest rates because part of the debt is in the form of long-term bonds. However, almost half turns over each year.

Figure 8.
Unified Budget Outlays as a Percent of GNP, by Type of Outlay



the rising rate of inflation (which leads borrowers to demand compensation for the loss of purchasing power on the money lent), there is evidence, especially since 1980, that real interest rates (current dollar interest net of inflation) have risen as well. To the extent that real interest increases persist in the future, federal outlays for net interest may stay relatively high even if inflation subsides. In addition, if the public debt grows rapidly as a result of large budget deficits in the next few years, the interest component of federal outlays will reflect that increase.

Pressures for Higher Spending: Payments to Individuals

Those who see the need to substitute a statutory or constitutional limit for the present budgetary process point to the entitlement structure and the indexing of benefits of income assistance programs as major pressures toward a larger public sector. 11/ By structuring programs as entitlements and indexing their benefits to the inflation rate, it is contended that budgeting is moved from a cash basis (how much can we afford) to a volume basis (how much do we need to maintain current effort). Particularly during inflationary periods, spending for indexed entitlements will lead to a larger public sector, since these programs are insulated from the real reductions that other programs can experience, as the same level of expenditures buys fewer goods and services. 12/ Citing recent trends, critics point out that, if spending for payments to individuals (which includes the major federal entitlement programs) was to continue to grow at the rates of the last 20 years, by the year 2000 outlays for such programs would be over a third of the GNP.

This outcome is improbable, however. In 1975, the Congressional Budget Office (CBO) projected the cost of the then existing income assistance entitlements to the end of this century.

11/ Entitlement programs require a payment or benefit to any person or government meeting the requirements (such as an income test) established by the authorizing legislation setting up the program. Indexed benefits rise automatically at a rate that is tied to a measure of inflation, most commonly the Consumer Price Index (CPI).

12/ Aaron Wildavsky, The Politics of the Budgetary Process, 3rd ed. (Little, Brown and Company, 1979), p. 264.

Whether the projections were carried out assuming current law, adjusting all benefits for inflation, or adjusting all benefits not only for inflation but also for real wage increases, the outlays for these programs were about the same proportion of the GNP at the end of the century as they are today. 13/

Perceived Dangers of Federal Grants to State and Local Governments

Procedurally, the Congress can more easily reduce federal grants to state and local governments than payments to individuals, since, with the exception of those grant programs that are also classified as payments to individuals and general revenue sharing, the grants are subject to the appropriations process, with funding decisions made each year. Because a large portion of the outlays for these programs result from budget authority enacted in prior years, however, the Congress cannot always control grant outlays in the current budget year. It can, however, more easily control future funding since it does not have to change an entitlement formula in the basic authorizing statute, as is the case for most income-assistance programs. Also, the outlays of

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13/ This finding needs two important qualifications. First, these projections assume no new income assistance programs. It should be remembered, for example, that in the past 20 years, food stamps grew from an experiment to a major entitlement program, Social Security replacement rates were substantially raised, and Medicare and Medicaid were started. If the Congress chose to institute a comprehensive national health insurance program, the public sector would undoubtedly grow. Second, if current population projections are correct, basic demographic changes will occur in the first third of the 21st century that will result in significant increases in program costs. As the American population ages, the percent of national income spent on entitlement programs that serve the elderly--such as Social Security, Medicare, and Supplementary Security Income--will increase. For example, while Social Security outlays will remain at approximately 5.6 percent of national income until the end of this century, they will rise to 6.2 percent in 2010, 7.7 in 2020, and 8.8 percent 2030. Growth of Government Spending for Income Assistance: A Matter of Choice, prepared by the Congressional Budget Office for the Senate Committee on the Budget, December 3, 1975, p. 6.

most grant programs are not sensitive to changes in the economy, since they are neither entitlements (with the above noted exceptions) nor indexed to the inflation rate.

On the other hand, while the payments-to-individuals category is made up of a relatively small number of fairly well-known programs that distribute money to a large number of beneficiaries, the grant category is made up of a vast number of programs that serve a smaller number of beneficiaries or indirectly subsidized groups. 14/ As such, grant programs are classic examples of the types of federal activity that critics of the present budget process believe lead to higher and higher levels of spending--programs in which relatively large subsidies per recipient are granted to a few beneficiaries at a relatively small additional cost to individual taxpayers. Elected representatives hear from the beneficiaries, who desire continued or higher subsidies; but even if the taxpayer is aware of the specific issue, protest is unlikely to be regarded as worth the cost of the stamp to make it.

If the bias in budgeting were based on the concentrated benefits doctrine, grants to state and local governments should be the main source of growth in federal expenditures. But, because the grants category accounts for only one-ninth of all federal spending, such an upward bias in grant spending is unlikely to bring about dramatic future increases in total federal expenditures as a proportion of the GNP. A dramatic rise in future spending is likely to be associated with significant increases in defense or payments to individuals. Decisions over such issues are rarely made without a good deal of public and Congressional debate. Moreover, since 1975 the Congress has been provided with five-year

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14/ Using Treasury Accounts as a surrogate for "programs" results in a payments-to-individuals category (all grants excluded) of 45 programs which accounted for $186.4 billion in outlays in fiscal year 1979, or an average of $4.3 billion per program. Grants to state and local governments, on the other hand, consist of 189 programs, which spent $82.1 billion in 1979, or $435 million per program. Using the categories of Direct Payments and Grants as set out in the Catalogue of Federal Domestic Assistance produces similar results. In fiscal year 1979, 65 direct payments programs obligated $192.6 billion, or $3.0 billion per program. The grant category, on the other hand, consisted of 583 programs that obligated $82.0 billion, or $141 million per program.

cost estimates of the expenditures required to create new or expand old entitlement programs. This appears to have had a restraining effect on the expansion of these types of programs.

PUBLIC ATTITUDES TOWARD FEDERAL SPENDING AND DEFICITS

For nearly half a century, polling organizations have been surveying Americans' attitudes about balancing the budget and the appropriate levels of spending and taxation. The questions have been asked in varying forms, but the results have formed a remarkably consistent, if contradictory, pattern over time. Specifically:

- Huge majorities are consistently in favor of a balanced budget.

- Huge majorities are consistently in favor of spending increases in most policy areas.

- During most periods, and consistently over the past ten years, majorities have felt that their taxes were too high.

- The public has a very poor idea of the cost of various types of federal activities, but believes that deficits can be eliminated by getting rid of waste.

In January 1979, for example, a Harris poll found that 69 percent of those sampled favored a constitutional amendment that would require a balanced federal budget. The same percentage favored a cutback in federal spending. 15/ But when asked whether they would favor such a cutback if it meant reductions in spending

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15/ Since 1979 no single poll has continually included questions on a balanced budget amendment and specific program reductions. But in separate polls, the pattern of support for an amendment and opposition to program reductions to achieve a balanced budget has remained. For example, in May 1982 an NBC News/Associated Press poll found that 66 percent of adult Americans favored a balanced budget amendment. In June 1982, 74 percent of the respondents to a Gallup poll supported a balanced budget amendment. In this poll, however, the public rejected eliminating the federal deficit by cutting de-

TABLE 3. PERCENTAGES FAVORING OR OPPOSING A BALANCED BUDGET AMENDMENT AND VARIOUS POTENTIAL SPENDING REDUCTIONS IN JANUARY 1979

			Cutback in Specific Program Areas					
	Balanced Budget Amendment	Major Cutback in Federal Spending	Elderly, Handicapped, and Poor	Health	Education	Defense	Environment	Unemployed
Favor	69	69	19	20	24	31	36	39
Oppose	23	24	78	75	73	62	57	54
Not sure	8	7	3	5	3	7	7	7
Total	100	100	100	100	100	100	100	100

SOURCE: Louis Harris and Associates, telephone survey of 1,498 American adults carried out from January 17 through January 22, 1979.

in specific policy areas, majorities from 54 to 78 percent replied in the negative (see Table 3).

This apparently contradictory set of attitudes can be explained partially by the wording of the questions and partially by

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fense spending or reducing expenditures for social programs by for-and-against votes of 43 to 47 percent and 40 to 51 percent, respectively.

An October 1981 Harris poll found that majorities and pluralities preferred a federal deficit to reducing a number of federal programs--federal aid for the elderly, handicapped, and the poor (80 to 16 percent); social security (75 to 21 percent); health programs (59 to 36 percent); federal aid to education (54 to 42 percent); and defense programs (47 to 46 percent). Only in the case of food stamps did a majority--61 to 36 percent--prefer spending cuts to eliminate the deficit.

the fact that most Americans believe that a balanced budget can be achieved through elimination of government waste. Questions are worded so that respondents are asked about the appropriate level of spending in various policy areas rather than about specific programs. Respondents, moreover, are rarely forced to make the tradeoff between taxing and spending that is required when elected officials put together a budget. Avoiding this tradeoff is made easier by the overwhelming public belief that government wastes a lot of money. A February 1979 NBC News/Associated Press poll, for example, found that 71 percent of its respondents agreed with the statement: "The federal budget could be balanced just by reducing waste and inefficiency."

Americans also appear to have a poor idea of the proportion of governmental spending that is associated with different types of activities. Even when respondents are warned that increased spending will come from their taxes, massive support exists for more spending for those programs that make up the overwhelming proportion of federal outlays. Those programs that the public feels should be cut--maintaining foreign military bases, contributing to the United Nations, furnishing economic aid to less developed countries, and providing military aid to U.S. allies--constitute a very small percentage of total federal expenditures. 16/

WHY NOW?

Given the stability of public attitudes toward spending, taxing, and deficits, why have movements to limit federal deficits, spending, and revenues become so much stronger and more successful in the last few years? While there is no single answer to this question, the following five factors appear to be relevant.

First, throughout American history, demands for budget reform have gained momentum during periods of consistent deficits and sharp expenditure increases. This was true, for example, in the period that led up to the passage of the Budget and Accounting Act of 1921.

Second, for many people inflation is associated with unbalanced budgets, and the rate of inflation has clearly worsened in

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16/ William Watts and Lloyd A. Free, State of the Nation III, (Little, Brown and Company, 1978) pp. 60-69.

recent years. From 1948 through 1967, the Consumer Price Index (CPI) rose at an average annual rate of 1.9 percent. But since 1968, this average has increased almost fourfold--averaging 4.6 percent annually for the 1968-1972 period, 8.2 percent annually for the years 1973-1978, and 11.5 percent annually for the 1979-1981 period. 17/ For the first time, polling organizations are finding that Americans believe that the government, rather than business or labor, is to blame for inflation. Given this setting, it is not surprising that people associate bad economic news with budgetary policies that have traditionally been seen as inherently dangerous.

Third, during the last decade there has been a general slowdown in the growth of real disposable income. Some of this slowdown was caused by the increase in the tax burden. During the first half of the 1970s, for example, total governmental receipts averaged 38.1 percent of personal income. During the second half of the decade this ratio rose--despite periodic federal reductions--until it reached a high of 39.6 percent of personal income in 1978. This tax growth was a major cause of several tax revolts at the state and local level--most notably the passage of Proposition 13 in California and 2-1/2 in Massachusetts. 18/

Although per capita real disposable income (that is, the constant dollar income available after taxes have been paid) continued to rise during the 1970s, it increased at an annual average rate slightly below that of the previous decade. Moreover, much of the increase has only been achieved through a rise in the percentage of Americans who work. In many families, real disposable income would have fallen in recent years if the wife had not gone to work. In 1960 30.5 percent of married women (in families in which the husband was present) held a job. By 1970, this number had climbed to 40.8 percent and by 1980 it had risen to 50.2 percent.

For a theoretical family of four in which only the husband works at a nonagricultural job, for example, real spendable weekly earnings in December 1981 ($146.29 in 1977 dollars) were lower than they had been in 1959 ($149.40 in 1977 dollars). Although

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17/ December over December.

18/ Frank S. Levy, "On Understanding Proposition 13," The Public Interest (Summer 1979).

such statistical constructs should be used with caution, it is clear that for many families real incomes have not risen at all or have only risen because more members of the family have started working or worked longer hours. Thus, it is not surprising that many Americans are unhappy with the record of the federal government's management of the economy. It is also not surprising that, in a world in which many families perceive the economic pie to be stable or shrinking, there is growing concern over the size of the piece taken by government.

Fourth, as already mentioned, many are worried about the decline in American productivity. They argue that federal borrowing has undercut capital formation in the private sector, which in turn has led to reduced productivity growth, which in turn has led to low wage growth. Many economists, however, point to other causes of low productivity, such as demographic changes, requirements for pollution control investment, the increased size of the service sector of the economy, changes in energy prices, less capital per worker, and problems of statistical measurement. 19/

Finally, the movement to end deficits and limit expenditure growth may be an attempt by citizens to control the increase in governmental power, even though much of that increase has occurred in nonspending ways. In recent years, regulations, rules, and mandates appear to have proliferated at a rate almost as rapid as expenditures. Americans are told that they must pay for seat belts and pollution control equipment on their cars, that smoking is not permitted in public places, that they must have pension plans that meet basic minimum standards (Employee Retirement Income Security Act), that their workplace must conform to certain safety specifications (Occupational Safety and Health Act), that funerals and vacation lots can be advertised only in certain ways, that schools have to be integrated according to approved plans, and so on. While frequently supported by the voters on a one-at-a-time basis, the total of such regulations leads to significant economic costs and may contribute to a feeling that the federal government is becoming too powerful.

19/ See Edward F. Denison, Accounting for Slower Economic Growth: The United States in the 1970s (Washington, D.C.: The Brookings Institution, 1979).

CHAPTER III. OPTIONS FOR ACHIEVING ANNUALLY BALANCED BUDGETS AND LIMITATIONS ON EXPENDITURE AND REVENUE GROWTH, SHORT OF STATUTORY OR CONSTITUTIONAL REQUIREMENTS

This chapter describes the types of changes in budgetary procedure, short of formal statutory or constitutional requirements, that have been proposed to bring about annually balanced federal budgets or limitations on the growth of federal expenditures and/or revenues. The next chapter describes the statutory or constitutional options that would mandate balanced budgets or formally limit expenditure growth.

The many bills and Constitutional amendments that have been introduced in the 97th Congress to control deficits and spending can be grouped into three categories. These categories, plus a continuation of current policy, are as follows:

- Current policy that relies on the ballot box to elect a Congress and President who are committed to holding spending and revenues in check and balancing the budget.

- Proposals that seek to provide improved budgetary information for Members of Congress and citizens so that voters can better hold their representatives responsible and so that representatives have a better understanding of the consequences of their votes.

- Proposals that enhance the authority and influence of those Members of Congress and Congressional institutions that are most likely to limit federal spending or balance the budget.

- Proposals that limit Congressional discretion on budgetary questions through statutory or constitutional prohibitions.

This chapter deals with the first three categories; the fourth is discussed in Chapter IV.

CURRENT POLICY

In a representative democracy, there is a classic and simple remedy available to an electorate that is dissatisfied with the expansionary budgetary policy of its government: elect Members of Congress and a President who will balance the budget and check the growth of expenditures and revenues and turn out of office those who will not. 1/ An important function of the budget and the budgetary process is to provide voters with the necessary information to judge their government's actions. 2/ A budget provides this information to the degree that it satisfies "such fundamental standards as visibility, clarity, explicitness, and comprehensiveness." 3/ The budget process provides this information by requiring that elected officials record their positions on the major questions that are answered in every federal budget. Once these informational standards are met, the present system assumes that simple majorities will be sufficient to reach decisions that accurately reflect the will of the people both in the Congress and at the ballot box.

1/ In recent years many seeking a change in policy have relied on procedural reform. Yet there is a good deal of evidence that the ballot box remains the most effective way to bring about a policy change. As put by one student of the Congress: "Popular wisdom portrays the congressman as weak and vacillating, one who sways with every political breeze. But academic studies suggest to the contrary that incumbent congressmen maintain a marked stability in their positions over time. If you wish to know how a congressman is voting in 1970, the chances are good that his 1960 voting record will tell you. As a consequence, the only reliable way to achieve policy change in Congress is to change congressmen." Morris P. Fiorina, Congress: Keystone of the Washington Establishment (Yale University Press, 1977), pp. 12-13.

2/ Arguing for the reforms that were eventually enacted as the Budget and Accounting Act of 1921, President William Howard Taft stated: "The Constitutional purpose of a budget is to make government responsive to public opinion and responsible for its acts." House Doc. No. 458, 62:2 (1912), p. 16.

3/ Louis Fisher, Presidential Spending Power (Princeton University Press, 1975), p. 20.

Federal budgetary reforms in this century--such as the Budget and Accounting Act of 1921, the adoption of the unified budget in 1969, and the Congressional Budget Act of 1974--have sought to cure perceived ills in two ways. First, these reforms have aimed at providing decisionmakers with more and better information so that they would know the consequences of adopting various budgetary alternatives. Second, by requiring those decisionmakers to make their budgetary choices publicly and explicitly, the reforms have attempted to guarantee that voters would have the necessary information to hold their elected officials accountable.

The Nature and Effect of the Congressional Budget Act of 1974

The persistent deficits and rapid rate of federal expenditure growth of the late 1960s and early 1970s were two of the major reasons for the passage of the Congressional Budget Act of 1974. 4/ The act brought about the most fundamental procedural changes since the Budget and Accounting Act of 1921. It reflected the traditional reform approach to budget control in that it relied on increasing the quantity and quality of budgetary information for decisionmakers and voters. The act provided, for the first time, a procedure under which Members of Congress had the opportunity to cast votes on the proper size of the deficit or surplus, the proper magnitude of total federal budgetary expenditures, and the proper allocation of federal resources among types of federal activities. The act also created institutions to provide information on the consequences of various budgetary options and actions.

Most importantly, the new process forced the Congress to consider, debate, and decide on the proper levels of revenues and outlays at the same time. In this way, the act's procedures somewhat countered the past tendency of the Congress to ignore the costs of programs that it enacted. In the past, Members could urge lower levels of spending and smaller deficits while voting for individual pieces of legislation that led to higher spending levels and larger deficits. While the act does not preclude such behavior, it created the two new institutions--the Budget Committees--whose duty it is constantly to remind Members and other committees of the effects of their actions on the budget's totals.

4/ Another major reason for the Act's passage was President Nixon's extensive use of impoundment.

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In so doing, the act increased the political cost of inconsistent voting. Over the long run this could significantly ameliorate any upward bias toward greater spending and larger deficits.

While the act required the Congress to go on record on all major budgetary questions, it was not biased in any policy direction. It did not mandate annually balanced budgets or a check on expenditure growth. Rather, in the traditional manner, it tried to give greater budgetary control to Members of Congress by giving them an opportunity to vote in an informed way on budgetary questions and to give the public more information on the budgetary positions of their Congressmen.

Has this most recent reform been effective in bringing about smaller deficits and in checking expenditure or revenue growth? The Congressional Budget Act was implemented during the most severe recession since the Great Depression of the 1930s. Under these conditions, the public was in favor of federal policies to foster recovery and lower the unemployment rate. After supporting economic recovery measures early in the Carter Administration, the Congress began to adopt policies to counter the rapid increase in the rate of inflation during the last years of the 1970s. One effect of these policies was to reduce the rate of growth of non-defense, noninterest expenditures. Thus, while these outlays, measured in constant dollars, grew at a 7.5 percent annual rate from 1970 through 1977, they only increased at a 2.5 percent annual rate during the 1978-1981 period.

Since 1981 the Country has experienced a recession with the highest unemployment rate in the postwar period. In contrast to actions during earlier recessionary periods, the Congress, following the lead of the Reagan Administration, has enacted a series of very large reductions in domestic expenditures, instead of adopting countercyclical spending programs.

Those who feel that the act has been successful cite individual cases in which additional spending or greater deficits were rejected on the recommendation of the Budget Committees. Those who are disappointed with the effect of the new procedures point to the continued pattern of large deficits and rapid growth of expenditures. The one empirical study that has been published found no systematic differences in Congressional budgetary policy resulting from the new budgetary procedures. 5/

5/ L. Douglas Lee, "The Impact of the Congressional Budget Act on Fiscal Policy" (paper delivered at the 1978 annual meeting of the American Economic Association, Chicago, Illinois, August 29, 1978).

The visibility of the budget under the reformed Congressional process may contribute to curbing spending and deficits. Studies of several countries have shown that electoral reaction to the growth of taxation and government expenditure is related to the visibility of the tax system and expenditure programs. Countries that relied on general revenue taxes and channeled national resources into labor-intensive, government-supplied services experienced an electoral backlash in the early 1970s while those that relied on indirect and programmatic (earmarked) taxes and channeled national resources into cash transfers did not. 6/ If this analysis is correct, the increased visibility of the new budget process should create electoral pressure which, if sustained, will lead to fewer deficits and a check on expenditure growth.

PROPOSALS TO PROVIDE MORE INFORMATION AND VISIBILITY

Currently, there are a number of proposals before the Congress that would continue the tradition of creating greater budgetary control through requiring Congressional decisionmaking on all major budgetary questions and providing increased information for decisionmakers and voters. These proposals include multiyear targeting, sunset legislation, moving off-budget agencies onto the budget, credit budgeting, tax expenditure budgeting, and additional five-year costing requirements.

Multiyear Budgeting

Until the late 1970s, the Congress acted solely on the next year's budget. With such one-year-at-a-time budgeting, the Congress could not properly consider the future effects of current budget decisions. This, in turn, made it more difficult to achieve budgetary goals. It is neither possible nor desirable to change the budget dramatically in the course of one year. In any year, about three-fourths of federal spending is considered "uncontrollable" in that it either results from budget authority passed in prior years or is mandated by entitlement legislation

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6/ Douglas A. Hibbs, Jr. and Henrik J. Madsen, "Public Reaction to the Growth of Taxation and Government Expenditure: A Preliminary Comparative Investigation" (paper delivered at the 1979 annual meeting of the American Political Science Association, Washington, D.C., September 3, 1979).

passed in prior years or is mandated by entitlement legislation and fixed-cost programs. 7/ Moreover, since many of these programs contain government commitments to provide benefits and services on which people rely, it probably would be undesirable to terminate these commitments on short notice. Few citizens would want to live in a country in which the government did not honor its commitments--in which the aged, handicapped, and other recipients of federal benefits were never certain whether they would continue to receive their checks.

A similar logic is applicable to the receipts side of the budget. Few citizens or corporations would want to live in a country in which frequent and rapid changes were made in the structure of federal tax legislation. In fact, many have argued that the temporary nature of much of the 1970s' tax legislation negated much of its positive effect on the economy, since individuals and corporations could not make long-term plans based on a certain knowledge of what federal tax policies would be in the foreseeable future.

Thus, to achieve a major shift either in the size or in the mix of the budget, the Congress has to act over a number of budget cycles. In order to control the effects of these actions, the Congress also must know the future consequences of today's actions, so that planned changes will have the anticipated results.

Since the enactment of the Congressional Budget Act of 1974, multiyear budgetary procedures have expanded in stages and are now a central part of the Congressional budget process. The budget act itself requires the Congressional Budget Office (CBO) to produce five-year cost estimats for all spending and tax expenditure legislation that comes to the floor of either the House or the Senate. It also requires the Office of Management and Budget to prepare a current services budget showing what would occur if last year's budget policies were carried out into the future. From the implementation of the budget act in 1975, CBO, at the request of the Budget Committees, has produced its own five-year current policy projections so that the committees could see the effects of aggregate administration and Congressional proposals on a multiyear basis.

7/ Budget authority provides by law (usually an appropriations act) the basis for federal agencies to enter into commitments that result in immediate or future outlays.

Beginning with the Ford Administration, current policy multiyear projections of the President's budget proposals have been included in his budget. Over time these current policy projections shifted to multiyear budget plans that incorporated current budgetary proposals in the outyears.

In the late 1970s, the Budget Committees incorporated in their concurrent budget resolutions multiyear targets, which had previously been included only in the reports accompanying the resolutions. With this change, the Congress could debate and vote on multiyear budget plans. Although the second, third, and fourth years of these plans are always treated as targets, subject to modification at any time, they provide the Congress with an understanding of the alternative sets of multiple steps required to reach major shifts in budget priorities.

With the initial implementation of the reconciliation procedure during the fiscal year 1981 budget cycle, 8/ the advantages of multiyear budgeting as a control mechanism became apparent. The budget resolution that year specified only one year's worth of budget savings. Accordingly, many of the savings of the reconciliation bill (the Omnibus Reconciliation Act of 1980) only affected the budget in one year. In some cases, however, what appeared to be a saving in the first year led to additional outlays in future years. The reconciliation procedures that were used in 1981 and 1982, therefore, required the various Congressional committees to make changes that would achieve budgetary savings not only in the upcoming fiscal year but also in the two succeeding fiscal years as well.

As the Congress moves to reduce the currently projected large deficits, there is now general acceptance that to succeed it will have to plan and act in a multiyear fashion. From a policy perspective, the multiyear approach is neutural; it does not prescribe an outcome, such as a balanced budget or constrained expenditure growth. For example, the expansion of defense spending and the tax reductions of 1981 that, along with the current recession, are responsible for the prospect of continuing large federal

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8/ Reconciliation refers to a set of instructions contained in a budget resolution requiring that specific outlay savings or revenue increases be reported by committees with the appropriate jurisdiction. These reports are then incorporated into a reconciliation bill or resolution.

deficits, wre both developed in a multiyear framework. In the fall of 1979 the multiyear targets of the Second Concurrent Resolution on the Fiscal Year 1980 Budget were amended on the floor of the Senate to adopt a multiyear plan that would commit the nation to five years of five percent real growth in defense appropriations. The Kemp-Roth tax proposal, which became a central part of the Reagan Administration's economic program, was initially designed and eventually implemented as a multiyear series of tax reductions.

Although as currently practiced multiyear budgeting does not mandate or guarantee annually balanced budgets or a smaller public sector, it does provide the Congress with a mechanism to achieve these goals if they are desired. It is possible to modify current multiyear procedures to create incentives so that they would increase the chance of eliminating deficits and/or reducing the rate of expenditure growth. One alternative that has been suggested is to enact a multiyear tax reduction that would only occur if the Congress (or the nation) met certain other goals. If one assumes, for example, that it is easier for the Congress to reduce taxes than to cut expenditures, a series of multiyear tax reductions could be enacted that would only take effect if the Congress met a series of budgetary goals to reduce outlays during the following four years. Such a plan was first suggested by Senators Nunn, Bellmon, and Chiles as an amendment to H.R. 13511, The Revenue Act of 1978. (The amendment was reduced to a nonbinding national policy goal in the Conference Committee.) 9/ Those in favor of this proposal hoped that the traditional public desire and pressure for tax cuts would counterbalance the tendency toward expenditure growth and thus make it more politically attractive for the Congress to limit spending and balance the budget.

9/ Section 2 of P.L. 95-600, the Revenue Act of 1978, reads as follows: "As a matter of national policy the rate of growth in federal outlays, adjusted for inflation, should not exceed 1 percent per year between fiscal year 1979 and fiscal year 1983; Federal outlays as a percentage of gross national product should decline to below 21 percent in fiscal year 1980, 20.5 percent in fiscal year 1981, 20 percent in fiscal year 1982, and 19.5 percent in fiscal year 1983; and the Federal budget should be balanced in fiscal years 1982 and 1983. If these conditions are met, it is the intention that the tax-writing committees of Congress will report legislation providing significant tax reductions for individuals to the extent that these tax reductions are justified in the light of prevailing and expected economic conditions."