

Statement of
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NOTICE

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Mr. Chairman, I am pleased to submit this statement to the Committee as a contribution to your hearing on budget reform.

THE NEED FOR BUDGET REFORM

A number of criticisms can be made about current budget procedures in the Congress. One criticism is that budget actions are not completed on time. Deadlines for completion of the budget resolution, consideration of authorizing legislation, and enactment of appropriation bills have frequently been missed. When these budget actions are late, agencies are prevented from carrying out programs most effectively.

Another complaint is that the Congress loses time by having to make repetitive decisions. It occasionally debates a program-level issue in a budget resolution, again in an authorizing bill, and then again in an appropriation bill. Further, reaching budget agreements between the President and the Congress often requires long negotiations and produces charges that each branch has been dealing in bad faith. Last but not least, deficits have simply been too high. Many believe that problems with the budget process have helped cause these deficits.

Without downplaying the importance of these criticisms, one should not forget that the Congressional Budget Act also produce many benefits. Because of the act, the Congress receives much better information about the interaction between the economy and the budget and about the probable costs of proposed bills. Control over direct spending has increased with the

reconciliation process. Most important, the status of the Congress in budgeting has been restored. Though its power of the purse had been threatened by the impoundment battles of the early 1970s, it is now an equal partner to the executive branch. The Congress is now fully capable of setting fiscal goals in budget resolutions, of accounting for its spending actions through the scorekeeping process, and of meeting budget targets through the various budget enforcement mechanisms. In fact, the Congress has made significant deficit reductions in recent years, though unforeseen economic and other factors have offset some of these savings.

Frustration with the process may be the result in part of these successes. The additional activities of preparing a budget resolution and a reconciliation bill, as well as carrying out scorekeeping and enforcement, make the Congress devote more time to budgeting. Unless the Congress is willing to surrender some of its constitutional power to the President, missed deadlines and other problems associated with a comprehensive process may be unavoidable.

The budget process has been difficult for another reason: the unquestionable need to reduce the deficit. A comprehensive process--one that puts everything on the table--is probably the only way of dealing with this problem. Reducing the deficit will require significant changes in spending and taxing policies, and long negotiations are typically needed before the Congress and the President agree to make such changes. As an alternative, the

Congress might adopt new procedures--as it did with the sequestration process--because of the expectation that negotiations will produce deficit reductions that are too small. Since the Congress is an organization that values its traditions, however, it is not very likely that radical changes such as the sequestration process will be introduced with ease.

Yet, changing the process could aid our efforts to reduce the deficit. If procedural changes would make it more likely that the Congress and the President would adopt budgets on time, without having to make unnecessary decisions and with greater comity between the branches, then perhaps it would be easier to focus on alternative budget plans.

BUDGET REFORM PROPOSALS

The Congressional Budget Office (CBO) does not support or oppose many of the budget process reforms that have been proposed. Our basic recommendation is that the Congress carefully study each proposal. Unfortunately, as the experience with the Congressional Budget Act shows, reforms often have unintended consequences. Hearings like this one will help the Congress avoid unpleasant surprises. The Committee has also published a useful evaluation of 13 budget reform proposals prepared by the Congressional Research Service.

Analyses of proposed reforms tend to reach several conclusions about their prospects. First, most proposed reforms imply significant changes to the roles of participants in the

process and, in some cases, losses of influence by these participants. These effects understandably tend to be controversial, which delays or prevents adoption of the reforms. Second, the likely effects of process changes on the deficit are typically small. Finally, in-depth analysis often shows that reforms present complexities that were unknown when the reform was first conceived.

To illustrate these points, I will briefly consider three proposed reforms: the line-item veto, biennial budgeting, and accounting reform.

Line-Item Veto

The line-item veto has been proposed by Presidents--and rejected by Congresses--for over a century. The reason is simple: the line-item veto would shift some of the appropriation power from the Congress to the President. The Congress has feared that by granting the President a line-item veto it would be forfeiting its right to allocate funds to individual programs and projects. This reluctance shows no sign of abating, making it unlikely that the line-item veto will be adopted in the near future.

The President currently has substantial influence on appropriation bills. A two-thirds majority of each house of the Congress must agree on a bill for the President to be unable to influence formally the contents of the bill through a veto. One reason appropriation bills have been delayed is that veto threats have caused the Congress to amend the contents of appropriation

bills so as to avoid vetoes.

The line-item veto would give the President the opportunity to break up the two-thirds majority. If the President vetoed individual projects, the Congress could protect the original appropriation bill only by voting to override each item veto. It would be difficult to maintain a two-thirds majority over a series of votes. Failure to do so would produce deficit reductions.

Of course, a President would have to prefer greater reductions in the deficit than the Congress for the line-item veto to have such an effect. Although many would argue that this is often the case, most of these observers would also agree that a President sometimes prefers to spend as much or more than does a Congress. This raises the prospect that a President would use the threat of a line-item veto to force Members of the Congress to vote for his preferred spending and not as a tool for aggregate deficit reduction.

Another argument raised against the line-item veto is that the projected savings from vetoed projects is small when compared with the magnitude of the deficit. The line-item veto would probably apply only to discretionary appropriations, which constitute less than half of the budget. Furthermore, most discretionary appropriations are devoted to defense and general government functions. Evidence from the states support this argument. Case study and quantitative analyses of their experiences with the line-item veto shows that the effect on

aggregate deficits has been small to nonexistent.¹

Other experiences from the states suggest that the line-item veto might increase conflict between the branches. State legislatures have sued governors over the extent of line-item veto powers, and the courts have been heavily involved in interpreting these powers. There are also reports that the item-veto has encouraged legislative irresponsibility, as legislatures have added items to appropriation bills with the hopes and expectations that the governor will veto the projects.

Biennial Budgeting

This Committee recently published a CBO staff working paper on biennial budgeting. That paper concluded that biennial budgeting offers the Congress an opportunity to shift some of its workload from budgeting and appropriating to doing more program reviews and oversight. Biennial appropriations could allow agencies to manage their programs somewhat more efficiently, which would produce budgetary savings. These savings, which would be difficult to quantify reliably, would certainly be small relative to the magnitude of the deficit. Biennial budgeting would probably not eliminate delays in adopting budgets, since the

¹ See Committee on Rules, House of Representatives, Item Veto: State Experience And Its Application To The Federal Situation (December 1986); Ronald C. Moe, Prospects For The Item Veto At The Federal Level: Lessons From The States, National Academy of Public Administration (February 1988); and Douglas Holtz-Eakin, "The Line Item Veto And Public Sector Budgets: Evidence From The States," National Bureau of Economic Research, Working Paper 2531 (March 1988).

stakes in a two-year budget would be higher than in an annual budget.

Like the line-item veto, biennial budgeting has been considered for years but never adopted. The major drawback from the perspective of many in the Congress is that the lack of an annual appropriation process could cause the Congress to lose some leverage with the executive branch. Policy riders on appropriation bills could only be used every other year, and poorly managed programs would have two years to spend appropriated funds rather than just one. On the other hand, the Congress might learn to use the authorizing and oversight processes to keep nearly the same level of influence, as well as having more time to gain a better understanding of problems and possible solutions.

In other words, the projected benefits of biennial budgeting would depend on the willingness of the Congress to change its behavior, and perhaps its committee structure (some committees could be left with nothing to do every other year). The Congress would also have to accept some additional uncertainty about economic forecasts and budget projections. Moreover, it would have to provide supplemental appropriations only in emergencies, or the workload savings from not budgeting every other year would be lost.

Improving Budgetary Accounting

A third reform, one not mentioned as frequently as the line-item veto and biennial budgeting, is the improvement of budgetary accounting. Twenty-one years ago, the President's Commission on Budget Concepts established the current framework for budgetary accounting. Although its principles have generally served us well, there is growing agreement that this budgetary accounting has significant faults. The government has the unfortunate ability to give the appearance of reducing the deficit without making any substantive changes in the underlying structural deficit. For example, loan asset sales that accelerate the receipt of cash payments are counted as deficit reductions, although the government's financial condition has not changed at all.

Accurately recognizing the likely costs of proposed spending will probably lead to a reduction in these costs over the long run. It is often difficult, however, to devise accepted accounting standards for government programs, as is illustrated by CBO's current research on methods of accounting for credit spending. CBO was required by the Balanced Budget Act Amendments of 1987 to evaluate the different credit reform proposals, and our report will be released this summer. Experts agree that the subsidy element of credit transactions is the proper measure for budgetary cost accounting, but they have yet to agree on how to measure loan subsidies. Over the years, we probably can devise an acceptable method of measuring subsidies, but other accounting

issues may be more difficult to solve. For example, many analysts are attracted in theory to capital budgeting for the federal government, but despair at the definitional problems that would be raised by having to construct a capital budget. For instance, should spending for missile procurement or for education grants be counted as capital expenditures? Clearly, further study of budgetary accounting is needed. The current accounting rules can be improved, but we have to be careful not to replace one set of imperfections with another.

CONCLUSION

Certain budget process reforms may offer ways of reducing conflict and meeting deadlines, but only if important assumptions turn out to be correct. However promising reforms may be as a way of solving procedural problems, they will not reduce the deficit by much. Significant policy changes are needed to deal with the deficit problem. In the upcoming year, the Congress will have numerous menus of policy changes to choose from, including President Reagan's last budget, the incoming President's recommendations, the suggestions of the National Economic Commission, and the budget reductions volume of our annual report. We look forward to helping the Congress analyze these options.