CONGRESSIONAL BUDGET PROCESS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS

AND

SUBCOMMITTEE ON RULES AND ORGANIZATION OF THE HOUSE

OF THE

COMMITTEE ON RULES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

REVIEWING AND STUDYING ON A CONTINUING BASIS, THE CONGRESSIONAL BUDGET PROCESS

JULY 13, 19, AND SEPTEMBER 13, 1995

Printed for the use of the Committee on Rules

U.S. GOVERNMENT PRINTING OFFICE

21-204cc WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052127-0

CONGRESSIONAL BUDGET PROCESS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS

AND

SUBCOMMITTEE ON RULES AND ORGANIZATION OF THE HOUSE

OF THE

COMMITTEE ON RULES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

REVIEWING AND STUDYING ON A CONTINUING BASIS, THE CONGRESSIONAL BUDGET PROCESS

JULY 13, 19, AND SEPTEMBER 13, 1995

Printed for the use of the Committee on Rules

U.S. GOVERNMENT PRINTING OFFICE

21-204cc WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052127-0

COMMITTEE ON RULES

GERALD B. H. SOLOMON, New York, *Chairman*

JAMES H. QUILLEN, Tennessee
DAVID DREIER, California
PORTER GOSS, Florida
JOHN LINDER, Georgia
DEBORAH PRYCE, Ohio
LINCOLN DIAZ-BALART, Florida
SCOTT McINNIS, Colorado
ENID WALDHOLTZ, Utah

JOHN JOSEPH MOAKLEY, Massachusetts
ANTHONY C. BEILENSON, California
MARTIN FROST, Texas
TONY P. HALL, Ohio

DON WOLFENSBERGER, *Chief of Staff*
GEORGE C. CRAWFORD, *Minority Staff Director*

SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS

PORTER GOSS, Florida, *Chairman*

JAMES H. QUILLEN, Tennessee
JOHN LINDER, Georgia
DEBORAH PRYCE, Ohio
GERALD B. H. SOLOMON, New York

MARTIN FROST, Texas
JOHN JOSEPH MOAKLEY, Massachusetts

WENDY SELIG, *Counsel*
KRISTI WALSETH, *Minority Staff Director*

SUBCOMMITTEE ON RULES AND ORGANIZATION OF THE HOUSE

DAVID DREIER, California, *Chairman*

LINCOLN DIAZ-BALART, Florida
SCOTT McINNIS, Colorado
ENID WALDHOLTZ, Utah
GERALD B. H. SOLOMON, New York

ANTHONY C. BEILENSON, California
TONY P. HALL, Ohio

VINCENT RANDAZZO, *Counsel*
MELISSA RICE KUCKRO, *Minority Counsel*

CONTENTS

JULY 13, 1995

JULY 19, 1995

CONGRESSIONAL BUDGET PROCESS

Thursday, July 13, 1995

House of Representatives,
Subcommittee on Legislative and Budget Process,
and the Subcommittee on Rules and Organization
of the House,
Committee on Rules,
Washington, DC.

The subcommittee met, pursuant to call, at 10:03 a.m. in room H-313, the Capitol, Hon. Porter J. Goss (chairman of the Subcommittee on Legislative and Budget Process) presiding.

Present: Representatives Goss, Dreier, Linder, Diaz-Balart, Solomon, and Hall.

OPENING STATEMENT OF HON. PORTER J. GOSS, CHAIRMAN OF THE SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS

Mr. Goss. Good morning, ladies and gentlemen. The joint subcommittee meeting will come to order. This is a very special day, and it seems like we were here not so long ago on another very special day and it is for that reason that we have a somewhat lighter attendance than we had hoped.

Mr. Beilenson did want to be here and I think he will show up. We have some rules coming forward on the floor this morning that are going to require some of our members to be down there, and I think they will drift in and out. In any event, we are looking forward to the testimony, and we are very much committed to pursuing this subject before us today, which really involves the whole question of budget process and budget reform. This seems to me to be extremely appropriate. We are trying to do great things and if we don't have machinery that can help us do great things we aren't going to get very far.

Formally, the Subcommittee on Legislative and Budget Process and the Subcommittee on Rules and Organization of the House, chaired by David Dreier, my colleague from California, today begin the challenge of reviewing the congressional budget process.

The Rules Committee has jurisdiction over the procedures proscribed for the House in addressing the Nation's budget, as we all know. Under House Rule X, clause 3, the Rules Committee is expressly charged with reviewing and studying, on a continuing basis, the congressional budget process.

As such, today's hearing marks the beginning of our efforts to meet our oversight responsibilities in this historic 104th Congress. I would say that we have done some homework already. We have had some informal briefings, and we are trying to at least understand all the acronyms and the alphabets involved, to say nothing of the numbers.

We clearly have a wealth of expertise in this committee on this important subject. We hope not to reinvent any wheels, but rather to build on what has been done in previous years in the context of the historic 104th Congress and our absolute commitment to bring balance to our Nation's budget.

David Dreier, the vice chairman of the Joint Committee on the Organization of Congress, also the vice chairman of the Rules Committee, also the chairman of one of the subcommittees here today——

Mr. DREIER. I sound important.

Mr. GOSS. He is a busy man—has spent countless hours in the last Congress reviewing—I think it should say countless days in the last Congress reviewing testimony and proposals on many issues involving the structure and workings of the House, including the budget process, and developing recommendations for reform. And so reform is very much one of the perspectives we proceed from.

In addition, our friend, Tony Beilenson, who I hope will show up soon, chaired an important bipartisan task force on the budget process in 1984, which made a major contribution to the evolution of our budget process.

Martin Frost and James Quillen have spent many years researching and studying these issues as well, and our committee chairman, Jerry Solomon, who has come in right on cue, has for years devoted his boundless energy to seeking meaningful ways to strengthen and improve our budget process to lead us to balance as soon as possible, most recently with a rather spectacular bill.

The most important thing we do around here is to manage the Nation's finances. The budget is the meat and potatoes of this place, some call it the pork and beans. I think we better stick with meat and potatoes, because that is what this is about. Many people have concluded that since the adoption of the 1974 Budget Act, we have indulged in far too much of the pork on that diet.

With this year's historic adoption of a budget blueprint for bringing our budget into balance, it is crucial that we make sure we have the most effective procedures in place to meet and maintain that goal, that is, the machinery. Unfortunately, too many Members and Americans looking at the workings of the current congressional budget process think it is like looking into a black hole.

Critics say it is too complicated, too cumbersome, and too much is out of our direct control. Members of Congress say that, too. There is general frustration and that is one of the reasons why we are here. We felt it important to begin with the large context to ensure that we understand where we have been so that we can more precisely chart where it is we want to go.

We have chosen three very broad questions to frame our starting point for this review today, mindful that the big picture will eventually lead us to examine specific proposals for reform. Certainly, the most frequently mentioned complaints about the process yield a host of suggestions for quote, "fixing the process," ranging from some minor tinkering around the edges to dramatic overhaul of the system.

It is our intent to move from today's very broad discussion into a similar type of conversation with some of our highly knowledgeable House Members next week. We hope it will be next week; if not, shortly thereafter. If there appears to be interest in pursuing change, we would then proceed to a review of specific proposals.

For today, we have asked our witnesses to speak to three very broad questions, as I said. First, what are the objectives of the 1974 Congressional Budget Act. I guess that will be somewhat retrospective; which of those objectives are relevant in today's fiscal environment; and should the budget process be redesigned or will the tinkering around the edges suffice?

We are delighted to welcome our guests. We have a very majestic array, I think, of talent in front of us, and we appreciate them being here. Director O'Neill of the CBO, Susan Irving from GAO, and our friend and former colleague Bill Frenzel, now at Brookings, and Stephen Moore from Cato. We thank you all for coming, look forward to hearing your words of wisdom. I would now turn to Chairman Dreier, who will then turn to Chairman Solomon.

OPENING STATEMENT OF HON. DAVID DREIER, CHAIRMAN OF THE SUBCOMMITTEE ON RULES AND ORGANIZATION OF THE HOUSE

Mr. DREIER. Thank you very much, Mr. Chairman, Mr. Chairman, Mr. Chairman, and we all—our only regret is that we didn't call Bill Mr. Chairman, but we can call him Mr. Chairman now.

Let me say that it is nice to be—we left these chairs 9 hours ago, and it is wonderful to be back this morning.

As you illustrated in your statement, Mr. Chairman, this is not the first time that our Rules Committee has attempted to either justify or overhaul the Congressional Budget Act, and it probably won't be the last. As you said, Tony Beilenson tried in the 1980's and our Joint Committee on the Organization of Congress looked extensively at the issue of budget process reform and several of our witnesses testified before that panel which had 37 hearings, Porter, and 243 witnesses.

Mr. GOSS. I should have said months.

Mr. DREIER. Yes, right. But I have a sense that this time may be a little different. We passed a budget resolution taking us on a glide path to a balanced budget, and it was noted yesterday at our informal briefing that this is the first sincere effort to achieve a balanced budget since the Congressional Budget Act was adopted in 1974. Resolutions have been passed as was said by Mr. Keith, but clearly there is a sense that there is a real confidence in this one.

We already are witnessing, however, the fact that the path to a balanced budget is rough and has many obstacles to it. In both a real and imaginary sense our colleagues will point to the budget process itself as one of those impediments to a balanced budget. I think part of the problem is that we have a layered process.

Instead of one coherent process, we have rules, procedures, and timetables stacked up one upon another, all established to address a particular problem at a particular point in history. Little of it makes sense in today's dynamic fiscal and institutional environment, so I think we need to reevaluate the full process, and we also need to be prepared to respond to the criticisms that will inevitably arise as we attempt to make the budget resolution a reality. That is the purpose of this morning's hearing, and I, too, look forward to our witnesses.

I am sure that they will be able to make some sense of this process. I hope we will be able to work in a bipartisan way with Chairman Solomon, Chairman Goss, former Chairman Beilenson, and other members of the committee to make some sound and very rational recommendations for budget process reform, and I am happy to be now enveloped by two chairmen.

Mr. GOSS. Mr. Solomon, Chairman Solomon.

Mr. DREIER. And a vice chairman.

Mr. GOSS. And a vice chairman. We have been joined by Mr. Diaz-Balart of Florida, our colleague.

Mr. SOLOMON. It takes a couple of chairmen on either side of Mr. Dreier to keep him under control.

First, let me apologize for running off here in a few minutes, we have a second rule on the interior appropriations bill, and we have to make sure that runs smoothly today.

Mr. DREIER. You better stay here.

OPENING STATEMENT OF HON. GERALD B.H. SOLOMON, CHAIRMAN OF THE COMMITTEE ON RULES

Mr. SOLOMON. But we will see. First, I want to commend the two subcommittee chairmen for holding the hearing, and we look forward to the testimony, and I want to thank certainly Dr. O'Neill for her work.

I have here in front of me a document called H.R. 1923, and it is 1,700 pages of scored budget spending cuts, and as I look down through the other witnesses, including the GAO, the Brookings Institute, Cato Institute, all of them were instrumental in providing us with many various recommendations that we can give in this bill to the appropriators and to other Members of Congress on just how we can go about bringing about some fiscal responsibility to this Federal Government. What we have done with this document, as you know, was made it the basis for our budget which the three of us voted for, that 5-year balanced budget, last year, this year, and the year before. We have given this to all the Members of Congress so they can use it for further cutting the unnecessary spending and restructuring the Federal Government, so I just want to thank all the witnesses for all of your input that helped us do that, particularly CBO, because it couldn't have validity if it was not scored properly, and it was a very difficult job, and we appreciate the great effort you put into it. Having said all that, I am going to go downstairs and will try to join you shortly thereafter. We thank all of you.

Mr. GOSS. Thank you, Mr. Chairman. I hope you are able to report back a successful vote.

Lincoln, did you wish to say anything at the beginning of this?

Mr. DIAZ-BALART. Unfortunately, I can't stay long, Mr. Chairman, but I wanted to come by for as long as I could, and I am here to learn. Thank you.

Mr. GOSS. Thank you. Appreciate you being here.
Dr. O'Neill, the floor is yours. Thank you.

STATEMENT OF JUNE E. O'NEILL, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. O'NEILL. Chairman Goss, Chairman Dreier, members of the subcommittee, thank you for inviting me to testify today on the budget process. I will submit my prepared statement for the record and summarize the three topics discussed. They are the evolving role of Congress in the budget process, lessons from recent experience with budgeting, and finally criticisms and proposed reforms of the current process.

For many years the Congress has participated in the budget process by prescribing general rules and procedures concerning the presentation of the President's budget and the enactment of spending and tax laws.

The general rules of the budget process are contained in two laws, the Budget and Accounting Act of 1921 and the Congressional Budget and Impoundment Act of 1974. The Congress has also played a key role in the control of both spending and the size of the budget deficit or surplus.

Three decades ago, when discretionary spending accounted for nearly 70 percent of budget outlays, the control of spending fell largely to the Appropriations Committees. Over time, however, the composition of the budget and the nature of budget control have changed dramatically. In the current year, that is 1995, discretionary spending is expected to make up only 36 percent of total outlays, falling to 30 percent by the year 2000.

Growth in entitlement spending has outpaced both discretionary spending and revenues, leading to unanticipated large deficits. Further, such growth occurs without congressional action and is highly responsive to economic conditions and other factors that are often difficult to predict.

Although the budget process has had some success in controlling discretionary spending, controlling entitlement spending presents a much tougher challenge. The growth in entitlements and the large budget deficits of the 1980's have brought new challenges to the budget process. The primary focus of the process has shifted to the development of rules specifically intended to reduce the deficit.

That role is manifested in two major laws, the Balanced Budget and Emergency Deficit Control Act of 1985, popularly known as Gramm-Rudman-Hollings, and the Budget Enforcement Act of 1990, the BEA. Gramm-Rudman-Hollings had a single goal, to reduce the size of the deficit to specified levels each year until expenditures were in balance with revenues. But the deficit did not come down.

Instead of enacting the changes in laws governing revenues and spending necessary to reduce the deficit, the President and the Congress were able to avoid the intent of the act by changing the deficit targets and by basing budget estimates on overly optimistic forecasts.

The BEA created a very different process than that established by Gramm-Rudman-Hollings. Its purpose was not to force the attainment of a specific deficit level. Rather, it attempted to control spending and prevent legislative actions that would cause the deficit to increase. The Congress and the President have lived within the BEA's constraints.

Although the deficit outlook deteriorated just after the 1990 budget agreement, that turn of events did not result from evading the stricture set up by the BEA. Rather, the deterioration of the economy and the open-ended nature of entitlement programs, such as Medicare and Medicaid, were largely responsible for increasing the deficit over the 1990 projections. Virtually nothing of the darkening deficit picture after 1990 resulted from policy actions that were controlled under the BEA.

Some tentative lessons can be drawn from the past 20 years of experience with congressional budgeting. First, the 1974 Budget Act created an infrastructure for budgeting that has proved to be of lasting value. The budget committees, the timetables and rules of procedure, and the information systems put in place by this legislation afford the Congress an expanded capacity to frame a budget in a systematic and informed manner in addition to providing it with the means to pursue an explicit fiscal policy role. Thus, the essential elements for effective budget control by the Congress have been put in place.

The second lesson we have learned is that there is a limit to what the process alone can accomplish. The budget process ultimately is not really a substitute for specific policy decisions required to produce a desired result. The budgeting process has no magical powers. At best it can provide opportunities for the Congress to make informed decisions that will result in desired outcomes.

Third, in designing budget procedures, control mechanisms should focus on those things that can be controlled directly. That lesson comes from the contrasting experiences with Gramm-Rudman-Hollings and the Budget Enforcement Act. Gramm-Rudman-Hollings explicitly attempted to reduce the deficit without specifying how that was to be accomplished; thus, it suffered from the absence of a direct link between the object of control and those variables that the Congress can control.

The relative success of the BEA stems in part from its confinement to controllable legislative actions. That is particularly apparent in the case of discretionary spending, which has been consistently declining as a percentage of gross domestic product.

Inevitably, the BEA's changed emphasis has come at a price. By focusing on legislative action through the PAYGO rules, the BEA does not force enactment of measures to reduce the deficit further. Under the BEA, entitlements can still expand considerably because of changes in population, inflation, utilization rates, and in the case of health programs, because of changes in technology that enhance the quality of benefits.

Many observers are dissatisfied with the current process, and they have proposed changes. I will comment briefly on some of the major criticisms and suggestions for reform. One broad area of concern is that the process is too complex, too time-consuming, and too rule-bound.

Critics argue, for example, that if the budget was enacted less frequently, as would be the case under such proposals as biennial budgeting, more time would be freed up for legislating and oversight. But enacting the budget less frequently would decrease fiscal flexibility.

Moreover, given the uncertainty that often surrounds budget estimates, it is likely that the second year would be spent making adjustments to decisions made in the budget year because of unanticipated changes in the economy or in other factors affecting program costs.

The process is also criticized as too rule-bound. The PAYGO procedures, for example, have created very complex rules. Although the complexity of the process is certainly troubling, it may be a natural byproduct of repeated attempts to bring the budget under balance.

Fewer rules are desirable, but so are lower deficits. Given that many of the current rules try to curb the deficit, they may eventually outlive their usefulness. We should keep in mind, however, that the pressures on the budget in the next century, brought about by the Government's commitment to an aging population, could mean that it will become as difficult to maintain balance as it is to achieve it.

Another problem of concern is that the budget system is inadequate to control direct spending. The apparent uncontrollability of mandatory spending has fostered many suggestions for bringing it under greater control through a process change, including sunset provisions for all programs, annual appropriations for mandatory programs, and an enforceable cap on mandatory spending.

One difficulty with the annual appropriation and cap approach is that they may both be viewed as inconsistent with the underlying legislative commitment to provide benefits to the designated population. Another difficulty is that the Congress is limited in its ability to delegate authority to executive agencies to reduce unilaterally those payments made from mandatory spending programs.

Some recent studies, such as that of the Bipartisan Commission on Entitlement and Tax Reform, have decried the lack of attention to the long-term implications of budget decisions. According to that view, the 5-year budget horizon creates incentives to be shortsighted and to push costs beyond the expiration date of the BEA.

The Entitlement Commission suggests a 30-year window for budget decisions. One big drawback of such long-term budgeting is that it would significantly add to the uncertainties surrounding budget estimates. Moreover, many programs have a relatively short policy life and extrapolating them into the long term may not always make sense.

Of course, a longer time horizon is essential for the planning of future benefits and revenues in a program like Social Security, but the complex analysis required would seem to justify studies that need not be tied to the routine budget process.

Another set of concerns deals with the President's role in the budget process. Some critics argue that the President needs to be involved more fully and continually in the budget process. That argument usually emphasizes that the President, as the only elected official with a national constituency, must remain accountable for the budget throughout the process.

Two reforms have been proposed. One would require the President's signature on budget resolutions. The second would grant increased authority to the President to veto individual budget items. Such an increase in Presidential involvement, however, could restrict congressional budgetary prerogatives.

Moreover, in the case of a joint budget resolution, requiring the President's signature could result in conflict and stalemate at an early stage of the process, making it even more difficult to adopt a congressional budget. The line-item veto would increase the President's power to pursue his budget priorities at the expense of those of the Congress. But depending on the relative weights one assigns to Presidential and congressional priorities, that might or might not be a positive development.

Another criticism of the budget process is that current budgetary concepts prevent budgetary cost from reflecting economic costs in a timely fashion. Policymakers respond to the estimated costs of various actions as they are scored in the budget.

If costs are misstated, decisions can be biased away from the most sufficient outcome. Numerous proposals have been offered to address the possibility of a cost bias. One frequently cited proposal would change the budgetary treatment of Federal investments to report costs over the expected life of the investment rather than up front when the asset is acquired.

Another approach argues that the goal of a balanced budget should be targeted toward the operating component of the budget, not its capital component. Still another set of proposals would expand the use of accrual accounting for Federal pensions and insurance programs. The proposed reforms cited and many more have their strengths and limitations, and some of them have been described in more detail in my prepared statement.

In conclusion, I would suggest that despite some contrary developments, the last two decades of congressional budgeting have been fruitful. The Congress has created a budgetary infrastructure that enables it to address the most pressing fiscal issues of our time; namely, how to balance the division of scarce resources between public and private uses and between present and future generations.

The unchecked growth of entitlement spending, however, remains an obstacle to attaining the desired balance. Nonetheless, there is reason for optimism. As the current Congress has demonstrated in the new budget resolution, the budget infrastructure is flexible and can be used to outline the changes necessary to control mandatory spending.

No one can predict the outcome of this year's efforts, but failure to achieve the objectives of the resolution is not likely to be the fault alone of the budget process. Enacting required legislation involves a consensus, not only among divergent views within the Congress, but also between the Congress and the President. Such agreement is not always easy to achieve.

In sum, getting mandatory spending under control is urgent. Although potential improvements of the process are certainly welcome and should be pursued, the current process appears adequate to support policy decisions that would reduce the deficit. The hard fact remains that eliminating the deficit will ultimately require changes in the legislation that authorizes the mandatory spending in the first place. Thank you.

[Ms. O'Neill's prepared statement follows:]

PREPARED STATEMENT OF JUNE E. O'NEILL, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Chairman Goss, Chairman Dreier, and members of the subcommittees, thank you for inviting me to testify today on the budget process. In my testimony, I will discuss three topics:

The evolving role of the congressional budget process;
Lessons from recent experience with budgeting; and,
Criticisms of both the current process and some proposed reforms.

THE ROLE OF THE CONGRESS IN THE FEDERAL BUDGET PROCESS

For many decades, the role of the Congress in the Federal budget process has included prescribing general rules and procedures for presenting the President's budget and for enacting spending and tax laws. Historically, the Congress has also assumed responsibility for controlling spending and the size of the budget deficit or surplus. Three decades ago, when discretionary spending accounted for nearly 70 percent of budget outlays, the lion's share of the responsibility for spending control fell to the Appropriations Committees.

Over time, however, both the composition of the budget and the nature of budget control have changed dramatically. In the current year, discretionary spending is expected to make up only 36 percent of total outlays, and by fiscal year 2000 the share directly controlled by the Appropriations Committees will fall to 30 percent. Growth in entitlement spending has outpaced both discretionary spending and revenues and, thus, led to unanticipated large deficits. Further, such growth occurs without congressional action and is highly responsive to economic conditions and other factors that are difficult to predict. Although the budget process has had some success in controlling discretionary spending, controlling entitlements spending presents a tougher challenge. Recent reform efforts have recognized the inherent difficulties of controlling entitlement growth, but the problem persists.

How the Budget Process Developed

The general rules of the budget process are contained in two laws. The first is the Budget and Accounting Act of 1921. That law created the Bureau of the Budget—now the Office of Management and Budget—and the General Accounting Office. In addition, the Budget and Accounting Act required the President to present a set of budget recommendations annually to the Congress and has been amended several times since to include new requirements for Presidential budget submissions.

The current congressional budget process was established with the Congressional Budget and Impoundment Control Act of 1974. That law was passed both in response to the frustration generated by the fragmented nature of congressional budgeting and as a way to provide the Congress with greater ability to carry out its budgetary responsibilities. Part of the reason for the reform, too, was a sense that President Nixon had abused his ability to impound appropriated funds; the 1974 Act severely restricted the President's ability to rescind such funds.

The act strengthened the congressional role in the budget process by centralizing and augmenting the Congress' capacity to budget. Thus, the House and Senate Budget Committees were created to coordinate congressional action on the budget, and the Congressional Budget Office (CBO) was established as a source of nonpartisan analysis and information on the budget and the economy. The budget resolution gives the Congress the ability to consider the board outlines of the budget as a whole and establishes the guidelines for future congressional action on the budget—the passage of bills governing taxing and spending.

Using the Budget Process Specifically to Reduce the Deficit

The large budget deficits in the 1980's ushered in a new era for the budget process. During this period, the primary focus of the process has been on establishing rules specifically intended to reduce the deficit. That role is manifest in two major laws—the Balanced Budget and Emergency Deficit Control Act of 1985—popularly known as Gramm-Rudman-Hollings—and the Budget Enforcement Act of 1990 (BEA).

Gramm-Rudman-Hollings had a single goal: To reduce the size of the deficit to specified levels each year until expenditures were in balance with revenues, If annual deficit targets were not met by appropriate spending restraint or tax increases, automatic across-the-board spending cuts—or sequestrations—were to take effect.

According to the targets specified in the legislation, the budget was to be balanced by fiscal year 1991. In the meanwhile, the first Gramm-Rudman-Hollings law was replaced in September 1987 by a successor, which delayed the target for budgetary balance to fiscal year 1993.

Yet the deficit did not come down. Instead of enacting the changes in laws governing revenues and spending necessary to reduce the deficit, the President and the Congress were able to avoid the intent of the act by changing the deficit targets or by basing budget estimates on overly optimistic forecasts. For example, the original deficit target for 1990, the last year the Gramm-Rudman-Hollings procedures were fully in place, was $36 billion. The revised 1990 target, established in 1987, was $100 billion. The reported deficit for that year was $220 billion. The deficit for 1993—the year in which the revised targets were to require a balanced budget—was $255 billion.

The BEA created a much different process than Gramm-Rudman-Hollings. It was enacted to enforce compliance with the deficit-reducing actions agreed to in the 1990 budget summit agreement. Its purpose was not to force the enactment of further reductions or to achieve some specific deficit level. Rather, it attempted to control spending and prevent policy actions that would cause the deficit to increase. Two separate procedures were set up to achieve that end. The first set caps on annual discretionary appropriations, which limited the level of budget authority and outlays through 1995. The second instituted the pay-as-you-go (PAYGO) process, which required that the cumulative effect of congressional legislative actions controlling mandatory spending and revenues be deficit neutral. The Omnibus Budget Reconciliation Act of 1993 extended both the discretionary caps and PAYGO through 1998.

The Congress and the President have lived within the BEA's constraints. Although the deficit outlook deteriorated just after the 1990 budget agreement, that turn of events did not result from evading the strictures set up by the BEA. Rather, the deterioration of the economy and the open-ended nature of entitlement programs such as Medicare and Medicaid were largely responsible for increasing the deficit over the 1990 projections. Virtually none of the darkening deficit picture after 1990 resulted from policy actions controlled under the BEA. Furthermore, although the BEA did not include any procedure to force additional deficit reduction measures beyond the scope of the original agreement, such reductions have actually occurred.

SOME LESSONS FROM RECENT BUDGETING EXPERIENCE

Based on more than 20 years of experience with a varity of approaches to congressional budgeting, some tentative conclusions are beginning to emerge. First, the Congressional Budget Act created an infrastructure for budgeting that has proved to be of lasting value. The Budget Committees, the timetables and rules of procedure, and the information systems put in place by this legislation afford the Congress an expanded capacity to frame a budget in a systematic and informed manner, in addition to providing it with the means to pursue an explicit fiscal policy role. Although the current system is well short of perfect, the Congress now possesses the tools to achieve budget outcomes that are closer to its objectives than has been the case in the past. In short, the essential elements for effective budget control by the Congress are in place.

Second, although the budget process is clearly useful to the Congress, the process is limited in what it can accomplish alone. Budget institutions can provide policymakers with information that is relevant to the decisions they face; it can permit extensive participation in making those decisions; and it can constrain decisions to prevent some undesired outcomes. But it cannot guarantee a desirable outcome. The process alone cannot substitute for specific policy decisions required to produce a desired result. Budgeting has no magical powers: At best it can provide opportunities for the Congress to make informed decisions that will result in desired outcomes.

Third, in designing budget procedures, control mechanisms should focus on those things that can be controlled directly. That lesson comes from the contrasting experiences with Gramm-Rudman-Hollings and the Budget Enforcement Act. Gramm-Rudman-Hollings explicitly attempted to reduce the deficit without specifying how that was to be accomplished. The deficit is powerfully affected by employment, inflation, and other economic variables; it is also influenced by the decisions of individual States regarding the scope of benefits and rules of eligibility for many entitlement programs. In the case of health care, it is further affected by the behavior of prices, technology, and use of covered services. Thus, Gramm-Rudman-Hollings suffered from the absence of a direct link between the object of control and those varibles the Congress can control.

The BEA avoided that shortcoming by putting controls on appropriations through the discretionary spending caps and on legislation affecting entitlements and taxes through the PAYGO provisions of that act. The relative success of the BEA stems in part from its confinement to controllable legislation actions. That is particularly apparent in the case of discretionary spending, which has been consistently declining as a percentage of gross national product.

Inevitably, the BEA's changed emphasis has come at a price. By focusing on legislative action through the PAYGO rules, the BEA does not force enactment of measures to reduce the deficit further. Under the BEA, entitlements can still expand because of changes in population, inflation, and utilization rates that occur under current law. The BEA firewall between discretionary and PAYGO controls also means that tax reduction cannot be paid for directly with cuts in discretionary spending. In addition, because the distinction between mandatory and discretionary spending is necessarily somewhat arbitrary, a single program can involve both direct and discretionary spending. That adds a whole new layer to the already complex process of drafting authorizing legislation that accomplishes what its sponsors intend for program activity and the budget. But as the dismal science tells us, every good thing involves tradeoffs or, as the Rolling Stones point out, "You can't always get what you want."

CRITICISMS OF THE CURRENT PROCESS

Many observers are dissatisfied with the current process for a number of reasons, but most criticisms fall into the following broad categories:

The budget process is too complex, time consuming, and rule-bound;

The system controls mandatory spending less effectively than discretionary spending;

Too much attention is paid to short-run budgetary effects of legislation and too little to overall economic effects and the long run;

The President's role in the process is too inactive and inflexible; and

Current budgetary accounting might bias policy outcomes.

The Budget Process Is Too Complex, Time Consuming, and Rule-bound

Much of the complexity and time requirements of the process result from piling additional requirements onto the existing process in the pursuit of various budgetary goals. The budgetary changes that have occurred since 1974 either have expanded the use of procedures—such as reconciliation—that were not used much until the 1980's or those changes have created new procedures, reports, and rules on top of the old ones. Gramm-Rudman-Hollings added deficit targets, sequestration, and sequestration reports. The BEA gave us spending caps and PAYGO.

One complaint frequently made is that the Congress is required to act too many times on the same spending—when the budget resolution is adopted, when programs are authorized, and finally when funds are appropriated. Critics argue, for example, that if the budget was enacted less frequently—as would be the case under such proposals as biennial budgeting—more time would be freed up for legislating and oversight. But enacting the budget less frequently would decrease fiscal flexibility and could divert attention away from deficit reduction.

The process is also criticized as too rule-bound. Certainly, the PAYGO procedures, for example, have created more complex rules. As a result, a great deal of power is transferred to technical staff, and legislators who pursue changes in policies find their task much more difficult. Although the complexity of the process is certainly troubling, it may be a natural by-product of repeated attempts to bring the budget into balance. Fewer rules are desirable, but so are lower deficits. Given that many of the current rules try to curb the deficit, they may eventually outlive their usefulness. That time, however, might not come as soon as we would like, even if this year's efforts to balance the budget are successful. The pressures on the budget in the next century brought about by the Government's commitment to an aging population could mean that it will be as difficult to maintain as it is to achieve it.

The Budget System Is Inadequate to Control Direct Spending

Mandatory spending has continued to increase as a share of the budget since 1990. The relative uncontrollability of mandatory spending fostered numerous suggestions for bringing it under greater control, including sunset provisions for all programs, annual appropriations for mandatory programs, and an enforceable cap on mandatory spending. Social Security, still the largest of the mandatory spending catagories, has its own process of evaluation and periodic review; right now, it is off the table for current budget negotiations.

The costs of some programs—notably Medicare and Medicaid—are estimated to grow much faster than their beneficiary populations and general inflation over the next decade. A mandatory cap might tie the growth of spending for individual programs to the increase in the eligible population and inflation. Such a cap could also use a sequestration to enforce compliance with the cap, and savings would be achieved if spending was held to the cap level.

The difficulty with both the annual appropriation and cap approach is that they are potentially inconsistent with the underlying, legislated commitment to provide benefits to the designated population. Some acceptable procedure is required to ration capped benefits among those declared by law as eligible to receive a full entitlement. Moreover, the Congress is limited in its ability to delegate authority to executive branch agencies to reduce unilaterally those payments made from mandatory spending programs.

Some critics also view the existing process as inadequate because it creates incentives to use the BEA's emergency designation, which has the effect of increasing the deficit. They contend that the emergency designation gives the Congress and the President an incentive to underfund certain accounts in the normal appropriation process in order to fit under the caps, only to increase the deficit when a supplemental appropriation is provided after an emergency is declared. They propose that emergencies be funded by budgeting for those events in advance of their occurrence under the existing caps. Others support the current process, citing the difficulty of predicting the timing of and amounts needed for emergencies.

Too Little Attention Is Paid to the Long Run and to Non-Federal Costs

Some recent studies, such as that of the Bipartisan Commission on Entitlement and Tax Reform, have decried the lack of attention to the long-term implications of budget decisions. According to that view, the 5-year budget horizon creates incentives to be short-sighted and to push costs beyond the expiration date of the BEA. Accordingly, the Senate already has instituted a 10-year point of order in response to that concern. Others would go further: the Entitlement Commission suggested a 30-year window for budget decisions. Of course, a longer time horizon is essential to a complete assessment, but it significantly adds to the uncertainty surrounding budget estimates.

A second set of concerns has to do with the limited coverage of the budget. Federal policy often imposes costs on non-Federal entities. Mandating that State and local governments or private businesses provide certain services, for example, can substitute for direct Federal spending. Non-Federal costs, however, do not show up in the Federal budget. That outcome has led to proposals that State and local mandates and private sector regulatory costs be moved formally into the budget. As an alternative, others have proposed that more information be made available on the total costs of such requirements before legislative action is taken and that additional procedural impediments be placed in the way of costly increases in those requirements. In fact, the Congress and the President took that approach in enacting the Unfunded Mandate Reform Act of 1995.

The President's Role in the Process Is Too Inactive and Too Inflexible

Some critics argue that the President needs to be involved more fully and continually in the budget process. That argument usually emphasizes that the President is the only elected official with a national constituency and that he or she needs to remain accountable for the budget throughout the process. Two reforms are proposed. The first would require the President's signature on budget resolutions, thus providing the opportunity for the President and the Congress to reach agreement at an earlier stage than currently. The second would grant increased authority to the President to veto individual budget items. Indeed, both Houses of Congress have enacted separate stautory versions of the line-item veto during this session.

Such an increase in Presidential involvement could restrict congressional budgetary prerogatives. In the case of a joint budget resolution, requiring the President's signature could result in conflict and stalemate at an earlier stage of the process, making it more difficult to adopt a congressional budget. One can easily imagine the added difficulties that would have been encountered this year if the budget resolution had had to meet the President's approval as well as that of both Houses of Congress. Conversely, we have yet to experience the endgame of this year's struggle; it is unlikely to be resolved smoothly. The line-item veto would increase the President's power to pursue his or her budget priorities at the expense of those of the Congress. Depending on the relative weights one assigns to Presidential and congressional priorities, that might or might not be a positive development.

Current Budgetary Accounting Might Bias Policy Outcomes

A final criticism of the budget process is that current budgetary concepts—in particular the rules governing accounting in the budget—prevent budgetary costs from reflecting economic costs in a timely fashion. That criticism recognizes that policymakers respond to the estimated costs of various actions as they are scored in the budget. To the extent that costs are misstated, decisions can be biased away from the most efficient outcome.

Numerous proposals have been offered to address the possibility of a cost bias. Most would make greater use of an accrual, rather than a cash, basis of accounting in the budget. One frequently cited proposal would change the budgetary treatment of Federal investments to report costs over the expected life of the investment rather than up front when the asset is acquired. To proponents, that form of capital budgeting would correct a bias that they believe results because the cost of an investment project is not shown in the budget as it is consumed through use over many years. Alternatively, smoothing out costs over an extended period might make things seem more inexpensive that they are if policymakers only consider the short run.

Another approach to the same concern about a potential bias against capital investment argues that the goal of a balanced budget should be targeted toward the operating component of the budget, not its capital component. In that view, a balanced budget rule would apply to government expenditures for current consumption and operations, but borrowing—subject to a specified limit—would be permitted to finance long-lived Federal investments. Critics of that approach are concerned that relaxing budgetary discipline for spending classified as investment would create strong incentives to classify many activities as capital, regardless of whether they met suitable investment criteria or not.

Another set of proposals would expand the use of accrual accounting for Federal pensions and insurance programs. Accounting for the cost of those programs when cash is paid, critics argue, does not accurately reflect the cost of an activity when costs are controllable. Opponents contend that this method of accounting would make the budget much too dependent on the uncertain estimates of events many years in the future.

CONCLUSIONS

In conclusion, I would suggest that—some developments to the contrary—the last two decades of congressional budgeting have been fruitful. The Congress has created a budgetary infrastructure that enables it to address the most pressing fiscal issue of our time: How to balance the division of scarce resources between public and private uses and between present and future generations. No doubt the unchecked growth of entitlement spending poses a continuing threat to the desired balance. Moveover, the current budget process is clearly better suited to controlling discretionary spending than entitlements.

Nonetheless, as the current Congress has demonstrated in the new budget resolution, the budget infrastructure is flexible and can be used to outline the changes required to control mandatory spending. No one can predict the outcome of this year's efforts, but failure to achieve the objectives of the resolution is not likely to be the fault of the budget process. Enacting required legislation involves a consensus, not only among divergent views within the Congress but also between the Congress and the President. Such agreement is not always easy to achieve.

In sum, getting mandatory spending under control is urgent. Although potential improvements to the process are certainly welcome and should be pursued, the current system appears adequate to support policy decisions that would reduce the deficit. The hard fact remains that eliminating the deficit will ultimately require changes in the legislation that authorizes the spending in the first place.

Mr. GOSS. Thank you very much, Dr. O'Neill. I appreciate your underscoring a couple of areas that I think were well presented in your written testimony—which I read last night—because they keep coming up again, and obviously the problem of what to do with our entitlements, our mandatory spending.

I served on the Kerrey Entitlement and Tax Reform Commission, and I was very interested to hear your remarks about our proposal for the 30-year window and some of our attempts to grapple with this. You have sort of suggested maybe we ought to be looking at a separate track.

Is that a firm suggestion or have you got something that we ought to flesh out there? We didn't really specify exactly what we meant in our 30-year window except you have got to look at this in a longer range than 5 years because you miss a lot of the trees when you have a 5-year window.

Ms. O'NEILL. I certainly agree with the spirit of your comment, but we at CBO shudder when talk is made of extending the horizon for the routine budget because we know how difficult it is to make estimates for a 5-year period.

The uncertainty mounts, but it is true that there are certain programs—Social Security, Medicare, the commitments to an aging population—that have to be considered within the framework of a distant horizon because you can't change the benefits structure at the last minute. It takes planning now for the future. So the question is, How can you bring this to the public's attention?

It seems that the issues really are specific to those programs and that they deserve a study of their own, and I think it is certainly desirable to devote a chapter in an annual report to long-term problems as a separate issue.

Now, if some legislation were to be suggested and we were to do a cost estimate that clearly had implications beyond a 5-year window, we could certainly—informally or as part of an accompanying study or commentary—look at those implications that are known. But how much they are known is not all that apparent. As a routine matter, however, that would probably lead to a lot of dubious estimates.

Mr. GOSS. Well, I totally understand your desire for precision in this process. In your job you have to have that. There is the practical reality that there is not a full awareness of the problem and the political reality is that there probably isn't sufficient courage to deal with it once it is known unless we do it prospectively, so the temptation is immediately to say we have to look at this in a generational bite and actually when you start looking at the charts you do see that you are out there a generation, two generations out there before the train wrecks all happen. So the temptation to say, yes, we can fix this prospectively, we have the time to do it now, and I think that was what the genesis of the 30-year window is.

We have got to find some kind of mechanism to throw this thing out there and say, people going into the workplace today may not have exactly the same set of rules and regulations about their programs down the road that my grandfather had or that I have, but they will be fair and equal to the greatest degree possible within the affordability of the United States. That process, it seems to me, is very amorphous at the moment.

In fact, it doesn't exist at the moment except when it is politically suitable for some people to start throwing these charts around. I would like to try and formalize that some way, and I don't know if we can become more specific than you first answered me, but I think that is where these questions are coming from and where this concern is because I think the entitlement problem is the problem. I think that is the big bear in the woods.

Ms. O'NEILL. I certainly would agree with that.

Mr. GOSS. The other observation, before I turn to David, I was interested when you were talking about the President, it seems the President is a part of this and the congressional part of this, in a simplified way I have always thought that wonderful statement about the buck stops there always meant that the buck starts here, and that therefore we better get the budget right or we are going to have a hard time stopping the buck there or helping the President stop the buck there, whether it is the line-item veto or some other way.

I thought back as we have gone through some of the history of this, and how did we get into this business of budgeting anyway and a part of that has always been, well, at least in the last 25 years it has been the tugging back and forth between downtown and the Hill on the subject of who is driving on this.

Do you feel that there should be a change right now? I detected some enunciations in your delivery. Do you feel that there is a serious imbalance now?

Ms. O'NEILL. As you know, CBO really doesn't——

Mr. GOSS. I understand.

Ms. O'NEILL. We are impartial about these things. We consider the advantages and the disadvantages. I pointed out that there are a number of disadvantages in trying, just as a practical matter to get agreement early. It could just cause a stalemate so that it would be impossible to go beyond——

Mr. GOSS. We are scared of that. Just pragmatically we are dealing with lockboxes. You know, we are trying to determine what that means and how to make something work, and we have OMB figures and the resolution guideline numbers that we use in our budget resolution. You have got two different sets of numbers, so, What is it that we are putting in the lockbox?

Those are just daily problems that we have to wrestle with, that you have to wrestle with as well. We have to wrestle with them in a slightly different perspective than you do. I don't know how you change that because I don't think you can take either party out of the game, and I don't think you can take the mechanisms that support the players in either party out of the game, so I feel you always have a bifurcated arrangement. Is that a correct conclusion?

Ms. O'NEILL. But eventually some agreement is reached. Everybody faces pressures that they are aware of. Everybody is now aware that there is a deficit, and it will only grow if nothing at all is done. It is large now and the problem will only get worse.

We are projecting that by the year 2005, the deficit, if nothing were done at all, would be 4 percent of GDP, and beyond that it will only get worse. So, no, with those forces in front of you, staring you in the face, it seems to me that there is a strong incentive on the part of everybody to try and come to some agreement. There are certain things that may prove to be stumbling blocks.

Mr. GOSS. I have taken a lot of time. There is one other area if David doesn't cover it I would like to get your advice on as well.

Mr. DREIER. Thank you very much. Why at the outset don't we ask if we could submit some questions to you.

Ms. O'NEILL. That would be fine. [See p. 19.]

Mr. DREIER. There are a number of things that I have that I would like to cover. I am just going to get into one brief, very, very brief one right now, and that is the issue of unfunded mandates.

A lot of us were involved in that. I served as a conferee on the legislation that put in place the legislation calling for dealing with the issue of unfunded mandates. You will recall that in the authorization process \$4.5 million was provided for you all, then when it came to the legislative appropriations, $1.1 million, I wonder if that is going to be adequate and what your sense is right now as we look at this very important issue.

Ms. O'NEILL. We had asked for roughly half of the—I believe it was—$2.6 million. We cut in half the original cost estimate, figuring that we could in the spirit of reducing—of trying to be parsimonious with our own resources—that we could make some rearrangements within CBO.

Mr. DREIER. We appreciate that.

Ms. O'NEILL. But we felt that we realistically needed the $2.6 million, and that is because the unfunded mandates really require us to get into estimates involving States and localities. Although we have done cost estimates that incorporated a State and local component, they didn't have the teeth that they now have with the unfunded mandates legislation and we really must beef up our capability in that regard. Developing sources in all of the States is obviously going to be an expensive matter.

Mr. DREIER. Do you feel confident, though, about the ability to deal with that?

Ms. O'NEILL. I don't know. Bob Reischauer predicted we would be back asking for more.

Mr. DREIER. That is what I was wondering, what your sense is now.

Ms. O'NEILL. It is very hard to say. One of the concerns is that there may be some dynamic effects of the legislation itself if fewer mandates are offered. Then there won't be as much work as one might anticipate; but given past history, unfunded mandates come along all the time, and we would want to do a good job of covering the States, localities, and the private sector. Frequently, many pieces of legislation have implications for the private sector and we would want to do a good job.

Mr. DREIER. Let me just ask one other question, then I have a couple things I am going to submit to you in writing.

Yesterday we had this informal briefing here and there was a discussion on the impact of the Budget Act itself and the observation was made that since passage of it in 1974 we have seen this tremendous growth in the size of deficits, and then it was observed by Tony Beilenson that had it not been for the Budget Act, the deficits would have been significantly greater than they have been. I wondered if you have any response to that.

Ms. O'NEILL. I think, as you point out, it is an example of drawing a conclusion about the effects of a policy change without some counter factual situation to measure it against. It is literally true that the budget deficit did increase after the 1974 Act, but as I pointed out in my testimony, we really changed along the way; there was a dramatic shift from a budget that was essentially appropriated programs.

It is really striking that 70 percent of the budget in 1962 was devoted to discretionary programs that were under the control of the Appropriations Committees. In addition to that, the entitlements such as Social Security were not indexed, so that on an annual basis the cost-of-living adjustment could be considered. We could ask, "Can we afford it this year or not?" There were many more checks.

When Medicare and Medicaid were brought in, and all of the entitlements were indexed, they created programs that were different; they had open-ended benefits. If you know what nominal and real terms Social Security benefits are going to be, it is fairly predictable. It is not open-ended. It is a dollar amount. But Medicaid and Medicare are not specifically defined. It is medical services, and that can have many different interpretations.

The States frequently are the ones that determine essentially what quality of medical care will be offered under Medicaid. Programs like that, in which the benefit is not specifically defined, have a habit of growing, and that is what has happened, so I think that you can't really fault the 1974 Act. That was what basically changed the budget became harder to control.

It is very difficult to prove what would have happened in the absence of the 1974 Act, but I think that it has illustrated that we have created an apparatus to deal with the problem. I really believe that things would have been a great deal worse had there not been a requirement that cost estimates be put on new legislation. It is hard to imagine that given the structure of a shift toward entitlements and the type of entitlements that have open-ended benefits, that things would not have been a great deal worse.

Mr. DREIER. Thank you very much. Thank you, Mr. Chairman.

Mr. GOSS. We have been joined by Mr. Hall of Ohio.

Mr. HALL. Thank you, Mr. Chairman.

I am sorry I missed your testimony. One of the questions that always comes up in these kinds of budget hearings and discussions is biennial budgeting. Did you mention that or talk about it?

Ms. O'NEILL. I did mention it, and the plus is that you only have to do it every other year and it could save time. The negative is that you may not actually end up saving all that much time because of the uncertainties that are inherent in the budget and budget estimates that you may have to revisit. A good portion of the decisions that were made in the budget year would have to be reconsidered in the second year, so that biennial budgeting may not end up being that much of a time saver.

Another consideration—another negative—is that if the budget is done every other year, the stakes are then much higher for a particular year's budget. The passions that might be devoted to the budget every other year may be even greater than they are for a budget that you know will be returned next year, in which some things can be corrected. So there are certainly pluses and minuses.

Mr. HALL. What is the consensus normally among people that understand the budget process, among your colleagues? What do they feel about the biennial budget? Is it always mixed? We never can seem to get a consensus certainly not in the Congress as to what we should do about it. How do your colleagues feel?

Ms. O'NEILL. I think that many people react to how troublesome it is, how complicated putting together a budget now is. The appeal is that it would seem to save revisiting the same issues time and time again. We do it during the year with the budget resolution, although I think that at the different stages of the process the way in which the budget is viewed is really quite different. That is because the resolutions deal with the broad aggregates. They take note of the details, but still look at the broad picture, and as we go through the summer we get further and further into the details of what will actually be emerging. Many people feel that having done that in 1 year, Why do we have to do a second year? So there is that appeal. But then there are the other considerations that I mentioned, so I imagine that many people have very mixed views about the subject.

Mr. HALL. I sure would like to see that. I would like to see us try to do it. Many of us came from the State legislatures, and a lot of them have biennial budgets. I came from Ohio. It worked very well for us.

I know the State and the programs they deal with are much smaller. On the other hand, it seemed to me when I was in the State legislature, the second year was such a better year. You were able to evaluate the programs that the respective committees had jurisdiction over and you could look at some of the spending programs, some of the programs that have been in existence for a long period of time.

The way we do things around here when the appropriation bill comes up are problematic. The authorization bills never make it to the floor. There is hardly any clout or influence among them. It is always up to the Budget Committees. And we are always deciding whether or not this is a good program or a bad program, here, and on the floor.

We never really look closely at these programs, except through letters that are sent in. Unfortunately, there is not a lot of evaluation of programs for the most part. Many of them are good but some ought to go. That, to me, is the benefit of the biennial budget. The economics are going to go up and down, but in the second year with a biennial budget we would be able to take a breather and ask the committees to go back and take a look at these programs. To really have hearings on them would be helpful. They don't do that now. They can't do it. They don't have time. We are always playing catchup, and it is always one person's word against another.

One Congressman stands up on the floor, "I know personally about this particular program" when, in fact, it is just their perspective. I don't know if that just makes sense. I participated in biennial budgets for a number of years. I liked it, but unfortunately we never try it. I know the Congress, even on this committee it has been mixed as to whether we should have biennial budgets. I just wish we could get a consensus some day to go with it and try it.

Ms. O'NEILL. The Federal budget is more complex than the average State's budget and it deals with a number and variety of issues such as defense, which involve responses to some foreign emergency. I am not sure whether it is just a difference of degree or whether it is really a large leap to go from a State budget to Federal budget. I agree that it is an interesting issue to contemplate, but one should recognize that there may be a lot of problems with doing a biennial budget at the Federal level.

Mr. GOSS. Thank you. I think Mr. Hall is beginning to share some of the frustrations we all see, if we could only just referee the authorizers, and appropriators, perhaps every other year, wouldn't it be better, and the answer is obvious to me this morning.

There will be additional questions that I would like to ask as well. They will be in the area, the subject you brought up of control and things that are off budget and these other areas that we haven't talked about.

[Answers to additional questions submitted to Ms. O'Neill follow:]

ADDITIONAL QUESTIONS SUBMITTED TO JUNE E. O'NEILL, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Question No. 1.—In your statement you say you believe the essential elements for effective budget control are in place. We all agree that the largest area of spending growth rests in the category of mandatory spending, but due to the eligibility and demographics driving these programs, controlling spending remains elusive. Are there additional procedural reforms we should explore to address the urgent problem?

The current pay-as-you-go (PAYGO) process works to control legislated increases in mandatory spending, by requiring that the cumulative effects of such legislation be paid for through tax increases or cuts in other mandatory spending. The current budgeting rules do not provide for any explicit mechanism to reduce mandatory spending further. Currently, the only way to reduce spending in those programs is to change their underlying authorizing legislation. One can conceive of additional procedural constraints that might check the growth in mandatory spending; for example, the PAYGO rules could be revised to replace the rule of deficit neutrality with one that would require additional cuts below the baseline level. Under such a system, a surplus on the PAYGO scorecard might be required to avoid a sequestration. Other reform proponents recommend introducing mandatory spending caps to control direct spending. Both of these approaches would potentially lead to conflicts between existing law—that entitles beneficiaries to their benefits—and the target that is chosen. It is not clear whether agency chiefs, the Congress—and who within the Congress—or the courts would be responsible for adjudicating such conflicts. The problem of controlling mandatory spending is ultimately a problem of changing the underlying law governing the terms and conditions of these programs. The budget programs cannot act as a substitute for making those decisions.

Question No. 2.—Most people may not realize that there are actually two sets of spending limits—those established by statute and those set internally to the Congress through adoption of the Budget Resolution—the so-called 602(b)'s. Currently, the statutory caps are significantly higher than the 602(b) numbers the Congress has set in the just-passed Budget Resolution. What benefits or problems do you see in this situation?

As you note, there are multiple points at which discretionary spending is controlled in the current budget process. The caps on discretionary spending are established in statute and are enforced through a sequestration if the limits on budget authority or outlays are exceeded. The Budget Resolution also establishes a limit on discretionary spending—the so-called 602(a) allocation—that is further subdivided by appropriation subcommittee—the so-called 602(b) allocation. This year, the 602(a) allocation—and therefore, the total of the 602(b) allocations—would not permit spending up to the level specified by the cap. The procedural impediments—such as points of order—to enacting legislation that would cause committee allocations to be exceeded are considerable. If they could be overcome, however, having the allocation below the level of the cap would make it less certain that the spending levels envisioned in the Budget Resolution would be achieved, since the sequestration process would not be available to reduce spending to the level included in the 602(a) allocation. If the Congress is firmly committed to holding down spending, the limitations provided by the 602(a) allocations will most likely prove sufficient to control discretionary spending. If the Congress is concerned, however, that these controls are insufficient, one way to address that would be to lower the statutory caps to match the levels permitted by the Budget Resolution.

Question No. 3.—Given your comments about the complexity and "rule-bound" nature of the current budget process, do you think biennial budgeting would allow more time for congressional oversight of spending a therefore perhaps more efficient use of taxpayer dollars?

Many critics of the current process have suggested that the Federal Government should budget less frequently. Most such proposals envision biennial budgeting, starting with 2-year budget resolutions that could be agreed to in the first year of each Congress—that is, in odd-numbered years. Most proponents of biennial budgeting also advocate prohibiting annual authorizations, moving appropriations to a 2-

year cycle, and requiring the President to submit his budget only every other year. In 1993, both Vice President Gore's National Performance Review and the Joint Committee on the Organization of Congress recommended that the Federal Government move to a biennial budget.

Although if the timetable was followed as planned, biennial budgeting would free up the Congress to concentrate on nonbudgetary issues—such as oversight—during the nonbudgetary year, there are reasons to question whether that would actually occur. Biennial budgeting could, for example, result in large supplemental budgets and appropriations in the second year, without appreciably reducing the overall time and attention paid to the budget. In addition, it would make it more difficult for the President and the Congress to implement significant changes in fiscal policy when they decide such changes are warranted in the off-year—even-numbered year—of the budget cycle.

Question No. 4.—Any discussion of the current budget process would not be complete without an examination of how the Federal budget itself is structured. Specifically, we have taken certain programs or accounts off-budget or placed them in trust funds to ensure that resources are used for intended purposes. In light of the increasing tendency toward trust funds and the fact that many of the budget's largest programs are set aside in such accounts, should we review the structure of these off-budget designations? Are the current procedures working or do you have suggestions for change to help bring about better overall control of the budget?

Current law requires that only two entities be off budget: the Social Security trust funds—the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds—and the Postal Service. The off-budget designation applies to transactions of the Government that would be included in the totals in the President's budget and congressional budget resolutions in the absence of laws that require them to be excluded. Trust funds—other than Social Security—conversely, are on budget but are typically accounting devices that attempt to ensure that the proceeds from earmarked taxes are spent for specific purposes. Overall budget control is made more difficult by the creation of off-budget entities and trust funds. Clearly, the intention of the Congress in designating the Social Security trust funds and the Postal Service off-budget was to insulate them from budget control. Furthermore, earmarking receipts and dedicating them to specific types of spending can make control more difficult because it creates pressure to allocate funds for earmarked programs, as long as the trust funds have positive balances. Although there may be other arguments in favor of off-budget designations or the creation of new trust funds, such a move would clearly be detrimental to overall budget control.

Question No. 5.—For a budget process to be credible, it must be fair, both in terms of not giving procedural advantages to specific programs (Social Security) and members. Would you describe the current budget process as being fair from both perspectives?

Certainly it is true that the current process gives procedural advantages to certain Federal programs over others. The best examples of that are probably the Social Security trust funds, which are excluded from budget enforcement procedures, such as pay-as-you-go and sequestration. Other programs are somewhat advantaged by being specifically excluded from any PAYGO sequestration. Certainly the relative advantage accorded Social Security and these other programs was intentional. Whether it is fair or not is a policy decision.

The question of fairness to individual Members is a complicated one. The Congress, by necessity, does much of its work in committee. The current budget process is probably fair to committees; the Budget Committees, the Appropriations Committees, and the authorizing committees have important roles to play in the process. By contrast, if a small number of Members made all budgetary decisions, the vast majority of Members would have little power in the process. In addition, to the extent that Members are free to offer amendments to budget-related legislation on the floor—as they are under more open rules, for example—their prerogatives in the budget process are maintained.

I hope that these responses are helpful to your committee as you deliberate changes to the budget process. Thank you.

Mr. GOSS. We have run our time. I want to thank you very much for this and we will go now to our next panel, if that is agreeable to you, Mr. Chairman.

Mr. DREIER. I guess so.

Mr. GOSS. Well, it was a tough persuasive argument. Ms. Susan J. Irving, the Associate Director of the General Accounting Office. We welcome you to the table.

Thank you very much, Dr. O'Neill.

Mr. DREIER. Thank you very much.

Mr. GOSS. We thank you for your testimony. We have it included in our briefing materials. We will have it entered in the record, and you may proceed. Anything in addition or exactly close that you would like to say, just feel free.

STATEMENT OF SUSAN J. IRVING, ASSOCIATE DIRECTOR, BUDGET ISSUES, GENERAL ACCOUNTING OFFICE

Ms. IRVING. Thank you, Chairman Goss, Chairman Dreier, Mr. Hall. Thank you for inviting me to talk about the budget process. I was here last year to talk about some of the recommendations of the House Members of the joint committee, and I suppose this marks me as odd, but I actually like to talk about the budget process.

Mr. DREIER. It sure does.

Ms. IRVING. Well, there are worse ways to be thought of as odd, I suppose. I feel this way because I think, although it is really frustrating in a fundamental way, little is more important than the debate about how much of the wealth that is produced in the country should be taken for the collective use and how it should be spent. The budget process is in a very real sense, the process through which we seek to reconcile the competing claims and views of Americans about what the Federal Government should do. We shouldn't be surprised that it is time consuming and frustrating, but we need not accept that it can never be better.

Everyone involved in the budget process shares a sense of frustration. The public finds it very confusing, and I think in a democracy that raises some real problems. Executive branch agencies find it burdensome and time consuming. For all of you it is repetitive and I suspect it feels like you make many of the same votes over and over again. Finally, the results are all too often disappointing.

You asked us to look at the objectives of the 1974 Act, to think about whether they are still relevant and to think about ways and whether the process should be changed. In an overarching sense the answer to the second question has to be, yes. It is clearly still relevant for Congress to assert its constitutional role and a strong role in the decision about Federal fiscal policy and the selection among competing priorities.

In my written statement I talk some about the history and the development of the 1974 Act and amendments. I will not use up your time on that today. I would like to note just three things about that act that I think we need to keep in the front of our minds when we look at revising it.

One is that this is the act that created the Congressional Budget Office. Dr. O'Neill was much too modest to talk about what a major contribution CBO has been to the power of the Congress but I would note that in a very real sense the creation of CBO reduced the congressional dependence on OMB's good nature and analysis and provided an independent source of numbers and analysis for the Congress.

Second, I think it is important to remember that the 1974 Act was neutral as to results. It was not established to create a balanced budget. It was established within 5 years of the last balanced budget, so its creators were not overly concerned with that problem. It was established to create a structure and a timetable.

Finally, and the observation I think is most relevant for examination of future changes, the act created the functional structure we know today. That structure changed the budget from one organized by agency to one organized around the point of the expenditures, that is the national mission or goal the spending seeks to advance, regardless of in which agency the task is located. As I said, I think that is one area you may want to look at again.

I suggest in my written statement that it is possible to think about criteria for looking at a budget process along four clusters. I don't want to say these are the only things that matter, but I think they are important and they cover a pretty wide range.

The first is some ability to look at the long term, in both the macro sense and in the micro sense. By the macro sense I refer to the Government's role as custodian or contributor to the Nation's long-term economic growth. What is the fiscal policy that you seek to advance over the long term?

The micro links back to some of the things you were discussing with Dr. O'Neill, the need to recognize that while long-term projections are inherently uncertain and you probably wouldn't want to score them, you need to be able to look 30 years out for some programs, for example, retirement programs and pension insurance. You need to have a sense about the long-term costs.

The second major criterion is the ability to provide the information necessary to make macro tradeoffs. Most particularly, I would suggest the tradeoff between investment—that is spending to support long-term economic growth—and consumption, which we might think of as spending to improve today's quality of life. It is not that one of these is unimportant, but rather that—as we have suggested—the decision should be an explicit and conscious one.

You can dig through today's budget documents and find the information to differentiate investment, but it is not an organizing theme in the budget presentation or the budget process, and maybe it should be. The way you bring it in depends on the structure you select for the budget process. We have suggested—and I could provide you with more detail—that within the current BEA structure you could create an investment component on the discretionary side of the budget. It is a way of focusing and highlighting information and decisions on this important tradeoff.

The third criteria deals with another level of tradeoffs that the budget process should help you make: between missions and between the tools with which you advance those missions. Let me start with the tradeoff between missions. The functional structure was a beginning; it allowed for the first time Congress to look at—for example—all the spending for income security or for agriculture regardless of where it was located. In the income security function you see agriculture's food and nutrition service, you see HUD's subsidized housing programs, and, of course, you see many programs in HHS.

However, the functional structure is limited in its ability to organize these tradeoffs for you. For one thing, it includes only spending or credit programs. If you choose to advance a national mission through a tax credit or deduction, it does not show up in the functional presentation. Someone could do that crosswalk for you, but it does not naturally flow into the debate across missions or the perception of how priorities are allocated.

Another limitation is something I believe Mr. Frenzel will touch on, which is the fact that the functional structure of the budget does not match the structure of the Appropriations subcommittees. Therefore it is sometimes difficult to follow the translation from the full Congress' decision about allocations across national needs to the Appropriations Subcommittee. CBO does an allocation to the full committee, but the allocation downward by mission has to be translated into an allocation by agency or groups of agencies.

Tradeoffs across missions are also somewhat hampered by the absolute wall between PAYGO and discretionary. That wall reflected the different time horizons of those decisions. Appropriations decisions expire when they expire, unless renewed. But tax cuts, tax increases, and entitlements go on unless repealed. So creating that wall made sense, but it does hamper your ability to make some tradeoffs, most especially the macro tradeoff I referred to between consumption and investment.

Finally, I think the BEA deserves a lot of credit for improving your ability to compare tools on a comparable basis. You would like to select, it seems to me, between a loan guarantee or a grant based on how much they really cost the Federal Government, not because one is scored some odd way. The Credit Reform Act put those on a consistent basis. We complain a lot about the Budget Enforcement Act, but it has, I think, some successes we should not ignore.

The fourth criteria cluster has to do with transparency, enforceability, and accountability. By transparency I mean merely the ability of Americans who are not part of the budget process to understand what this debate is about. This is important precisely for the reason I mentioned at the beginning: It is their money and it is their priorities and it is their argument. Americans have very different views about what the budget should do, but I think Americans are more willing to accept losing an argument if they understand it than if they cannot. And I sometimes think that if it is hard for someone close to the process to follow the debate, it must be even harder for people who are a little further removed from it.

I will give you just one example in today's debate. The assumptions behind this year's budget resolution are quite detailed. I suspect many people outside the Roll Call reading area think the budget resolution actually changed programs, may have even actually abolished the Commerce Department. They are going to watch all of us write analyses and all of you debate and vote over the next year and they may have trouble figuring out why you are voting on the same thing over and over again. Now, we all know you are not voting on the same thing because the last vote was on a broad goal—the Budget Act carefully avoided having the budget resolution change laws—but I think it is a problem for transparency.

On enforceability and accountability, the report card must be mixed. At one level the Budget Enforcement Act has done an impressive job. It has, in fact, controlled what it set out to control. The discretionary caps have held. I think much to many people's amazement, people did not drive a truck through the emergency loophole.

Mr. GOSS. I agree, larger trucks could have gone through it.

Ms. IRVING. And the PAYGO neutrality rule has held. But the Budget Enforcement Act was a first step. Perhaps because of the failure of Gramm-Rudman, the BEA left uncontrolled any slippage that was a function of economic changes or technical changes—which increasingly looks like a code word for we don't know what is happening in health—and demographic changes. It controlled what Congress could control, and it left uncontrolled the rest. I think that was a reasonable decision at the time, but it means that today we face a world where deficit growth is someplace else. GAO has suggested in the past that Congress might want to consider bringing in something that I will, for lack of a better word, call a look-back process, in which Congress looks at the agreement it had made in a multiyear budget agreement or reconciliation bill, and every year quite explicitly tracked progress, and then asked, How are we doing?

In this process you would measure slippage—not slippage because it is anyone's fault, not because of misbehavior, but just slippage. The process would ask: Do we wish to accept this slippage? Do we, in fact, believe the economy went into the tank and we should revise our targets, or should recoup some of this slippage? Should we go back and have a new reconciliation bill? Should we direct ourselves to act to bring ourselves closer to where we expected to be?

Now, you can certainly argue that the budget resolution does that every year, but I think there is a difference between having the budget resolution implicitly start from a new baseline estimate and saying, "Hey, look, we slipped, we are not where we hoped to be, let's decide whether we want to get back on track."

Finally, I will turn to the question that Mr. Dreier especially raised: Is there just too much process, layers on layers on layers? Well, that, as I think all of us know, reflects the way this process was created. The Budget Committees and the budget resolution were created to provide some overarching view, and offer in part a counterpart to the executive branch, but the budget committees aren't in any stretch of anyone's imagination the Office of Management and Budget. There is no single head of this branch of government and the Budget Committees do not exercise any authority except to enforce a resolution everybody has agreed to.

The Budget Committees deal only in large numbers. Perhaps it is hard to remember, that the requirement that the committees didn't deal in numbers less than $100 million used to be quite restrictive. That was precisely to prevent the Budget Committees from making policy decisions. Now that line between numbers and policy was always a little odd because you can't come up with numbers without knowing something about the policy.

As the process became more and more focused on deficit reduction, that line became harder and harder to draw. In part, I think, because the Congress began to feel that credibility was at stake and being more explicit about assumptions behind the budget resolution numbers made it clear that people had thought through a way to reach the numbers in the resolution—that it wasn't just some random selection of numbers. This led finally to the situation where this year's budget resolution is in many areas quite specific. And as I mentioned before, I think out there many people think the resolution actually changed laws.

There are certainly ways to streamline the process and ways to reduce the layers, but they involve possible relative power shifts and possible in jurisdictions. It is not that I think such changes can't be made, but I don't think we should kid ourselves that there are any easy, painless, magical ways to streamline the process.

I will just make one final note. I think a process can structure the debate. It can define which questions you are forced to deal with, and which questions are easy to ignore, but it cannot dictate the results. No process substitutes for a decision to make the hard decisions about what the Government should do in what arenas.

The challenge for all of you, I guess, is to design a process both for today's deficit reduction challenge and for the broader and longer term debate over priorities, which will exist even after the budget has been balanced. I don't think it is easy. I don't think it is impossible. I am glad I don't have to do it, but I am very happy to be here to help.

[Ms. Irving's prepared statement follows:]

PREPARED STATEMENT OF SUSAN J. IRVING, ASSOCIATE DIRECTOR, BUDGET ISSUES, GENERAL ACCOUNTING OFFICE

Mr. Chairmen and members of the subcommittees: I am pleased to be here today to discuss the budget process with you. Everyone involved in that process shares some frustration with it. The public finds it confusing. Executive branch agencies find it burdensome and time-consuming. Menbers of Congress say it seems too lengthy with its many votes on authorizations, the budget resolution, reconciliation, appropriations, and the debt limit. And, too often, the results are not what was expected or hoped for.

In one sense, of course, nothing could be more important than debates about the budget—and important debates often take time. Budgeting is the process by which we as a nation resolve the large number of often conflicting objectives which citizens seek to achieve through government action. The budget determines the fiscal policy stance of the Government—that is, the relationship between spending and revenues. And it is through the budget process that the Congress and the President reach agreement on the areas in which the Federal Government will be involved and in what way.

Because the decisions are so important, we expect a great deal from our budget and budget process. We want the budget to be clear and understandable. We want a process that presents the Congress and the American people with a framework in which to understand the significant choices and the information necessary to make the best informed decisions about Federal tax and spending policy. Doing all this is not easy.

In May 1993, letters to the chairmen and ranking members of the House and Senate Budget Committees and the then House Government Operations Committee, we suggested possible changes to the current budget process. Also, in June 1993, we gave the Joint Committee on the Organization of the Congress some ideas that could lead to a more streamlined budget process. I testified before this subcommittee last year on a number of the proposals made by the House Members of the Joint Committee.

Today, however, as you requested, I'd like to stand back and look at some of the broader questions and issues involved in any examination of the budget process.

Your letter asks three questions:

No. 1, What are the objectives of the Congressional Budget and Impoundment Control Act of 1974?

No. 2, Which of these objectives are relevant in today's fiscal environment?

No. 3, Should the budget process be redesigned?

BACKGROUND: THE 1974 BUDGET ACT AND SUBSEQUENT AMENDMENTS

I agree with your premise that to understand where we are, it helps to know where we've been. In that context, looking back at the objectives and structure of the Congressional Budget and Impoundment Control Act of 1974 is very useful. The Constitution gives the Congress the power of the purse. The Budget and Accounting Act of 1921 centralized power over executive agency budget requests under the President and—to balance this grant of power—moved control of the audit of spending from the Treasury to a new entity—responsive to the Congress—the General Accounting Office (GAO).

This century has seen an increase in the amount of spending that does not go through the annual appropriations process. Several major factors contributed to this trend. For example, loan authority was created in 1932. The Social Security Act of 1935 created a new, large permanent appropriation. Contract authority was expanded over the years. We have reported[1] that for fiscal year 1985, 58 percent of budget authority and offsetting collections from non-Federal sources credited to accounts was provided outside the annual appropriations process. Based on our ongoing work in this area, we have no reason to believe the amount of such backdoor authority has decreased. Indeed, our work thus far has shown a significant increase in the number of budget accounts having such authority.

All of these reduced the Appropriations Committee's overview of and control over the budget. There was no central congressional view of the entire budget. In the mid-1940's and attempt to create a joint House-Senate legislative budget failed. Meanwhile the analytic strength of the Executive Office of the President was increased through the creation of the Council of Economic Advisers and the expansion of OMB.

In 1972, the Congress established a Joint Study Committee on Budget Control. Its recommendations led directly to what later became the Congressional Budget and Impoundment Control Act of 1974.

In that act, the Congress declared that it is essential—

(1) to assure effective congressional control over the budgetary process;

(2) to provide for congressional determination each year of the appropriate level of Federal revenues and expenditures;

(3) to provide a system of impoundment control;

(4) to establish national budget priorities; and

(5) to provide for the furnishing of information by the executive branch in a manner that will assist the Congress in discharging its duties.

We all often forget that this act was neutral as to fiscal policy outcome. That is, it did not seek a specific result in terms of deficit. Rather, it sought to assert the Congress' role in setting overall Federal fiscal policy and establishing spending priorities and to impose a structure and a timetable on the budget debate. Underlying the 1974 Budget Act was a belief that Congress could become an equal player only if it—like the executive branch—could offer a single budget statement with overall fiscal policy and allocation across priorities.

Today, we take the functional structure of the budget for granted, but that structure was something of a major breakthrough. It required the President to show and it permitted the Congress and other observers to see spending by national need or mission rather than by agency. Whether the functional structure has served as it might is an issue to consider and I'll offer some observations on that later in this statement. The 1974 Act also eliminated the Congress' dependence on the Office of Management and Budget (OMB) for numbers and analysis by giving the Congress an independent source of budget numbers—the Congressional Budget Office (CBO). It settled the fight about impoundments by setting up a process for rescissions and deferrals.

It was not until the enactment of the Balanced Budget and Emergency Deficit Control Act of 1985—commonly known as Gramm-Rudman-Hollings or GRH—that the focus of the process changed from increasing congressional control over the budget and budget process to reducing the deficit. Both the original GRH and the 1987 amendments (GRH II) sought to achieve a balanced budget by establishing def-

---

[1] *Budget Issues: The Use of Spending Authority and Permanent Appropriations is Widespread* (GAO/AFMD-87-44, July 17, 1987).

icit targets to be enforced by sequesters if legislation failed to achieve them. Measured against its stated objective—a balanced budget—GRH failed.

The budget act was again amended as part of the budget summit at which President Bush and the Congress agreed on a multiyear deficit reduction package. The Budget Enforcement Act (BEA) of 1990—extended and amended in the Omnibus Budget Reconciliation Act (OBRA) of 1993—was designed to implement the multiyear provisions of that summit agreement. The focus of BEA is very different from that of Gramm-Rudman-Hollings. BEA seeks to limit congressional actions that would increase the deficit. GRH sought to use a change in process to force agreement. In contrast, both in 1990 and 1993, substantive agreement on the discretionary caps and pay-as-you-go (PAYGO) neutrality was reached, and the BEA process was created to enforce this agreement. On those terms, BEA has been a success.

GRH sought to hold the Congress responsible for the deficit, regardless of what drove the deficit. If the deficit grew because of the economy, the response was the same as if the deficit grew because of congressional action or inaction. If a sequester was necessary, it did not differentiate between those programs to which the congress had made cuts and those in which there had been no cuts—an almost pure prisoner's dilemma. Finally, the timing of the annual snapshot and the fact that progress was measured 1 year at a time created a great incentive for achieving annual targets through shifting outlay dates from one fiscal year to another and other short-term actions.

In contrast, BEA holds the Congress accountable for the results of its actions—not for the impact of the economy or demographics. BEA, as you know, divided the budgetary universe into two parts: PAYGO and discretionary. The discretionary spending caps have succeeded in holding down discretionary spending—it has declined as a share of gross domestic product from 9.2 percent in 1990 to an estimated 7.2 percent in 1996. And, contrary to what some believed at the time, the discretionary caps have held. For the PAYGO part of the budget, BEA has also constrained new entitlements or tax cuts. As I just noted, BEA has succeeded on its own terms. But BEA's ambition was limited. It did not seek to control economic or demographic-driven growth in existing direct spending programs—and that is the area of greatest growth today.

WHERE ARE WE TODAY?

Although there is virtually universal agreement that the current process is flawed, changes must be carefully considered. The current process is, in part, the cumulative result of many changes made to address previous problems.

For example, let me turn to the complaint that the process takes too long and has too many repetitive votes. The 1974 Act sought to create a congressional budget as a counterpoint to the President's budget—but it carefully avoided giving the Budget Committees anything like the power or even the coordinating role of the President's OMB. The Budget Committees were layered on top of the existing committee structure. And the level of detail with which the Budget Committees could deal was limited. The budget resolution was to represent a congressional statement about total revenues and total spending and about the allocation on spending across various national missions. The design of programs and the allocation of spending within each mission area would be left to the authorizing and appropriations committees. The Budget Committees would deal in round numbers—they could not decide policy. Of course, this distinction was always a little artificial. Even in a world of lower deficits, there were always policy assumptions behind the numbers. Frequently, policy or program design defines the range of numbers possible. And, it turns out that the model of first deciding how much and then debating the specifics is not an entirely comfortable model for Federal budget decisions. For some, the decision on how much is tied to the decision on how that number will be achieved.

As the budget process has been increasingly aimed at deficit reduction, this distinction between overall numbers and the policies to achieve them has become more strained. This year's conference report on the budget resolution contains a great deal more programmatic detail as to the assumptions underlying the numbers in the resolution than did previous conference reports. You and I—as participants and close observers of the process—know that only the numbers are binding, but much of the public may well believe that the budget resolution actually changed or eliminated various programs. The more the assumptions are reported in the press, the more prevalent that belief is likely to be. Given this situation, the votes on substantive legislation and appropriations to actually implement the resolution look even more like repetitive votes. But it is important to recognize that there are different perspectives on this. The Washington press is beginning to report the differences between the budget resolution and actual policy changes. This may better inform the public while at the same time increasing its confusion.

Are the expressed objectives of the 1974 Act still relevant as we approach the 21st century? At one level, the answer must clearly be yes. Some have been met—there is now a system of impoundment controls—and others have now been firmly embedded into the framework of our budget debate. And, in a broad sense, there can be little quarrel with the need to continue effective congressional control over the budgetary process, to provide for congressional determination of the appropriate level of Federal revenues and expenditures, or to establish national priorities. The question that confronts you today is to what degree have these objectives been achieved, should they be modified, and—given today's challenges—should the Congress have additional objectives for its budget process.

As you requested, I would like to turn now to the question of what might be expected of a budget process. First, I'll list four important objectives for a budget process, discuss the current process in those terms, and comment on some possible changes. Then I'll turn to the overarching issue of streamlining the process.

A budget process can be measured against numerous criteria. Four important objectives are—

to provide information about the long-term impact of decisions while recognizing the differences between short-term forecasts, medium-term projections, and a long-term perspective;

to provide information and be structured to focus on the important macro tradeoffs, for example, between consumption and investment;

to provide information necessary to make informed tradeoffs on a variety of levels, for example, between mission areas and between different tools; and

to be enforceable, provide for control and accountability, and be transparent.

Let me discuss each of these in turn.

Objective: Provide a long-term perspective

A long-term perspective is important in both a macro and a micro sense. The macro perspective has to do with our Nation's economic health. In previous reports and testimonies, we have said that the Nation's economic future depends in large part upon today's budget and investment decisions.[2] Therefore, we believe that, at the macroeconomic level, it is important for the budget to provide a long-term framework and be grounded on a linkage of fiscal policy with the long-term economic outlook. This would require a focus both on overall fiscal policy and on the composition of Federal activity.

At the micro level this longer-term perspective relates to those programs and activities for which a longer time horizon is necessary to understand the fiscal and spending implications of a commitment. Examples include Social Security, Medicare, pension guarantees, and mortgage-related commitments. Even very rough projections may be better in these areas than ignoring the long term.

Although the multiyear focus of BEA represents significant progress in this regard, planning for longer-range economic goals requires exploring the implications of budget decisions for as much as 30 years or more into the future. I do not mean to suggest that detailed budget projections could be made over a longer time horizon. Forecasts and projections are difficult enough for 1 to 3 years, and the longer the time horizon, the less accurate any detailed projection is likely to be. However, there is value in recognizing the differences between a short-term forecast, medium-term projections, and long-term perspective.

Thinking about the longer term when making choices about the composition of Federal activity is important for at least two reasons: No. 1, each generation is in part custodian for the economy it hands the next, and, No. 2, some changes must be phased in over long periods of time. Introducing a longer-term perspective into the budget debate without falling into the trap of treating 30-year projections as anything more than indicative simulations is difficult. In testimony earlier this week, we provided some ideas on how this might be done.[3] For example, if financial statements were improved and available with the President's budget, the two together would provide useful information on the longer-term implications of some policies. Another approach might be to have long-term simulations of current budget policies, perhaps over a 30-year period, prepared periodically to help assess the fu-

---

[2] See *The Deficit and the Economy: An Update of Long-term Simulations* (GAO/AIMD/OCE–95–119, April 26, 1995). See also *Budget Policy: Prompt Action Necessary to Avert Long-term Damage to the Economy* (GAO/OCG–92–2, June 5, 1992) and *Budget Policy: Long-term Implications of the Deficit* (GAO/T–OCG–93–6).

[3] *Managing for Results: Strengthening Financial and Budgetary Reporting* (GAO/T–AIMD–95–181, July 11, 1995).

ture consequences of current decisions. The effects of policy changes as well as broader fiscal policy alternatives could be projected over the long term. Such projections could be prepared and presented in the President's budget documents as well as in congressional budget documents.

Objective: Facilitate important macro tradeoffs

Although the surest way of increasing national savings and investment would be to reduce Federal dissaving by eliminating the deficit, the composition of Federal spending also matters. We have noted that Federal spending can be divided into two broad categories based on the economic effect of that spending—consumption spending having a short-term economic impact and investment spending intended to have a positive effect on long-term private sector economic growth. We have argued that within any given fiscal policy path, the allocation of Federal spending between investment and consumption is important and is deserving of explicit consideration.

The current budget process does not prompt the executive branch or the Congress to make explicit decisions about the appropriate mix of spending for current consumption and spending for long-term investment. Appropriations subcommittees provide funding by department and agency in appropriations accounts that do not distinguish between investment and consumption spending. Although alternative budget presentations which accompany the President's budgets provide some information on investment, they are not part of the formal budget process. The investment/consumption decision is not one of the organizing themes for the budget debate. If this consideration of investment vs. consumption is to be introduced into the budget process, the way it is done depends on how the overall process is structured. We have suggested that within the existing BEA structure incorporating as investment component within the discretionary caps would be an appropriate and practical approach to supplement the unified budget's focus on macroeconomic issues. An investment component would direct attention to the tradeoffs between consumption and investment but within the overall fiscal discipline established by the caps. It would provide policymakers with a new tool for setting priorities between the long term and the short term.[4] If the Congress and the President chose to change the budget process in ways that moved away from the current system of discretionary caps and PAYGO rules, one of the issues to consider in any redesign would be how to introduce this tradeoff between the long term and the near term, between investment and consumption into the structure of the debate.

Objective: Facilitate informed tradeoffs between missions and between the different tools of government

The budget process is the central process through which the President and the Congress select among and balance the competing demands for government activity in achieving various goals. Therefore, it would be helpful if the process provided the information decisionmakers felt necessary to consider the relative priority among national needs or missions. In part, of course, the functional structure of the budget resolution was intended to facilitate priority-setting even among related programs housed in different agencies and falling under different committees. By organizing the budget along national needs or mission areas, the budget resolution sought to permit an examination of the totality of Federal spending activity in each area—regardless of the committee of jurisdiction or the agency at issue—and to permit priority-setting and tradeoffs among missions. Instead of focusing on what each department spent, the Congress and the President were to be able to look across departments at the totality of activity in education and training or income security or transportation. From the beginning, however, the structure was not complete; if the Government chose to advance a given mission area through the tax code, that commitment did not show up in the functional display. So, for example, the functional structure shows support for science and technology through loans or grants or Federal activity but not through the research and development tax credit.

Even on the spending side of the budget, however, the functional totals do not translate into and may not match the allocation of resources to the Appropriations subcommittees. While the budget resolution is organized by national mission, the Appropriations subcommittees for the most part are still organized along agency lines. There are reasons for this, but it does make it more difficult to trace the path from the budget resolution's stated priorities through the appropriations process. Although the budget resolution functional totals are translated into allocations to the full Appropriations Committees, suballocations to the subcommittees—the so-called

[4] See *Budget Structure: Providing an Investment Focus in the Federal Budget* (GAO/T–AIMD–95–178, June 29, 1995) and *Budget Issues: Incorporating an Investment Component in the Federal Budget* (GAO/AIMD–94–40, November 9, 1993).

21–204 - 95 - 2

602(b) allocations—are made by the Appropriations Committees. At one level, priority-setting within the discretionary side of the budget has been delegated to the Appropriations Committee—where it resided before the 1974 Act. This may or may not be considered to be a problem. Nevertheless, among the questions to be asked in any overview of the entire budget process is whether the functional structure is doing as much as you would like to facilitate a debate among priorities.

The sharp division BEA sought to draw between discretionary spending limits and the PAYGO scorecard made a great deal of sense. It simplified jurisdictional issues. It also recognized the difference in time horizons. Discretionary appropriations may be provided for 1 or more years and a discretionary spending cut may be a 1-year cut. In contrast, most changes in entitlement or tax laws last longer than a single year. This sharp division, however, limits the ability to shift spending priorities because cuts in mandatory spending cannot be used to pay for increases in discretionary programs. Thus, it would be difficult to shift spending away from consumption support concentrated in the mandatory sector toward investment programs funded in the discretionary portion of the budget. Among the issues you may wish to consider is when and under what circumstances breaching the wall between discretionary and mandatory categories makes sense.

At a level below establishment of broad spending priorities, the selection of the appropriate policy tools with which to address missions are important decisions. For any given goal or mission in which the Federal Government will play a financial role, there are a variety of tools available: grants, loans, loan guarantees, and tax provisions. It is important that the budget process provide the information necessary to permit a choice based not on jurisdictional issues or scoring conventions but on the match between the goal and the tool.

Considering these choices is easier if the budget also provides information on the costs of various alternatives—on a comparable basis—and on the nature of the Government's commitment. This is one area in which there has been some improvement. The Credit Reform Act changed the way loans and loan guarantees were treated in the budget because the previous cash-based treatment gave decisionmakers misleading signals on the cost comparisons among grants, loan guarantees, and direct loans. However, as I have noted, there are still some programs for which either cash-based reporting sends misleading signals or for which even a 5-year perspective provides a misleading perspective on the nature of the Government's actual or potential commitment.

Objective: Provide enforceability, accountability, and transparency

These three elements are not identical, but they are closely related and achieving one has implications for the others. By enforcement I mean a mechanism to enforce decisions once they are made. Accountability has at least two dimensions: accountability for the full costs of commitments that are to be made and targeting enforcement to actions taken. It can also encompass the broader issues of taking responsibility for responding to unexpected events. And, finally, there is transparency—being understandable to those outside the process is important. I will discuss each of these in turn.

Enforceability: In general, enforceability requires a system for tracking outcomes and tying them to actions. One great strength of the BEA has been the enforcement provisions. By targeting penalties to actions, BEA has succeeded in restraining discretionary spending to within the caps and in restraining new direct spending legislation. The design of the enforcement provisions in BEA has also created accountability for actions. Costs are to be recorded in the budget up front, when they can be controlled. And enforcement is targeted to actions. The Appropriations Committees are responsible for compliance with the discretionary spending limits while the PAYGO scorecard tracks compliance with the PAYGO rules. Unlike the prisoners' dilemma created by GRH, sequesters are applied only to the area of the budget—discretionary or PAYGO—where the breach occurs.

Accountability: The targeted nature of the sequester provisions in BEA served also to provide accountability for compliance with the rules. Some of the scoring conventions and costing rules introduced with the BEA have also increased accountability for the costs of actions taken. On another level, however, accountability is diffuse. The deficits in the early 1990's were greater than expected by those who voted for and complied with the provisions of OBRA. This slippage was due almost entirely to a worse-than-expected economy and technical changes.[5] Although GRH showed that holding committees responsible for results rather than actions is problematic,

---

[5] For a discussion of this, see *Budget Process: Issues Concerning the 1990 Reconciliation Act* (GAO/AIMD–95–3, October 7, 1994).

there are ways to bring more responsibility for the results of unforeseen actions into the system.

We—and former CBO director Reischauer—have previously suggested that the Congress might want to consider introducing a lookback into its system of budgetary controls. In a report issued to the Republican leadership last year, we described such a process under which the Congress would periodically look back at progress in reducing the deficit.[6] Such a lookback would compare the current CBO deficit projections to those projected at the time of a prior deficit reduction agreement and/ or the most recent reconciliation legislation and analyze the reasons for any difference. For a difference exceeding a predetermined amount, the Congress would decide explicitly—by voting—whether to accept the slippage or to act to bring the deficit path closer to the original goal by recouping some or all of this slippage. Although one could argue that each year's budget resolution implicitly accepts or rejects changes in the deficit outlook, it does not require an explicit consideration and decision. Adoption of the requirement for such explicit consideration would provide members who make difficult choices in reconciliation an additional opportunity to ensure that the deficit path they voted for will, in fact, materialize.

A similar—but more narrowly focused—process could be used to prompt consideration of the path of mandatory spending.[7] Under its current structure BEA requires any action that would cause a growth in mandatory spending to be offset, but it leaves completely unconstrained any growth in these programs that results from economic or demographic factors. This distinction is consistent with BEA's focus on controlling actions, but it has created other problems. Indeed, the very success of BEA at constraining discretionary and new direct spending has highlighted the dramatic growth of some entitlement programs. One way to begin to deal with this might be to adopt a procedure similar to that recommended by the House members of the Joint Committee on the Organization of Congress. Under such a procedure, direct spending targets for several fiscal years could be specified. If the President's budget showed that these targets were exceeded in the prior year or would be exceeded in the current or budget years, the President would be required to analyze the cause of the overage and recommend whether none, some, or all of the overage should be recouped. The Congress could be required to vote either on the President's proposal or on an alternative one. If the goal was merely to restrain direct spending to the currently projected levels, then the current law baseline would constitute the targets. However, such a procedure could also be used as a kind of lookback on the success of any efforts to reduce mandatory spending.

Transparency: Transparency is important because the budget debate is critically important—not because of the numbers in it but because it represents a statement about collective priorities and collective action. In a democracy, the debate about these priorities should be made as understandable as possible. If even reasonably educated citizens cannot understand the budget document or the budget debate, there is little accountability.

If the budget debate is to be accessible to the American people, consideration will have to be given to simplifying the structure of the budget, streamlining the process, and reducing the number of translations required to get from one part of the process to another. Does the Congress wish to organize the debate by national mission or by agency? If there is a need for both perspectives, how can they be brought together in an understandable way? Discussions about 602(b) allocations and direct spending are the stuff of what someone once called budget process groupies—not of the evening news or quick explanation.

Achieving at least some public understanding of the budget process is dependent on the availability of summary documents such as the old "Budget in Brief" to explain where money comes from and where it goes. For fiscal year 1996, OMB once again included a citizen-oriented document as part of the budget documents. A "Citizen's Guide to the Federal Budget" provided an overview of the budget, highlighting such concepts as the deficit and the debt, and reviewing the President's 1996 proposals. It did not, however, provide much insight on the long-term implications of current spending policies.

Citizens cannot be expected to feel a stake in the budget debate—a debate that will affect all our lives and our national future—or to accept decisions made by others without basic information. At a minimum, citizens need to know how much money the Federal Government takes in—and how—and on what, funds are spent.

---

[6] See *Budget Process: Issues Concerning the 1990 Reconciliation Act* (GAO/AIMD–95–3, October 7, 1994).

[7] See *Budget Policy: Issues in Capping Mandatory Spending* (GAO/AIMD–94–155, July 18, 1994).

OVERALL STREAMLINING ISSUES

Each of the objectives is important, and they are related—but they cannot all be maximized in a single process. Tradeoffs are necessary. Any review of the budget process must deal with the overarching question: Is there just too much process?

The feeling that there are too many votes on related issues is, as I noted, in part a function of the way the process was created: Of the decision to layer the Budget Committees and the budget process on top of the existing committee and procedural structure of the House and the Senate. The idea was that the budget resolution would define the overall aggregates and the rest of the process would proceed within those aggregates. As I have mentioned today, however, especially as the goal of the process shifted to deficit reduction, this distinction became increasingly strained. There are a number of possible responses, but most of them involve considering the relationship of the budget resolution to legislation and of the various committees in the Congress.

Streamlining—making the process take less time—has been the focus of a number of proposals in the past. However, it is in this area that it is especially important to think about the fact that a reponse to one problem may create another problem. Eliminating parts of the process or changing the cycle will have consequences beyond reducing the number of votes. These may or may not be acceptable, but they should be recognized. I will touch very briefly on three processes: The budget resolution, authorizations, and appropriations.

If the recent pattern of multiyear fiscal policy agreements is to continue, are annual budget resolutions still necessary? It is important to review progress every year, but such a review may not require a complete budget resolution. If, however, annual budget resolutions are to be replaced with biennial budget resolutions, then something like the lookback procedure just described could become very important. Without it, there would be no procedure for tracking progress against the previous budget agreement or reconciliation bill.

Multiyear authorizations can provide a longer-term perspective within which appropriations would be determined. Although the need for periodic reauthorizations can provide a window for program revision, there is little reason to reexamine and reauthorize programs more often than they might actually be changed. Of course, multiyear authorizations are already the rule in the nondefense portion of the budget.

Some have suggested that changing the appropriations cycle from annual to biennial could free up time. As I have previously testified before this committee, it is important to differentiate between the length of availability of funds and the timing of the appropriations cycle. Even within the 39 percent of the budget that is on an annual budget cycle, not all appropriations are for 1-year funds. The appropriations subcommittees have been able—even within an annual appropriations cycle—to provide 1-year, multiple year, or no-year money as they have thought appropriate for the program or agency at issue. Annual appropriations have long been a basic means of exerting and enforcing congressional policy. A 2-year appropriation cycle would change the nature of that control. It is also unclear how much time it would save.

In the end, streamlining or reducing the amount of time spent on apparently repetitive votes will require decisions about which votes are no longer necessary. That, in turn, is likely to require decisions about the relationship between discretionary and mandatory spending, between various committees, and about the nature and style of congressional control over the budget and appropriations.

SUMMARY AND CONCLUSIONS

The budget process is the source of a great deal of frustration. The public finds it hard to understand. Members of Congress complain that it is time-consuming and duplicative, requiring frequent votes on the same thing. And, too often, the results are not what was expected or desired.

Given the nature of today's budget challenge, it is likely that the budget process will be the source of some frustration. In considering whether and how to redesign the budget process, however, it is important to look beyond those frustrations tied directly to the need to bring down the Federal deficit. The budget process serves a wider purpose. It is, in a real sense, "The" process for dealing with competing claims and setting priorities.

It is important for the budget process to offer the Congress the means to set overall fiscal policy and to make decisions on relative priorities among missions or claims. In a democracy, the process should be understandable to the interested citizen and it should offer citizens some accountability. I have discussed four important objectives that could help a process achieve these overall goals: Provide a long-term focus; provide information and structure to focus on important macro tradeoffs; provide information necessary to make tradeoffs between mission areas and between different governmental tools; provide enforceability, control and accountability, and transparency.

The apparently never ending and repetitive nature of the budget process is in large part a function of the way it was created. A new process to provide an overall view was layered on top of the existing structures and processes by which the micro decisions are made in the Congress. Any attempt to streamline or simplify the process must consider the relationship between the goal of simplicity and the existing decision structure in the Congress.

In addition, I have suggested that the Congress might want to consider the creation of a lookback procedure by which it would periodically look back at progress in reducing the deficit. Such a lookback would compare the current CBO deficit projections to those projected at the time of a prior deficit reduction agreement and/or the most recent reconciliation legislation and then analyze the reasons for any difference. For a difference exceeding a predetermined amount, the Congress would decide explicitly—by voting—whether to accept the slippage or to act to bring the deficit path closer to the original goal by recouping some or all of this slippage. Although one could argue that each year's budget resolution implicitly accepts or rejects changes in the deficit outlook, it does not require an explicit consideration and decision. Adoption of the requirement for such explicit consideration would provide Members who make difficult choices in reconciliation an additional opportunity to ensure that the deficit path they voted for will, in fact, materialize.

Mr. Chairman, no budget process is easy to design or to live with. I would be happy to answer any questions you or your colleagues may have, and we stand ready to work with you as you proceed through this reexamination of the budget process.

Mr. GOSS. Thank you very much. That is very thoughtful and somewhat provocative. I think, some of the things you have said, I certainly agree that the budget process, while it is a very critical tool to the routine around here and the business we are expected to do, is in many ways more a reflection of what the expectation of government is to do in our society in America. And since 1921 when we started getting into formal budgets and have gone through the evolution process in 1974 and 1985 and 1990 and 1993 with the different statements that have been made by the Congress on the subject there has been a good deal of change in that expectation. And I think we pretty much are all at least in the same church if not in the same pew on a lot of the conclusions on the evolution of this and the question of how you deal with where we go.

I totally agree with your point about the—I guess the best way to say this is our failure to communicate what the budget process is and what that word means, and it isn't even entirely clear to all of the Members of Congress. I think I am on fair grounds saying that.

You start dealing with the budget and then you start talking about except for emergency problems or borrowing or contracting or some other types of off-budget thing or trust fund, and suddenly you are talking about more than, well, it is the budget, but it is a little more complicated than that, and then pretty soon eyes glaze over and really the great decisionmaking process that is going on here as everybody knows is over an increasingly small percentage and actually they are large numbers of dollars, but against the total, I mean, the part that we actually decide to spend or not to spend or save, which is going to your macro question, is very small, and the rest seems to be just out there on automatic, and not only is it on automatic, it is on automatic headed clearly into trouble. That is, I think, one of the reasons why we will probably want to follow up more specifically on the details of the look back, following on Tony Hall's observations, and I don't know that they go to biennial budgeting questions as much as the look back. We found on the Kerrey Commission that we were always so worried about next year's discussion that we really never had a chance to see not only did something work in the past, but because we have changed direction a little bit on what we were trying to accomplish in the past.

So there doesn't seem to be a good place to measure from, so when we get a chart, you have probably seen the CRS charts. You just see the thing going into the wild blue yonder and you say oh, my gosh, and this is since we started getting serious about it, and this is not all apples and apples, it is some apples and oranges in there, as has been pointed out there.

One of the other things that has come out about this on the more macro question, the philosophical issue, one of the things that is a measure of the health of the country that we talk about, the well-being of the country, is the savings level. We don't, it seems, to me the opportunity to really discuss that as an issue as part of our budget process because that assumption question is quickly driven off the table by other needs, and so we don't make some of the basic well-being decisions we should be making on a macro basis. We quickly get absorbed by these guidelines, as you have put them, nonbinding Commerce Department eradication things that everybody thinks happen and they keep showing up and say, gee, those guys can't even kill the Commerce Department or whatever it is they are trying to do. They can't even get that done, and you are right.

There is a tremendous creation of an anticipation which is probably not going to be realized in the way we handle the budget with the budget assumptions right now, the aggregate assumptions, and that creates also the way we handle the process when we bring the detail down and I know we will talk more about this with Mr. Frenzel, the tension between the appropriators and the authorizers.

The calendar works against that. You can't expect the authorizers to get all their stuff in the pipeline and get it up and out before we get hung up on our deadlines on our budget process, and then what the appropriators have to do to make all their—there is just no way to do it physically; there is too much.

Then when you get a different philosophy coming in or a different political direction coming in as we have now, to load all that on to a system that wasn't working under a routine that was not changing direction has just created a huge bottleneck of a process that doesn't work which we are seeing the results of as we sit here.

We are downstairs today having a fuss about a rule because we haven't gotten through the authorizing process. That is essentially the problem. So it goes all the way from a process that doesn't allow us to focus on some of the macro questions like why aren't we figuring out a way to create a savings percentage or some kind of numbers or goals? Why isn't somebody talking about that or dealing with that? All the way down to this thing doesn't work when you try to plug it into what are we going to do today, what are we going to do tomorrow, and that is my frustration.

Ms. IRVING. Well, I don't know how many times in our society we are going to see the kind of sea change that we saw in January.

Mr. GOSS. I don't either.

Ms. IRVING. Such a change would probably strain a system you thought was working well. In part this is so because even with a more consistent use of multiyear authorizations—which I do think ought to be looked at—such a massive shift would disrupt those authorizations. Since the way to get where you all want to go in 7 years is to make major decisions about what the Government is going to do, rather than to tinker around the edges of programs, the system would be stressed.

As to the savings levels, this is really important. We have tried a lot of different things in the last 20 years and we don't know very much about how to change Americans' saving habits. We do know that we can make a contribution to national savings by reducing Federal dissaving, which is cutting the deficit.

Mr. GOSS. That is the theory. I hope you are right. But let me ask you a specific question that goes to a problem that you heard me refer to earlier, the lockbox thing. We really do have a problem making things happen here. Even if we have a consensus of a majority of people that this is something we wish to do, we get into the scoring game.

We get into the fuss between OMB and the statutory numbers and then the budget resolution numbers, and they are different. And even if we can agree on base budgeting and outlays and we can get through all of that definition and all, be talking about exactly the same thing, you quite often can't get there because of disputing over how we score.

I was at a meeting this morning where we were talking about what I will call the scoring process and the intuitive process. Now, I am very optimistic about savings I expect certain of my proposals for, say, health care will bring because it will change habits of senior citizens who live in my area. They will not waste money, not use money, they will be more careful, they will husband the resources that they have in a national program, medicare, that they pay into, because they will—it will be more dear to them if you change some incentives around.

Now, I know we are going to save some money, but you can't score that. That is intuitive. Plus it all gets mixed up in the politics of the difference between OMB and CBO and who is right this week and what is the law and what is the budget resolution. Those are just areas where politicians want to make mischief, they just invite mischief, and not necessarily just politicians. I don't mean it in a pejorative sense. I mean, people who are trying to be persuasive on a particular direction.

Do you have any suggestions on how do we remedy some of those?

Ms. IRVING. Well, in our own way we have dealt with similar issues to do with scoring because we, as you know, every year have tried to put together a report taking some of GAO's work and trying to have it scored. Some of our work focuses more on sort of long-term management reforms and CBO—I think correctly—says you can't score that unless you can show us something that worked in the private sector or give us some other basis for an estimate.

So we have on occasion been involved in that kind of dialogue with them to give them a base on which to score something.

The problem, I think goes back to your other problem about becoming too focused on the short-term numbers. There are things that make sense to do even if they are not going to score in the next 2 years.

Mr. GOSS. Yes, but the problem is you can't get there if you don't score.

Ms. IRVING. There is an additional problem with Medicare savings, which is a barrier between the PAYGO and discretionary. This is a huge problem for discretionary expenditures that would save money on the PAYGO side of the budget. It is a positive disincentive to do anything sensible on that side, and that is an area I think we need to look at.

I don't think there is any way to avoid the OMB-CBO disconnect unless you are prepared to use OMB numbers because the court has been pretty clear about the power to order a sequester, and I wouldn't do it if I were you.

Mr. GOSS. No, I don't think that is in the cards this week.

Ms. IRVING. I don't think so, either, but I think that is the problem. Differences are particularly problematic for health because small differences in assumptions balloon. The only thing you can be sure about health numbers is that both CBO and OMB are going to be wrong and, until last year, they were both too low. I realize that is not a very optimistic comment.

Sometimes when it looks as if all that is standing in the way is a scoring problem, something else is standing in the way and the scoring problem is an escape hook. On lockbox for example, part of the issue might be that people aren't sure how many times they want to fight about how big total discretionary spending should be. Arguing about scoring may be more convenient than saying, "Wait a minute, I was willing to live with a cap, I am not willing to live with a cap minus something everyone wants the day I am absent."

Mr. GOSS. No. As I said, the opportunity for mischief is there.

Ms. IRVING. I suspect people don't get elected to abandon ideas held by their constituents.

Mr. GOSS. No, it is the representative form of government.

Mr. Dreier said he was going to be back. I am sorry he is not. I don't wish to detain you any longer. I assure you that this is a small committee, it has very good members on it. The fact that we are not here, it is not because we are not interested, it is because we are busily trying to keep up with the pace.

We would like to be able to submit questions. I want to particularly follow up on your look-back idea. I think Mr. Hall will, and I know Mr. Dreier had some reform questions that he want to follow up as well, biennial budgeting.

Ms. IRVING. We would be glad to. We have been working with Wendy and we would be glad to work with any of your staff.

Mr. GOSS. Thank you very much, we appreciate it.

[Answers to additional questions submitted to Ms. Irving follow:]

Additional Questions Submitted to Susan J. Irving, Associate Director, Budget Issues, General Accounting Office

Question No. 1.—You suggest implemention of some sort of "lookback" process to review our progress on deficit reduction and also entitlement control. Could you elaborate on how this type of process differs from the existing procedure whereby the Congress adopts a budget resolution every year—in which there could be reconciliation instructions?

Since each year's budget resolution is based on updated economic forecasts, technical assumptions, deficit projections and baselines, it is true that the Congress implicitly takes note of progress compared to that expected in the previous year's resolution. But since this progress—or slippage—is part of the updated baseline, it is buried and implicitly presumed to be acceptable.

The "lookback" process we have suggested would shift the presumption. The current projected deficit and entitlement paths would be compared explicitly to that anticipated in the previous year's budget resolution. Congress would then vote on whether to recoup all, some or none of the slippage. This vote would determine the amount of additional deficit reduction necessary due to the slippage. Requiring explicit recognition and consideration of the slippage would focus attention on the path and increase the perception of accountability for deficit results.

Question No. 2.—Most people may not realize that there are actually two sets of spending limits—those established by statute and those set internally to the Congress through adoption of the budget resolution—the so-called 602(b)'s. Currently, the statutory caps are significantly higher than the 602(b) numbers the Congress has set in the just-passed budget resolution. What benefits or problems do you see in this situation?

Under the Budget Enforcement Act (BEA) discretionary spending is constrained by dollar limits (caps) on budget authority and outlays for each fiscal year through 1998. Inasmuch as all discretionary spending is by definition in the jurisdiction of the Appropriations Committees, the caps limit the amount that can be provided in annual appropriations acts. Specific dollar limits on appropriations are also set in a budget resolution. These limits are called 602(a) allocations—after section 602(a) of the Congressional Budget Act which requires them as part of the congressional budget process. Under this process the House and Senate Appropriations Committees receive 602(a) allocations that each then subdivides among its 13 subcommittees. These subcommittee allocations are called 602(b) allocations.

One benefit of this situation is that while BEA discretionary caps place an upper dollar limit on discretionary budget authority and outlays for the current fiscal year, the budget resolution provides the Congress an opportunity to reduce discretionary spending below BEA cap levels. The current budget deliberations illustrate this point.

In its Preview Sequestration report issued January 1995, the Office of Management and Budget determined fiscal year 1996 BEA discretionary caps to be $521.7 billion in budget authority and $551.7 billion in outlays. In June 1995, the House and Senate agreed to a budget resolution that set the fiscal year 1996 602(a) allocations at $489.2 billion in budget authority and $534 billion in outlays. Both numbers are well below the BEA caps. The 602(b) allocations to subcommittees must total to no more than the lower 602(a) amount.

Question No. 3.—You note in your statement that the distinction between the definition of overall aggregates in the budget resolution and the decisions about how to allocate resources within those aggregates has become increasingly strained. Should we be looking at process changes to reduce that tension and do you have specific recommendations?

The Budget Act of 1974 sought to prevent the budget resolution—and the Budget Committees as its principal drafters—from prejudging the programmatic descriptions of the authorization and appropriations committees. This was done, in part, by limiting the detail in the resolution and the practice that the Budget Committees deal in amounts of at least $100 million. The budget resolution would lay out broad priority areas "national needs"—as represented by the budget functions—and the relevant committees would determine the detail. As I noted in my statement, this distinction was always a little artificial since any aggregate total depends on some assumptions.

With the increasing emphasis on deficit reduction, the level of programmatic detail in the budget resolution conference reports has grown. This is part a response to a desire by those considering voting for large cuts want to know what the sponsors envision.

This year's conference report contains much more programmatic detail as to the assumptions underlying the numbers in the resolution than has previous conference reports. This guidance, although nonbinding, does indicate that the aggregate numbers are based on some underlying premises. The widespread reporting of these premises may create the public perceptions that the budget resolution actually changed programs or reduced funding levels.

There are two possible ways to respond to the blurring of the line between the budget resolution aggregates and legislative specifics, but both present difficulties. One would be to sharpen the distinction and reduce the level of detail provided in the Budget Resolution Conference Report. This seems unlikely to be a stable solution. The forces that have led to the increasing detail in the resolution over the last 20 years would reassert themselves. A second—and opposite—response would be to drastically change the nature of the budget resolution such that it did actually change existing laws. Such a step would go far beyond proposals to change the resolution to a joint resolution [see our answer to question No. 4] and would convert the budget resolution to an unwieldy omnibus appropriation and reconciliation bill.

Given the nature of the two alternatives, I suspect this tension is inherent in the budget process.

Question No. 4.—What strengths and weaknesses would you see in the proposal that many have offered to change the budget resolution from a concurrent resolution—one that does not need signature by the President—to a joint resolution—that would have the force of law?

We have previously commented that changing the budget resolution from a concurrent resolution not requiring the President's signature to a joint resolution requiring the President's signature could raise balance of power questions since the President would become a more direct participant in the congressional decisionmaking process. In addition, depending on how quickly agreement could be reached on the budget resolution, this participation on the President's part could either accelerate or delay the whole process.

Question No. 5.—Last year, when the Rules Committee began marking up the Joint Committee's recommendations, the only amendment to be considered was an amendment to strike biennial budgeting from the bill. Ignoring the political ramifications of the issue, given our experiences at the State level and the quality of economic forecasting, can a biennial budget be useful for simplifying the process?

Our work on biennial budgeting at the State level presents a mixed picture. Although 19 States have biennial budgets, 8 of them have biennial legislative cycles and therefore could not have an annual budget cycle. Of the 42 States with annual legislative cycles, 11 have biennial budgets.

The trend in State budget process changes has been away from biennial budgeting. Our 1987 study[1] showed that of 31 States with annual budget cycles, 24 at one time used biennial budgeting. During the 20-year period from 1968 to 1987, 15 States changed budget cycles; 12 moved from biennial to annual while only 3 moved from annual to biennial. According to representatives from the 12 States that changed to annual budgeting, reasons for doing so included:

Increased difficulty in forecasting revenues and financial needs,

Improving legislative control over budgetary matters, and

Being better able to respond to rapid changes in revenues and program needs.

Increased difficulty in forecasting was one of the primary reasons States gave for shifting from biennial to annual cycles. While budgeting always involves forecasting—an inherently uncertain business—the longer the period of the forecast the more uncertainty. The dramatic changes in program design or agency structure currently being considered at the Federal level will make budget forecasting even more difficult.

Program changes and agency restructuring would likely create the need for major budgeting changes in the second year of a biennium. If this happens, biennial budgets would exist only in theory.

In Federal budgeting, it is important to recognize a very important distinction between how often budget decisions are made and how long the money provided is available. Biennial budgeting proposals seek to change the frequency of budget decisions from annual to biennial. Too often it is viewed as being necessary to change the frequency of budgeting decisions in order to change the length of time funds are available. However, this is not the case. As we have reported previously, the bulk

[1] *Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting* (GAO/AFMD-87-53FS, July 15, 1987).

of the current Federal budget is not made up of annual appropriations of 1-year monies. Of the less than half of the budget that is on an annual appropriations cycle, about two-thirds of the accounts have some multiple-year or no-year funds that remain available without further congressional action.[2]

While supporters of biennial budgeting sometimes cite its potential benefits to agencies or the Congress in lessening the time spent preparing budgets and providing appropriations, any decision on biennial budgeting must depend on the Congress' choice about how it wishes to exercise its constitutional authority over appropriations and its oversight functions. Annual appropriations have long been a basic means of exerting and enforcing congressional policy. A biennial budget process would afford fewer scheduled opportunities to affect agency programs and budgets.

Question No. 6.—GAO has looked at the experiences of several other nations in attempting to bring about deficit reduction—were there any lessons we could learn from that review for our efforts at deficit reduction in this country?

In a recent report,[3] we discussed the implications of other countries' deficit reduction experiences for the United States. We found that, generally, the experiences of the case study countries showed that significant structural improvements in fiscal policy are possible in modern democracies, although such progress is difficult to sustain.

The experience of the case study countries and recent U.S. fiscal history suggest that prospects for reaching and sustaining balance can be affected by strategic fiscal decisions that address the large and growing areas of the budget, maintain focus on the structural deficit, and choose strategies with positive long-term fiscal impact.

Meaningful long-term deficit reduction will be difficult to achieve if any of the significant "drivers" or other major areas of the budget are not considered. Most case study countries kept both discretionary and mandatory spending programs available for reduction, even though health and pension programs did not always "drive" expected deficit growth as they do in the United States. Governments in several case study countries reduced major benefit programs by deploying the following principal strategies:

(1) Involving affected groups in the decisionmaking process,

(2) Targeting benefit reductions to higher income groups, and

(3) Phasing in program changes to defer pain but ensure long-term fiscal improvement.

Cyclical economic growth provides fiscal dividends that can mask continued structural fiscal imbalances, fostering pressure to weaken austerity measures. Governments that slackened their grip on structural deficits during periods of strong economic growth found that large deficits returned when cyclical growth receded. While not a panacea, a greater focus on structural deficit estimates could help policymakers in the United States better gauge the nature of the deficit problem by separating out the influences of short-term cyclical trends from the underlying policies driving longer term fiscal outcomes.

Program changes that maintain or expand their positive fiscal effects over the long term are critical to sustaining fiscal progress. Some governments we studied employed strategies that expand in impact over time. These "wedge-shaped" savings often had little effect at the time they were approved, but they became fiscally more important as beneficiaries aged, inflation altered the impact of nominal floors or ceilings, or economies changed. Phasing in cuts affecting future beneficiaries also helped these governments ease the transition for affected groups, thereby promoting greater public support. Choosing such strategies calls for a fiscal planning horizon extending into the longer term future.

Generating public support for these strategies is also critical to long-term progress. Leaders in other countries were able to find the formular that succeeded in mobilizing support for deficit reduction while minimizing the opposition of those bearing fiscal sacrifice. Making compelling arguments for austerity, employing effective fiscal strategies, and persevering on a fiscal path that successfully reached balance formed a basis for this achievement. Although it is never easy for leaders to ask their electorate to sacrifice benefits or income in the interest of broader goals, demonstrable and convincing progress on fiscal and economic goals ultimately helped leaders in other countries justify these fiscal sacrifices.

[2] *Budget Process: Some Reforms Offer Promise* (GAO/T–AIMD–94–86).

[3] *Deficit Reduction: Experiences of Other Nations* (GAO/AIMD–95–30, December 13, 1994).

Question No. 7.—How in your judgment do numerous and sometimes contradictory congressional decisions on programmatic items affect confidence in the budget process? Could one of the three layers—budget resolution, authorization, appropriation—be eliminated or combined? How would such fundamental reform affect the institution?

As I noted in my testimony and in response to earlier questions, the distinction between the budget resolution and decisions by the appropriations and authorization committees is confusing to the public—especially as the level of detail in the budget resolution increases. Many outside the Congress undoubtedly believed that the budget resolution actually changed Medicare and eliminated the Department of Commerce.

What appears to be repetitive debates combined with disappointing results have reduced some observers faith in the current budget process. It is, however, less clear whether eliminating or combining the three parts of the current process—resolution, authorization and appropriations—would increase public confidence—or what the impact on Congress would be.

I would like to make several observations. First, multiyear agreements between the Congress and the President as to a fiscal policy path can establish a framework for the debate over national priorities. Within such an agreement, a change to a 2-year budget resolution, combined with a "lookback" procedure—as described in the answer to question No. 1 above—every year might be possible. The budget resolution would be used to translate that agreement into priorities. Reconciliation would be used to achieve the agreed-upon changes necessary to comply with the resolution and fiscal policy path and to recoup slippage.

Second, greater use of multiyear authorizations might allow the authorizations committees to focus additional attention on oversight and program evaluation.

Mr. GOSS. Panel 3. Honorable Bill Frenzel, former Member of Congress, current friend, and Stephen Moore, Director of Fiscal Policy Studies at Cato Institute.

Mr. Frenzel, I have received testimony from you, and Mr. Moore, I have received testimony from you, and I am prepared to submit it to the record.

Mr. Frenzel.

STATEMENT OF BILL FRENZEL, GUEST SCHOLAR, THE BROOKINGS INSTITUTION

Mr. FRENZEL. Thank you, Mr. Chairman, it is great pleasure to be here. Thank you for accepting the testimony for the record, but I do have to say verbally, as well, that the ideas I present today are my own views and do not represent the opinions of the Brookings Institution.

You gave us three questions on which to comment. I have done that in written form. I would like to present a little discussion of question number one. I have given you some ideas of what I think is good in the Budget Act. I am not going to dwell on those in my testimony. I am going to talk about a few of the things that I think need to be changed, and then you will, of course, question as you will.

I suggested in my testimony that I didn't know what the framers of the Anti-impoundment and Budget Act of 1974 were doing. Actually, they didn't share a lot of their intentions with the rest of us more junior and minority members. You have to go back to that time to understand some of the problems.

President Johnson and President Nixon had withheld the spending of a lot of highway monies in order to finance a certain amount of unpleasantness over in Asia, and Congress was madder than hops about that because roads and bridges were just as important in those days as now. Congress had taken the President to court and had received a favorable ruling in the *Chada* decision which indicated, in general, the President couldn't withhold.

Anxious to beat up the President in the time of great weakness of that office, Congress passed such things as the War Powers Act, the Base Closing Act which precipitated all the difficulties we have today, which said you couldn't close any without congressional vote, and the Anti-impoundment and Budget Act.

The anti-impoundment feature simply codified the *Chada* decision, only spread it perhaps more broadly than the Justices did. I think the whole idea was to improve the role of the Congress to restore what the Congress thought was the legitimate power of the purse granted by the original framers.

But there was a hint of mean spiritedness in it, and there was the idea to try to get the President farther out of the budget game and to limit the President's power.

One of the problems they got into was that all of the various senior committee chairmen—and in those days their rule was absolute—were nervous about their jurisdictions, and so the act was careful not to trod on them and, in fact, was very careful to place several members of the Ways and Means Committee and the Appropriations Committee, who have to be key players in both the Budget Act and its reconciliation, on the Budget Committee to assure those committees generous representation.

One previous witness indicated that she thought the Budget Act had been helpful, and we would have a bigger deficit than if we didn't have it. In my judgment, from 1974 until Ronald Reagan arrived on the scene, the Budget Act was used as a giant engine to accelerate spending because the Congress thought that those in the White House didn't have an expansive enough fiscal program. My guess is that the budget process drove our spending and our deficits higher from fiscal years 1975–81.

As was suggested, when the act was created, we were only 5 years away from the last balanced budget in fiscal year 1969. Nevertheless, we didn't see much comfort from the act until Reagan's first year, when Congress began to use reconciliation, and discovered that that was a very important aspect of the act.

Second, with respect to whether you should change it, I really believe you should, but I do not want you to underestimate the difficulty of the chore.

Mr. GOSS. I don't think we will.

Mr. FRENZEL. Today committee chairmen are not as tough as they were in 1974. They are still pretty tough. The last I heard, you have not been able to make the Senate knuckle under every time you wanted it to do so. You are going to have the devil's own time getting this thing figured out, but it is worth doing, because it is pretty clear that even before you got to the change of Democrat to Republican control, the Congress was beginning to look at the Budget Act as a way of restraining spending and ratcheting down the deficit.

I don't know whether you go to Phil Gramm in 1985 or whether you go to the Reagan summit of 1987 or BEA 1990 or even Clinton's first budget in 1993, but over a period of time, the Congress was groping for ideas which would stop us before we kill again.

My next bit of advice is that no amount of budget process is going to keep you from doing that which you want to do. But I think the idea, when you restructure the Budget Act, is to make sure that it is at least of neutral and doesn't get in your way.

At the moment, because of the way the Budget Act was written and the way we have interpreted it, the precedents and the rules, it tends to tilt everything toward the status quo, more spending. Baseline budgeting, and all of that garbage, simply tends to drive spending and the Government presence up. That needs to be cleansed from the act.

Perhaps under new control or with the change that was taking place in the Congress even before the Republicans took over, there will be a will to make the Budget Act more restrictive rather than guaranteeing the status quo.

For 15 years, the Budget Act worked to ensure that every old program got a big CPI increase and a demographic increase, and it meant the new Presidents coming in, or Congresses, who had new programs couldn't get them. How much of President Clinton's program did you give him when you came in? Half, maybe in dollars.

But anyway, that is what he got even with a friendly Congress, and because the Budget Act was driving the Congress, and so were the propensities of the Appropriations Committee to fund all the old programs at ever-increasing rates. We had a situation in the 1980's where our Federal spending was increasing at two or three times the rate of inflation, and revenues were rising at about the rate of inflation, leaving us to 2–5 percent deficit, and absolutely ruined us.

Well, all I want to say is it is going to be tough, even if the new law is perfect, it cannot make you do the right thing. No budget act can have the force and effect of the balanced budget amendment which I think you still need. Nevertheless, I hope you will clean it up.

I have a few thoughts on other improvements, and they relate—I am not going to go through them all—to what I have been suggesting. In the first place, over the years, committee chairmen have figured out ways to get the CBO to agree with them that their program is indeed a mandatory program.

Mr. GOSS. Yes, they have.

Mr. FRENZEL. So we have to go back through the whole damn list of accounts and clean out all the fake mandatories that aren't really mandatory. If we have got guts enough to do that, then we ought to go through all the entitlements and unentitle them, but I am not going to wish that job on you. I doubt Congress is ready for that.

The other problem that is in the Budget Act now what drives what we do is this baseline budgeting. We had the trouble from the beginning, but the real crunch came in Gramm-Rudman I, when we ran up against the big sequester. So what did we do? We retired to the coat closet and made Gramm-Rudman II with a broad new baseline that was more steeply accelerated.

We need to have honest baselines, the kind that the people of America apply to their own budgets. Obviously, the Federal budget is far more complicated, but ultimately my goal would be for the Congress to be able to produce a budget resolution that the American public could understand. It would consist only of aggregates. Its spending function categories would correspond to appropriation bills that were being directed.

That was one of the problems in the beginning, the Appropriations Committee thought its jurisdiction was being trampled on, and it insisted on being able to make what people refer to as a crosswalk between the budget resolution into the various subdivisions of the College of Cardinals and as a result exercised a great deal of control.

It would certainly be more simple if we rationalized that process so that when Congress passed a budget resolution, it would know what it was passing on to the subcommittees of appropriations. We do it two ways: No. 1, change some of the subcommittees and their bills, and No. 2, change a lot of the functions. These functions date back from 50 years ago.

We have got Defense scattered in three or four functions. It is a mess. I think the budget resolution itself should be minimal, should deal with aggregates only, should be something that people could understand, should begin from last year's number, not from some genius' evaluation of what the baseline is.

You probably can't get away with that for Social Security and perhaps some other entitlements. If you can't, you can't, but you ought to screw down the entitlements and the baseline budgeting just as tightly as you can before you get going.

Mr. Chairman, you have got a lot of work and I have got a lot of wonderful ideas, but you can hear them anytime. I thank you very much for the opportunity to testify before you and Chairman Dreier.

Chairman Dreier found out how hard it was to reorganize the Congress, but he also found out that if you don't succeed at first, wait until 73 new guys come in to help you. He got enormous help and was outstandingly successful.

By the way, one of the things that Chairman Dreier and I were discussing in the Ways and Means Committee the other day, or when he had a joint hearing with the Ways and Means subcommittee, was how do you align the Byrd rule in the Senate with whatever rules we are using in the House, and that is, of course, going to be one of your most difficult jobs.

I have some testimony on how the Byrd rule works perniciously sometimes. In general, I love it because there are no rules in the Senate that I know of other than that, and so I cherish it. And, in general, I think it is helpful, but we have to decide, for instance, if we are going to deal with the Senate on the Byrd rule. We say you have your Byrd rule and as counterweight over here, we will agree to keep nongermane amendments out of our reconciliation bill. The leadership may not like that, but it still would make a much cleaner process.

Mr. Chairman, I have overdone it. I thank the subcommittee and you and Chairman Dreier.

Mr. GOSS. Will you be available for some questions after we have Mr. Moore testify? What I am going to do is run downstairs quickly and vote. Mr. Dreier will carry on. I will be right back.

Mr. LINDER. I will stay here until you get back.

Mr. GOSS. I do have some specific questions and I enjoyed reading the testimonies of both of you. Thank you.

Mr. DREIER [presiding]. Mr. Moore.

STATEMENT OF STEPHEN MOORE, DIRECTOR, FISCAL POLICY STUDIES, CATO INSTITUTE

Mr. MOORE. Thank you, Mr. Chairman, for the opportunity to address this subcommittee on the idea of fixing the budget process. It is a special privilege to be on a panel with you, Bill. During the 1980's, Bill Frenzel was one of the few heroes that we had on the budget. I just wish we would have had more of you and we still had you around here and not in The Brookings Institute.

Mr. DREIER. To people both inside and outside of Congress, he was a hero.

Mr. MOORE. Mr. Chairman, earlier this year I published this book actually by Dick Armey's think tank called, "Government: America's Number One Growth Industry." Sadly, that is what government has become is America's number one fastest growing industry.

One of the figures that I use all the time when I address groups around the country is that this year for the first time in American history government at all levels will spend about $2.5 trillion, which is an awesome figure, it is an unfathomable figure to most people. But the way I try to put this in language that people can understand is that if you had $2.5 trillion, you could purchase all of the assets of the Fortune 500 companies, all of the farmland in the United States, and you would still have enough money to finance the entire O.J. Simpson trial, so we are talking about quite a bit of money that is being spent at each level.

Mr. DREIER. The city of Los Angeles could use some of those resources.

Mr. MOORE. That is for sure. By the way, that is about $25,000 per household, an incredible number. In fact, if you look at government spending today, again, at all levels versus the late 1960's, in the late 1960's, adjusted for inflation, we were spending about $13,000 per household, so government spending adjusted for inflation and adjusted for population is about twice as large as it was today.

As I am sure you are aware, the vast majority of that increase has been on the Federal level and also the vast majority of that spending increase has been since 1974, and that is the reason that I bring this up, is that I agree entirely with you, Mr. Frenzel, that I believe that the 1974 Budget Act has been a colossal failure in virtually every way.

Let me just give you a few statistics to demonstrate the fiscal demise that we have seen since the 1974 Act went into place. By the way, one of the—you asked about what was the intention of the 1974 Act. The intention of the 1974 Act was to inject fiscal discipline into the process. Here is what we have seen, though, in the years prior to the 1974 Act and the years subsequent to it.

In the 20 years prior to passing the 1974 Budget Act, we ran budget deficits in this country on average in those 20 years of about 1 percent of GDP. That was about $30 billion, again, in constant dollars, that was an average of $30 billion deficits from 1954 to 1974.

What have we seen since 1974? Deficits have averaged about 3.5 percent of GDP, so a three-and-a-half-fold increase in the size of the deficit relative to the economy. Deficits and real spending have been $170 billion per year, so they have gone from $30 billion per year in real dollars to about $170 billion or about a six-fold increase.

And in terms of the debt, at the time we passed the 1974 Budget Act, the debt was about one-half of a trillion dollars a year. Later this year, you will pass a budget, a debt ceiling bill that will bring the debt ceiling above $5 trillion, so we have seen roughly a tenfold increase in the debt over that time. Clearly, the 1974 Act has not worked in its primary mission of injecting fiscal discipline. I would urge on this Congress that we scrap the entire system and pass a new Budget Act.

Let me go quickly through what I think the centerpieces of that should be. First and most clearly, and this is out of your hands, but I have to say we need a balanced budget amendment, everyone on this panel knows that. The balanced budget amendment is not a gimmick, and Bill Frenzel knows this. If it had been a gimmick, you would have done it many, many years ago in Congress, so we absolutely need the balanced budget amendment.

But I would urge you that we can get started on it. And by the way, let me make this point, too. I totally applaud the budget that you passed, the budget resolution that you passed earlier this year. I think it is the best budget that has passed this Congress in probably 30 years. But you know what? I will tell you something with certainty. That is, you will not reach a zero deficit in the year 2002, no matter how honorable your intentions, unless we have a balanced budget amendment. The spending forces are too strong unless we have the force of the Constitution behind that budget.

But there are other things that we can do in the meantime. The first is that you can pass an enforceable legislative balanced budget requirement. That is, we can do through the legislative process much of what is intended through a constitutional balanced budget amendment. And what I would urge, I think what Bill Frenzel and your previous witness before that was talking about, we have to reintroduce something like Gramm-Rudman.

Gramm-Rudman did not work very well, but it worked much better than anything we have done. By the way, I think it worked a lot better than most people think that it did. In fact, if you look at what happened, we had Gramm-Rudman roughly in effect for about 4 years. The budget deficit at the time that Gramm-Rudman passed was about 6 percent of GDP. After 4 years of Gramm-Rudman, the deficit had dropped down to 2.9 percent of GDP, which is actually a very dramatic decline in deficit spending over a 4-year period.

My contention is, and I would be interested in whether Bill Frenzel agrees with this, we got rid of Gramm-Rudman not because it wasn't working but because it was working too well and the noose was getting too tight on the spending forces, and that is why we abandoned it. We should return to that kind of formula. We should put in place deficit targets that match essentially the deficit targets you have set in the budget you passed this year.

Although I have one criticism of the budget you passed this year, I think the spending is much too front loaded in that budget. But, as you know, 60 percent of the deficit reduction in the budget you pass occurs after the year 2000, which I think is a mistake. But in any case, we should set targets that roughly match that and, basically, we should bring back the sequester process. I would improve the sequester process by including entitlements under the sequester process.

Phil Gramm and Dick Armey have a process you are probably aware of, the Gramm-Armey bill, that has established kind of a new sequester process. I like it much more than the one we used in the 1980's, and I also like the idea that Susan was talking about earlier about a look-back process where, at the end of the fiscal year, we look back and say did you reach the target? If not, automatic spending reductions take place.

Second of all, we need a supermajority requirement to raise taxes. By the way, this is something, I know that you did this as a rule change earlier this year. I would make that supermajority requirement apply to all taxes, not just rate increases. I would have it apply to any revenue raiser.

By the way, one of the things that we have been doing at the Cato Institute that I would be happy to provide this committee with is we have been doing a lot of analysis of how State budget processes work. One of the things a lot of States have been moving toward is this idea of a supermajority requirement to raise tax. In California, for example, I believe it is a two-thirds requirement of both Houses is required to raise taxes. Arizona recently passed this. In fact, I have been working a lot with some of the taxpayer groups.

One Arizona taxpayer advocate, I asked her how is this working, and she said, well, since we passed this supermajority requirement, she said, now the legislature doesn't even bother to introduce tax increases because they know it has become futile.

Third, and this is kind of a radical idea, but I mention it because the minority leader of Congress has introduced this concept, and that is the idea of the national referendum on tax increases. In Dick Gephardt's 10 percent tax plan, he has basically said that we ought to have something where we change the Tax Code or, if we change the tax rates, we move towards a national referendum.

This also is something that about 10 States have put into place. It basically says that we are not going to give the legislature unilateral power to raise taxes. It has to be approved by a vote of the people, a very populist and popular idea.

Fourth, dynamic scoring, Bill Frenzel talked about that and I totally agree.

Fifth, something I wanted to mention because I think it is of special importance to Mr. Dreier, and that is the idea that we have to get rid of the static revenue scoring that we use. Mr. Dreier, I know that you have introduced—I don't know if you have reintroduced it this year—the zero capital gains tax idea.

Mr. DREIER. Not yet.

Mr. MOORE. Well, it is a terrific idea. I hope you do reintroduce it, but it isn't going to happen unless we get rid of these scoring ideas. The way we score right now, your proposal would be scored as about a $180 billion revenue loss over 5 years. That is a total fiction, everyone knows it is a fallacy. We are using revenue analysis that everyone in this town and everybody in this Congress knows produces the wrong results.

I believe, by the way, Mr. Dreier, that your proposal would actually raise revenue for the Government. A zero capital gains tax, I believe, would cause such a huge growth in our economy that you would see a fantastic rate of growth of payroll taxes, of income taxes, and in fact something that is scored on a static analysis of a $180 billion revenue loss would probably be a revenue gainer.

Mr. DREIER. In fact—excuse me for interrupting, but in fact we did a study in 1993 on this, and it did show that actually the ultimate revenue raiser was 15 percent. But you are right, I mean, yeah, with indexing.

Mr. MOORE. Well, there is no question in my mind that the capital gains proposal in the House plan is a revenue gainer.

Finally, something, a radical idea, and I will end with this, economist John Rutledge, I don't know if you know John Rutledge, he worked in the Reagan administration, has come up with a radical idea that I like a lot, and if all else fails, I urge you to go in this direction.

His idea is that we move towards a cash flow type of—we control the cash flow directly if we want to control the deficit. Here is how it works. When we issue cash to beneficiaries of government programs, he says we ought not to give them a check or dollar bills, we ought to give them what he calls budget stamps, and these budget stamps would be, let's say, a Medicare recipient would get some level of benefit each year, that essentially that benefit would be given in these budget stamps, and the budget stamps would be redeemable at a bank or a post office and so forth, but $1 of a budget stamp would not be redeemable necessarily for $1 of cash. The value of that budget stamp would be dictated on the basis of how much revenue we brought in.

So, for example, if we balanced our budget and were spending as much as tax revenues brought in, $1 of these budget stamps would be worth $1 of real money. But if we brought in, if we spent twice as much as we brought in, then $1 of budget stamps would only be worth 50 cents. In other words, you automatically make sure that the budget is balanced because the banks and the post office and wherever you can go to redeem these can only put out as much money as is collected by the Treasury.

Now, for example, this year we are going to spend about $1.6 trillion, we are going to bring in about $1.4 trillion. That means that under this plan, every budget stamp would be worth about 85 cents. Now, there are a couple of advantages to this. Mathematically, it means that you are forced to balance your budget.

Second of all, it would provide a strong incentive to balance the budget because now spending constituencies would have to compete for dollars.

And third, your pay would be provided in budget stamps so that now you would have a strong incentive to make sure that your pay would be worth a dollar.

And I will end that by saying that I think that the budget rules make a big difference in terms of budget outcomes and I applaud this committee's efforts to reform our budget process.

[Mr. Moore's prepared statement follows:]

PREPARED STATEMENT OF STEPHEN MOORE, DIRECTOR, FISCAL POLICY STUDIES, THE CATO INSTITUTE

Mr. Chairman, thank you for the opportunity to offer my views on the imperative of budget process reform in the 104th Congress. It is my conclusion that the process by which we make budget decisions in Washington—the rules of the game—can substantially determine budget outcomes. The rules matter. A fundamental imbalance exists in the current rules. For more than 20 years, forces that favor spending have consistently prevailed over forces that favor fiscal restraint.

Earlier this year I authored a booklet entitled: "Government: America's Number 1 Growth Industry." Regrettably, that is exactly what the Federal enterprise has become—our fastest growing industry. I attach for the record a chapter of that book on the loss of control of Federal spending. [See p. 51.]

How do we put an end to the prospending bias in our budget rules? A top priority for this Congress should be the enactment of a new budget act. The 1974 Budget Reform and Impoundment Control Act is a failure. One of the purposes of the 1974 Budget Act was to eliminate deficit spending. But here is the actual legacy of that legislation: In the 20 years prior to the Budget Act, the budget deficit averaged just 1 percent of GDP and $30 billion in 1994 dollars. In the 20 years since the enactment of the 1974 Act, the average budget deficit has been $170 billion per year, and 3.5 percent of GDP. We have accumulated more than $4 trillion of debt since 1976. By any objective standard, the budget process has not worked better under the 1974 Act—it has worked much worse.

The 1974 Budget Act cannot be fixed. Tinkering won't do the job. The 104th Congress ought to repeal the act before it does more damage to our national economy.

What should be the key components of a new budget act?

The centerpiece of any budget reform quite clearly is an amendment to the Constitution outlawing deficit spending. Most everyone on this committee is keenly aware of the need for a balanced budget requirement, so I will not long dwell on the subject. Deficit spending is an unconscionable form or fiscal child abuse.

There are hundreds of groups in Washington that pretend to speak for the interests of children. But who in Washington, among the thousands of powerful special interest lobbyists and self-proclaimed do-gooders, speaks for the children who are going to have to pay off our irresponsible debts today? The single most pro-child policy that any of us can pursue in Washington today is to reduce the crushing burden of debt our Government is now preparing to place on the next generation's backs.

I sincerely wish that we did not need a constitutional amendment to solve Washington's addiction to red ink. Unfortunately, the destruction of our Nation's once firmly held moral rule against deficit spending requires us to amend out Constitution and command Congress to do what it used to feel honor-bound to do—that is, balance the budget.

The argument is made by tax and spend opponents of the BBA that a constitutional requirement is just a gimmick. No one really believes this. If the amendment were a gimmick, Congress would have approved it long ago. The reason that defense contractors, corporate lobbyists, Federal workers, teachers unions, the welfare industry and other powerful special interests groups ferociously attacked the BBA is not because they think it won't work, but because they shudder at the thought that it will. What frightens the predator economy in Washington is that gift-bearing politicians may have the Federal credit taken away from them.

The U.S. House of Representatives earlier this year wisely approved the BBA. The matter now lies outside of your hands. The real issue is: What can be done in the meantime to make the budget process work better and to end deficit spending?

The House has passed a courageous budget resolution crafted by Budget Committee Chairman John Kasich which promises a balanced budget by 2002. But one thing is a virtual certainty: No matter how sincere your intentions of balancing the budget, the deficit will not be eliminated by 2002 unless new budget enforcement rules are implemented to ensure that this admirable goal is honored.

Here are the components of a new budget act that I would urge in order of priority:

1. AN ENFORCEABLE LEGISLATIVE BALANCED BUDGET REQUIREMENT

Don't wait for a balanced budget amendment. Act now. The most urgent reform for this Congress is to pass a legislative balanced budget law that enforces the deficit targets established in the House Budget Resolution.

What I have in mind is a Gramm-Rudman formula that establishes ironclad enforceable deficit targets. One of the great myths in Washington is that Gramm-Rudman was repealed because it wasn't working. Gramm-Rudman was repealed by the prospending constituencies in Congress precisely because it was working too well.

Gramm-Rudman was enacted in 1985, when Congress was under intense public pressure to immediately reform the budget and reduce the $200 billion budget deficit. The controversial law required Congress to balance the budget by 1991 by meeting a series of annual deficit reduction targets. If Congress missed these targets, the law would trigger automatic spending cuts—a process called sequestration—to reduce the deficit to the mandated level.

Critics charge that the act was a blunderous failure because Congress continually veered off the GRH balanced budget track. It is true that Congress routinely missed the deficit targets. Actual deficits under GRH were on average about $30 billion per year above maximum deficit targets.

Still, Gramm-Rudman had a positive effect on the Federal budget. The best way to measure this impact is to compare the actual deficits recorded under the 5 years of GRH with what the deficit was projected to be by the Congressional Budget Office (CBO) without the law. The 1989 deficit was about $100 billion lower than it was expected to be in 1985 without Gramm-Rudman. In fact, the Gramm-Rudman era, 1986–89, was the only period of genuine reduction in nearly 20 years. The deficit fell from 6 to 3 percent of GDP over this period.

The most dramatic effect of Gramm-Rudman was to curb government expenditures. Government spending in the 5 years prior to GRH grew at a rate of 8.7 percent, but slowed to only 3.2 percent in the 5 years it was in effect. Even entitlement spending was curtailed under GRH to a 5 percent growth rate, because Congress realized that if they allowed programs like Medicare and Medicaid to rise uncontrollably, they would eat up the rest of the budget and cause painful automatic cuts in discretionary spending.

Senator Gramm and Majority Leader Dick Armey have introduced legislation to restore many of the features of the old Gramm-Rudman. The most vital reform is a series of deficit reduction targets, that if missed invoke automatic across-the-board spending cuts—a sequester. I would urge that any new sequester process include all Federal outlays except interest payments and Social Security benefits.

This will impose a much-needed dose of discipline into the budget process.

2. A SUPERMAJORITY REQUIREMENT TO RAISE TAXES

Americans have been hit with 12 tax hikes in the past 20 years: Each one has succeeded in further expanding the size of government, rather than reducing the debt. Requiring a three-fifths or two-thirds majority in both the House and Senate to pass a tax increase would allow Congress to pass tax hikes in cases of national emergency, but would make it very difficult for Uncle Sam to continue its annual ritual of peacetime tax hikes. Several States, including Arizona, California, and Oklahoma, have enacted such measures; they have stopped tax increases dead in their tracks. As one Arizona taxpayer advocate of the supermajority requirement recently told me: "Now the legislature doesn't even bother to propose new taxes."

The Contract with America established new rules requiring a 60 percent vote to raise income taxes. This was a good start. But mow this hurdle should be made to apply to all revenue raising bills.

3. NATIONAL REFERENDUM ON ALL TAX INCREASES

Another populist budget reform that is sweeping through the States is the requirement that any tax increase must be ratified by a popular vote of the people in the next election. This gives the taxpayers veto power over the State legislature's efforts to raise taxes. Congress should be forced to take its case to the people, when it wants to take more dollars out of our paychecks. It is a virtual certainty that George Bush and Bill Clinton's wildly unpopular record tax increases would have been blocked if this rule had been in effect.

Minority Leader Dick Gephardt deserves hearty congratulations for suggesting this reform as part of his 10 percent tax plan. Perhaps a bipartisan consensus could emerge on this issue.

4. DYNAMIC SCORING OF TAX LAW CHANGES

The 1986 capital gains tax rate increase has raised roughly $100 billion of less revenue than the Joint Tax Committee estimated when the law was enacted. Capital gains realizations are less than half the level expected. Why these gigantic forecasting errors? Congress still uses static analysis to score tax rate changes—a scoring technique that assumes little change in behavior to tax changes and almost no overall economic impact of new tax laws. The assumptions have been shown time and again to be wrong. We know the procedures are wrong. But we still use them.

This has negative policy consequences. The capital gains tax cut in the Contract with America will almost certainly raise revenues for the Government—and the cap gains cut may raise substantial new revenues. The rich will pay more taxes with the rate cut. But the Joint Tax Committee refuses to score these dynamic effects. Representative David Dreier has introduced legislation calling for a zero capital gains tax—something the Cato Institute has long endorsed. But the static revenue estimators say this will reduce revenues by $150 billion over 5 years. Dynamic estimates indicate that a zero capital gains tax will so energize our economy that total tax revenues may actually increase if the capital gains tax is eliminated. But as long as we are slaves to static scoring, Mr. Dreier's much-needed legislation will never be approved.

Dynamic scoring will yield more accurate tax revenue estimates, and thus encourage better policy.

5. LINE-ITEM VETO AUTHORITY FOR THE PRESIDENT

This provision is obvious. The President should have the power to cut out the waste that Congress won't. A recent Cato Institute survey of current and former Governors finds that more than 80 percent believe the President should be given this authority. One of most negative consequences of the 1974 Budget Act was to strip the President of his legitimate impoundment powers—a power that had been exercised by every President from Thomas Jefferson to Richard Nixon. Line-item veto would be a partial restoration of the Presidency's legitimate powers over the purse strings.

6. AN END TO BASELINE BUDGETING

When the school lunch program is going to increase by 4.5 percent per year, that is a budget increase, not a budget cut. Baseline budgeting is a fraud. Lee Iaccoca once stated that if business used baseline budgeting the way Congress does, they'd throw us in jail.

It's time to end the false and misleading advertizing in the budget. Congress should be required to use this year's actual spending total as the baseline for the next year's budget. If we spend more than the current year, we are increasing the budget, if we spend less, we are cutting it.

7. A STATUTE OF LIMITATION ON ALL SPENDING PROGRAMS

It has been said that the closest thing to immortality on this Earth is a Federal Government program. Congress doesn't know how to end programs—even years and years after their mission has been accomplished. Hopefully, this Congress will prove this statement wrong! A 5-year sunset provision should apply to every spending program in the budget—entitlements and discretionary programs. This would require the true reinvention of programs by forcing the reexamination of every program including entitlements, every 5 years.

8. DEBT BUY DOWN PROVISION

This is Representative Bob Walker's idea of empowering taxpayers to dedicate up to 10 percent of their income tax payments to retirement of the national debt. Politicians earmark spending all the time. Taxpayers should have that same right.

The budget stamps solution

Most of the above ideas are standard—though long overdue budget reforms. I would also like to suggest one other less conventional budget process change. In fact, this is much more radical than anything tried to date to conquer the budget deficit. I borrow the concept from former Reagan administration economist John Rutledge.

If the balanced budget amendment remains stalled, why not control the cash flow directly? Under the Rutledge plan, the Government would issue a special blue currency called budget stamps, that would be issued to all recipients of Federal spending—much in the way that food stamps are issued to the poor. The recipients would redeem these blue dollars for greenbacks at the local bank or post office. Here's the catch: If the Federal Government balanced the budget, a budget stamp would be worth $1. But if Congress spent twice as much as it collected in taxes, a budget stamp would be redeemable for just 50 cents.

This year the Federal Government would issue $1.6 trillion of budget stamps. Those budget stamps would have a total worth of $1.4 trillion—the amount of money collected in taxes. Hence, each blue budget buck would be worth roughly 87 cents. Each day the Federal Treasury would report to banks and post offices how much budget stamps are worth, depending on how many stamps had been issued and how much revenue had been collected. In this way, total cash outlays would exactly match tax revenue inflow.

Budget stamps would force the constituents of Federal largesse to compete against each other at the budget table. Each dollar allocated to farmers would be $1 less for welfare recipients, Social Security beneficiaries, defense contractors, bilingual education teachers, subsidized artists, and so forth.

Deficits would be impossible, since the Government under the new budget process would be incapable of spending more than it took in. And finally, because Congress' salaries—and staffs—would be paid in budget stamps, newt Gingrich, Dick Gephardt, Bob Dole and every member of this committee would have a strong financial self-interest in limiting spending.

I am convinced that Rutledge is on to something. The budget stamp idea is one that the recipients of government largesse will hate, but taxpayers will love. Fortunately, there are still a few more of the latter than the former.

[The chapter from the book, "Government: America's Number 1 Growth Industry," referred to by Mr. Moore follows:]

1

2020: A Budget Odyssey

"The natural progress of things is for liberty to yield and government to gain ground."
-Thomas Jefferson

Imagine the headlines for January 24, 2020:

PRESIDENT PROPOSES $6 TRILLION BUDGET, RECORD TAX HIKE

INTEREST RATES SURGE, DOW PLUMMETS

Washington, D.C.– The President released his fiscal year 2021 budget blueprint today, a plan which calls for the first $6 trillion budget in U.S. history and a $600 billion tax hike–the largest tax increase in American history. At least $400 billion of these funds are targeted for bailing out the financially insolvent Social Security Administration.

In his budget message the President said that his budget proposal, entitled "Putting America's Fiscal House in Order," will require "shared sacrifice to finally bring to an end the past three decades of fiscal malpractice in Washington."

"No one likes to pay more taxes, and I don't like having to ask them of you, but every American must participate in this crusade against red ink and runaway spending," the President pleaded. "Without these changes, we face a future of $1 trillion deficits for as far as the eye can see." But the White House conceded that even with these new taxes, the national debt will exceed $16 trillion in 2020 and the deficit will be reduced only to $640 billion.

The majority leader of Congress immediately attacked the concept of raising taxes in a recession. "This is the sixth tax hike in eight years, but the tide of red ink keeps rising," the Nebraska Senator warned. "You can't draw blood from a stone," she said of beleaguered taxpayers.

The President devoted much of his speech to the bail-out of Social Security. "For the past twenty-five years there has been a bipartisan conspiracy in Washington to walk off with retirement money from the federal vault; the day of reckoning is here," he announced. Budget documents reveal that the deficit in the trust fund is expected to climb to a record $400 billion next year—the equivalent of more than $150,000 per retiree. Benefit levels have already been cut by 14 percent over the past three years and the President calls for raising the payroll tax another two percentage points to 24 percent next year.

The President's plan is not all pain and suffering, however. The White House proposes a $450 billion spending increase for what he calls "neglected priorities"—a category which includes education, unemployment insurance, infrastructure, and home building. But a spokesman for the Children's Defense Fund protested that we will never succeed in alleviating poverty, homelessness, and illiteracy if the government is willing to spend only "nickels and dimes."

An ABC/*New York Times* poll taken after the speech indicated that only 18 percent of the public believes the plan will bring down the budget deficit. More than six in ten Americans said they think the deficit will get worse, not better if the plan is adopted. "The public has learned that these budget plans have a perfect record of failure," said a National Taxpayer's Union press release.

A record 91 percent of the public said they now support a constitutional amendment to balance the budget, an idea the President denounced as "fool's gold." What we need from Congress "is courage, not the Constitution, to deal with the evils of big deficits," he insisted. "Trying to bring the deficit down too quickly would be extremely dangerous and economically muddleheaded," added the Chairman of the Council of Economic Advisers.

Financial markets accelerated their yearlong tumble and interest rates soared after the President's message. The thirty-year T-bill rate hit a new high of 14.25 percent, and home mortgage interest rates are now over 20 percent. "Despite all the fancy slogans, Washington simply has depleted its last ounce of credibility on the budget deficit," complained the chief economist at Citibank. "The real tragedy is that Congress refused to take action more than twenty years ago to head off this financial train wreck," he added.

In a related story, soon after the President's announcement, a group of more than 8,000 angry demonstrators, almost all under the age of 30, gathered in front of the White House to protest the proposed hike in the Social Security tax. At one point the protesters began chanting: "Hey, hey, we won't pay," as they burned their Social Security cards. When several hundred senior citizens arrived for a counter-demonstration organized by the American Association of Retired Persons, the Capitol police had to be called in to maintain order. "Welcome to the age of generational warfare," said one young woman from Cleveland who helped organize the march on the White House.

Is this news story from the year 2020 an improbable doomsday scenario? Is our government really headed for such a tragic financial train wreck? Are the young and the old going to be pitted against each other in a political battle royal?

Unfortunately, the answer is that something very much like this *could* happen early in the next century, *if* Congress continues to spend and tax and borrow and regulate and mandate over the next thirty years at the same pace that it has over the past forty. That is, if we simply stay on the course we are on, then this doomsday scenario could become a *likely* scenario.

So before we discuss how to avoid this gloomy outlook in the next century, let's first investigate the full implications of the "stay the course" fiscal option. This should underscore why it is essential that, as a nation, we DO change course.

◆ The Past as Prologue

Just how much more government can we expect in coming decades?

One useful guide for answering this question is to examine the trends in government spending in recent decades. Federal spending consumed just 16 percent of GDP in 1950, but 24 percent in 1994. In real dollars this was a six-fold increase in the federal budget since 1950; a doubling since 1970; and a 50 percent rise since 1980.

Let's briefly review where all this money has been spent. Table 1-1 shows the patterns of budget growth since 1950. It reveals several important trends:

An era of near-universal budget expansion — Over the past four decades almost every major component of the federal budget has increased in real dollars. The two exceptions to the rule are foreign assistance programs and veterans programs. (Veterans benefits were high in the immediate aftermath of World War II but have since declined slightly.)

Table 1-1

Growth in Real Federal Expenditures,1950-1994 (Billions of $1990)

	1950	1960	1970	1980	1994	Annual Growth 1950-1991
National Defense	$75.4	$215.2	$278.7	$215.4	$262	2.9%
Health	1.7	3.6	41.3	88.9	215	11.8%
Income Security	22.6	33.1	53.2	139.1	188	5.1%
Social Security	4.4	51.9	103.4	190.5	275	10.1%
Education & Social Services	1.1	4.5	29.3	51.1	48	9.2%
Veterans Benefits	46.3	10.0	12.4	39.0	32	-0.8%
Community Development	0.6	0.9	8.2	15.1	9	6.5%
Interest	26.4	30.9	49.1	84.4	182	4.6%
International Affairs	25.9	13.4	14.7	20.4	17	-1.0%
Science & Technology	0.6	2.7	15.4	9.3	15	7.8%
Agriculture	11.0	11.6	17.7	14.1	20	1.4%
Justice/General Government	6.6	7.2	11.3	28.9	27	3.4%
Transportation	5.5	18.3	23.9	34.2	33	4.3%
Commerce/ Housing Credit	5.5	7.1	7.2	80.0	9	1.1%
Energy/Natural Resources	8.8	9.4	14.0	38.7	25	2.4%
Offsetting Receipts	9.9	21.5	29.3	32.0	34	3.1%
Total Spending	$235.0	$410.0	$670.0	$950.0	$1,324.0	4.1%

Source: *Budget of the United States Government*, Historical Tables, 1994.

Runaway entitlement spending — Entitlements are the driving force behind budgetary expansion. *Federal entitlement spending in real dollars has doubled roughly every eight years since 1950.* Outlays for Social Security, health care, and welfare programs are five to ten times larger today in inflation-adjusted dollars than in 1950. To borrow an appropriate analogy from former Office of Management and Budget Director Richard Darman, entitlements are like relentless Pac-Men gobbling up the nation's economic resources.

Defense budget growing since 1950 but shrinking as a share of GDP — Defense spending has been growing, though irregularly, since the 1950s. However, as discussed earlier, at less than five percent of GDP, defense spending in 1993 is well below its average in the 1950s and 1960s. Defense spending consumes only about half the share of GDP today than it did in the 1950s and 1960s. Furthermore, defense has been shrinking as a percentage of the federal budget consistently since the 1960s from about 40 percent of the budget to about 20 percent.

Outlays for federal lending and interest on debt expanding — Federal credit programs and interest on the national debt are two other fast-growing areas of the budget. As the federal budget deficit continues to grow (it is now $250 billion) interest payments also climb rapidly. Meanwhile, the savings and loan cleanup added an estimated $300 billion to federal outlays. Although this particular crisis is over, at least temporarily, there is now concern that the Federal Deposit Insurance Corporation, the Federal Housing Administration, and the Pension Benefit Guaranty Corporation will soon require multi-billion dollar taxpayer bailouts of their own.

Domestic discretionary spending slowed in 1980s — Most domestic discretionary programs — including agriculture, transportation, natural resources, social services, general government, and science — expanded sharply from 1950 to 1980. In the 1980s the Reagan Administration had marginal success in trimming these programs. Their budgets in real dollars (but not in nominal dollars) declined in some cases. Nonetheless, without exception these domestic discretionary programs are considerably larger today than in 1950 and, as discussed in an earlier chapter, they are growing rapidly again so far in the 1990s.

The picture that emerges from this brief review of post-World War II federal fiscal policy is this: Although virtually every area of the budget has expanded sharply since 1950, entitlements are the primary villain in the loss of federal fiscal discipline.

◆ A Glimpse into Our Fiscal Future

To project the level and composition of spending over the next three decades, we make four assumptions about the U.S. economy and fiscal priorities:

ASSUMPTION #1. Real GDP will grow at a two percent real annual rate over the next thirty years, which is consistent with the predictions of the Social Security Administration.

ASSUMPTION #2. Defense spending will average 4.5 percent of GDP—well below its post-World War II average—and remain constant at that level.

ASSUMPTION #3. Social Security and health care expenditures will rise at the rate forecasted by the Social Security Administration (assumption 2-B of the 1991 trustees report) and the Health Care Financing Administration. This assumes no new or expanded benefits over the next twenty years.

ASSUMPTION #4. Discretionary programs in the budget will grow at their real annual rate of growth from 1950 to 1990. That is, we extrapolate their budget totals over the next 30 years based on their growth over the past 40 years.

The results that emerge from these reasonable assumptions paints a bleak picture of America's fiscal future. Table 1-2 shows the breakdown of spending for major components of the budget.

In the absence of dramatic reform, government expansion relative to the private economy will accelerate at an alarming and economically unsustainable rate:

- The federal government alone will consume 27 percent of GDP by the year 2000, 32 percent of GDP by the year 2010, and 41 percent by the year 2020. See Figure 1-1. Even if state and local spending simply remains constant as a share of the economy, by 2020 more than half of all economic output will be directly controlled by the government.
- In 1990 dollars, the federal budget by the year 2000 will reach $1.8 trillion, by the year 2010 it will exceed $2.5 trillion, and by 2020 the budget will approach $4 trillion.

Table 1-2

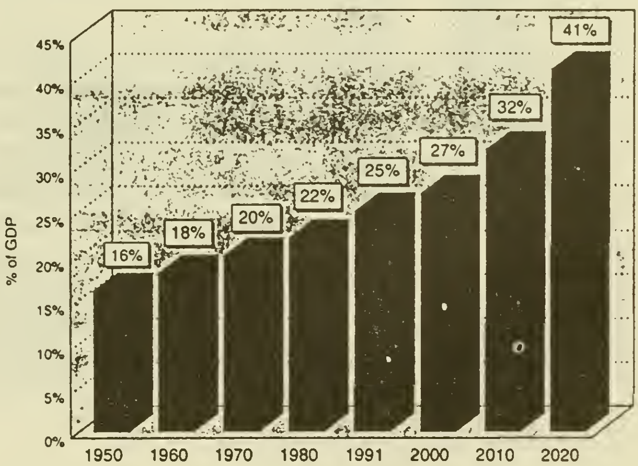
Federal Outlays, by function (billions of $1990)

	1993*	2000**	2010**	2020**
National Defense	262.4	291	359	410
Health	214.6	407	580	760
Income Security	188.5	266	436	714
Social Security	275.0	310	380	550
Education and Social Services	48.2	89	215	517
Veterans Benefits	32.1	30	28	26
Community Development	9.0	14	26	49
Interest	182.1	249	391	613
International Affairs	16.6	15	14	13
Science, Technology, and Space	15.4	26	56	118
Agriculture	19.8	22	25	29
Justice and General Government	27.4	35	48	67
Transportation	33.3	45	68	103
Commerce and Housing Credit	8.7	9	11	12
Energy and Natural Resources	24.8	29	37	48
Offsetting Receipts	(33.5)	(41)	(54)	(72)
Total Spending	1,324.4	1,797	2,618	3,955
Gross Domestic Product	5,747.5	6,560	8,180	9,600

*Estimates from 1994 budget

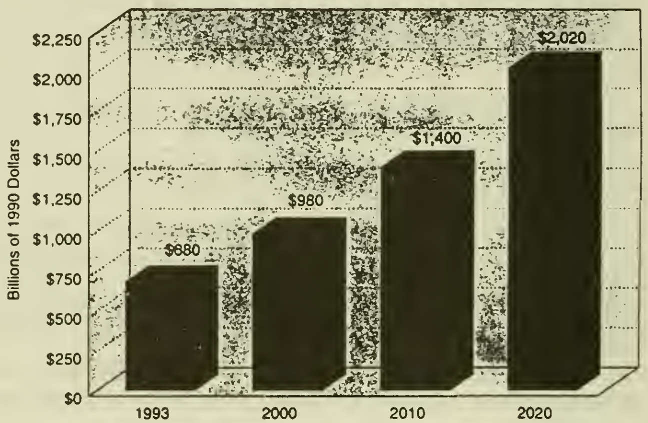
**All projections were done using the average annual growth rate for 1950-93, except those for National Defense, Health, Social Security, and Gross Domestic Product, which were done by a different methodology.

Figure 1-1
Federal Spending Will Outpace Economy, 1950-2020



- Total federal liabilities will surpass $20 trillion by the end of the century. This will represent a debt of almost $300,000 for every family of four in the U.S.
- Entitlement spending—health care, Social Security, and income security—will continue to undergo explosive growth. Figure 1-2 shows that outlays will reach nearly $1 trillion (1990 dollars) by the year 2000 and $1.4 trillion in 2010, or just less than is spent on the entire federal budget today. By 2020 entitlements alone will consume the same share of GDP as the entire budget does today.

Figure 1-2
Projected Growth in Entitlements, 1950-2020



- Real spending on domestic discretionary programs—social services, community development, science and space, and so on—will double in ten years and quadruple in twenty years, as they did in the 1950-1991 period. By 2020 total discretionary domestic programs will consume roughly twice the level of GDP that they do today.
- The fastest growing areas of the domestic, non-entitlement budget will be education and social services spending. These programs will see their budgets rise tenfold in real dollars over the next 30 years—up from $48 billion to $500 billion.

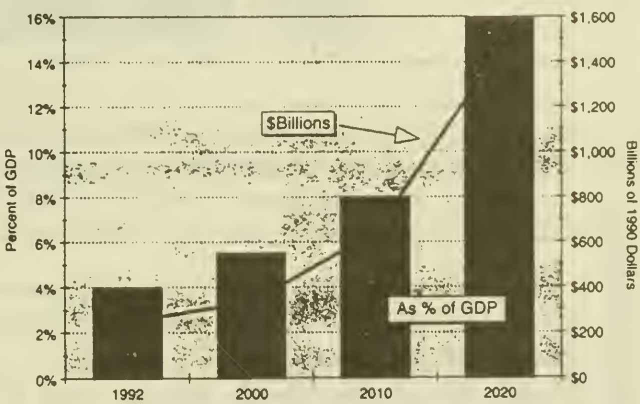
◆ Paying . Piper

How will Congress pay for this orgy of new spending? Debt and taxes, of course.

Over the post-World War II period federal taxes have averaged roughly 18.5 percent of GDP. Today taxes consume roughly 19 percent of GDP. Let's assume that federal taxes rise steadily to 25 percent of GDP by the year 2020. This would constitute a federal tax burden much higher than ever before in peacetime. Under this scenario the deficit would still skyrocket to nearly inconceivable levels early next century. Figures 1-3 shows:

- The deficit in 1990 dollars will swell to over $300 billion by 2000, $600 billion in 2010, and $1.4 trillion by 2020.
- The deficit alone in 2020 will be as large as the entire 1992 budget, $1.4 trillion.
- The deficit will reach 5.5 percent of GDP in 2000, 8 percent of GDP in 2010, and 16 percent of GDP in 2020.

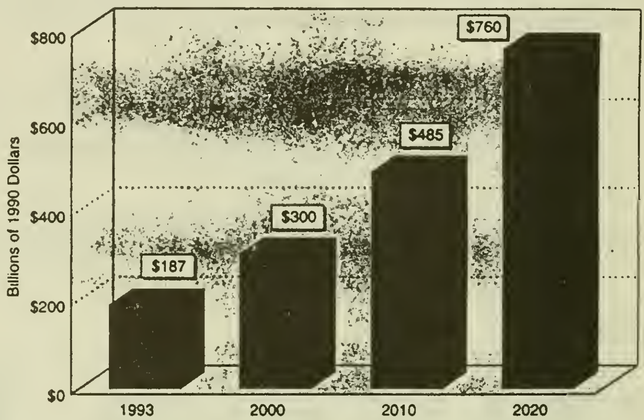
Figure 1-3
Projected Size of the Federal Deficit: Total Dollars and as Share of GDP



If the deficit climbs to these forecasted levels, then clearly interest expenditures—what we pay to finance the national debt—will also skyrocket over the next three decades. Figure 1-4 underscores the magnitude of the crisis:

- Annual interest payments in 1990 dollars will reach $300 billion by 2000 and a staggering $760 billion by 2020.
- Real interest payments will grow by nearly five percent per year for the next thirty years—or two-and-a-half times the expected rate of real economic growth over this period.
- Nearly one of every six dollars that Uncle Sam spends will go toward paying interest on the national debt.

Figure 1-4
Interest on the National Debt, 1993-2020

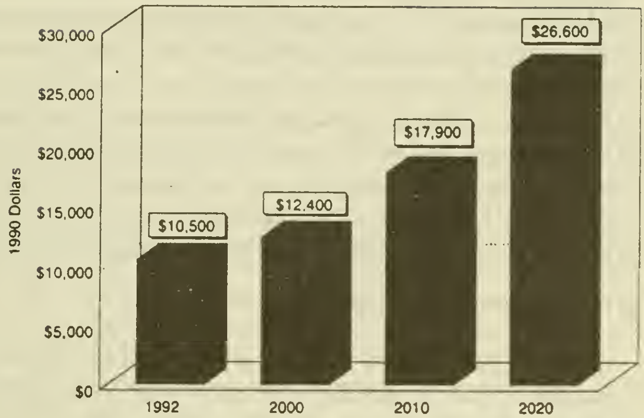


An alternative to running these massive deficits would be for Congress to attempt to balance the budget by simply raising taxes to match annual spending. As Figure 1-5 shows, this would require tax burdens to rise to almost unthinkable levels:

- On average, by 2020, the average American worker would pay $26,600 (in 1990 dollars) in federal taxes.
- Federal taxes as a share of worker income would have to rise by 20 percent above current levels by 2000; 75 percent above current levels by 2010; and roughly *two-and-a-half-times* the current levels by 2020.
- One-third of all worker income would be taken by the federal government in 2010 and more than 40 percent would be seized in 2020. With state-local taxes, the government's take could rise to 60 percent of middle-income worker paychecks by the third decade of the twenty-first century.

Figure 1-5
Future Federal Taxes per Worker to Balance the Budget

Source Author's calculations based on Census Bureau data and budgetary predictions

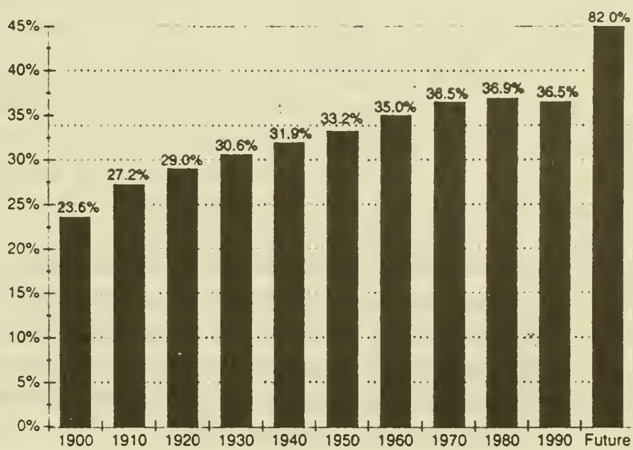


◆ Generational Inequity

One way to measure future tax burdens on American citizens is to examine the percentage of lifetime income that future generations of workers will pay in taxes. As Figure 1-6 indicates, as government has grown over this century, this percentage has steadily risen from 24 percent in 1900 to an expected 36 percent for those born in 1990. For children born in the next century, however, the continued expansion of government, *plus* the huge cost of servicing the $5 trillion debt largely built up over the past twenty years mean that this share of lifetime earnings surren-

Figure 1-6
Share of Lifetime Income Paid as Taxes

Source:Laurence Kotlikoff and Allen Auerbach, *U.S. Savings Crisis*, prepared for Merrill Lynch, 1994.



dered to taxes is expected to accelerate, reaching as high as 82 percent. Because of the large reliance on borrowing to pay for government, the typical American now pays about 75 cents for every dollar of government benefits received. But in the next century, as this debt gets paid off, Americans could be paying about $1.25 for every dollar of government services received. *If Americans now think that government is a waste of money, just think how our kids, and our kids' kids will feel when nearly one-fourth of their tax dollars go to pay the interest on spending that occurred many years previously.*

◆ Social Insecurity

Adding insult to injury for young workers and those who have not yet even entered the workplace are the dire financial straits of Social Security. In early 1994 federal officials conceded that the Social Security Administration will run out of money by 2029—seven years earlier than previously thought. This time bomb will explode right smack in the middle of the retirement years of most baby boomers and well before post-baby boomers are eligible to receive a penny of benefits.

Sadly, even that projection is absurdly optimistic. By 1999 the combined Social Security and Medicare trust funds start spending $8 billion a year more than will be collected in payroll taxes. And that annual deficit will soon thereafter mushroom to more than $100 billion. Since the surpluses of the 1980s and 1990s have already been spent by Congress on everything from maple syrup research to pornographic arts subsidies to nuclear submarines, the program is in much worse shape than anyone in Washington cares to admit.

Few Americans appreciate just how awful an investment Social Security is for those now entering the workforce—the MTV generation. The post-baby boomers will be asked to pay a massive payroll tax burden in exchange for a meager retirement benefit. Here are the grim calculations:

- A worker just now entering the labor force with an average starting salary of $22,500, and with a normal lifetime earnings path, is expected upon retirement to receive a Social Security benefit of about $12,500 per year (1990 dollars). (This, of course, optimistically assumes that the program is still around in 2040.)

- If that same worker were permitted simply tc place his payroll taxes in an annuity with a six percent real rate of return, he would have a nest egg worth almost $800,000 (1990 dollars) at retirement age. This would allow the worker to draw a $60,000 benefit per year until death (assumed at age 80). That's about *five times* higher than what Social Security offers for the same level of investment.
- To state this another way: Workers just now entering the labor market will spend half their working years—that is up until the age of 45—paying Social Security taxes and receiving nothing in return for those contributions. *Assuming a normal rate of return, a worker could start contributing the amount now paid in Social Security taxes into an annuity at the age of 45 and receive the same type of benefit that Social Security offers for paying into the system more than 20 years earlier.*

For today's young workers, then, Social Security isn't generational inequity; it's generational thievery.

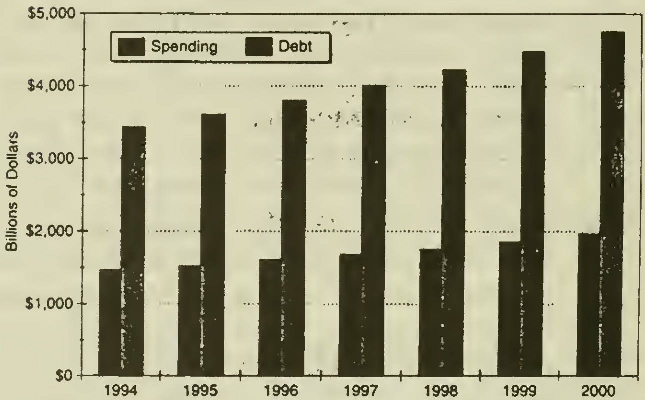
◆ Is Doomsday Really on the Horizon?

The analysis above shows what might happen if we leave government on automatic pilot. In reviewing the calculations in this chapter, it is tempting to conclude that surely our elected officials could not be that reckless and irresponsible. They must have the foresight and wisdom to realize that if government gets too much larger than it is today, we could be seriously imperiling our children's economic future. And if the current batch of politicians won't recognize this, then surely we the voters will replace them with intelligent people who do.

Yet there are several reasons to suspect that the nation may disregard these caution signs:

1) Washington's Woeful Recent Fiscal Record. In the first six post-Reagan years, federal spending, taxes, and regulation have already grown by roughly one-third. Under George Bush and Bill Clinton the pace of federal government spending growth has resumed its 1960s and 1970s pace of expansion. In 1990 and again in 1993 the two largest tax increases in American history were enacted by Congress. Figure 1-7 shows projected spending and debt through 1998 under Clinton.

Figure 1-7
Spending and Debt Buildup under Clinton



Source: Congressional Budget Office, *The Economic and Budget Outlook*, August 1994.

2) The Demographic Time Bomb. Without making major changes and fundamentally restructing entitlements, Congress may not be capable of controlling spending. The reason for this pessimism: The aging of the American workforce. Most of our entitlement spending today is directed toward the elderly. The percentage of the population over the age of 65 and eligible for Social Security and Medicare will double by the middle of the twenty-first century. In the year 2020 the number of Americans over 65 will climb to 40 million, up from about 30 million today. In 1970 there were roughly four workers for every retiree. In 1990 this ratio was three workers per retiree. By 2030, when the baby boomers are all retired, there will be only two workers for every Social Security recipient. By that year the feds will owe the baby boomers an estimated $10 trillion in promised Social Security payments, and perhaps as much in health care benefits.

3) A Government Hostile to Free Enterprise. A strong argument could be made that the most recent Congress was the most hostile to the free enterprise system that ever assembled in Washington. In 1991 and 1992 Congress proposed $8 of new spending for every $1 of spending reductions. Making matters worse, with Bill Clinton in the White House, no longer do taxpayers have a President willing to serve as a goalie guarding the federal treasury—swatting away new expensive and expansive congressional spending proposals. Nobel prize winning economist Milton Friedman was probably accurate when he recently lamented that "the Clinto. .dministration is far and away the most socialist administration in American history." In sum, our most recent cast of characters in Washington had a strong ideological bias toward spending money, not saving it.

5) A pro-spending bias in the budget process. Politicians vastly prefer playing Santa Claus to playing Scrooge. Unfortunately, the budget rules reward profligate spending, and discourage responsible restraint. The 1990 budget agreement has proven to be a sensational fraud. Meanwhile Congress continues to ignore public demands for genuine budget forms, such as a balanced budget amendment or a tax/spending limitation requirement.

All of these features of the political environment in Washington point to the same depressing conclusion: As things now stand, America is headed toward a twenty-first century with much more government, not less.

◆ The Stages of National Poverty

We do not have to imagine the consequences of allowing government to continue to grow uncontrollably. We know from the lessons of both ancient and recent history that this kind of spending binge inevitably leads to a tragic ending.

Here is a description of how government growth led to the fall of Rome:

> *The system of bureaucratic despotism, elaborated finally under Diocletian and Constantine, produced a tragedy in the truest sense, such as history has seldom exhibited; in which, by an inexorable fate, the claims of fanciful omnipotence ended in a humiliating paralysis of administration; in which determined effort to remedy social evils only aggravated them until they became unendurable; in which the best intentions of the central power were, generation after generation, mocked and defeated by irresistible laws of human nature.*
>
> -Samuel Dill, author of *Roman Society in the Last Century of the Western Empire*

Typically, nations that have traveled the course th. ve are now on have undergone a predictable cycle for financing their runaway budgets. The cycle has three stages that should sound familiar:

Stage 1: Tax and Spend. Government spending begins to outpace inflation and incomes. Politicians attempt to pay for the mushrooming government expenses by continuously raising taxes. But they run head-first into an iron law of economics, which is that the higher tax rates are lifted, the less additional revenues they yield. The tax and spend cycle also eventually collides with an iron law of politics: The electorate will tolerate higher taxes only up to a point; then they revolt.

Stage 2: Borrow and Spend. When raising taxes to keep pace with rising expenditures becomes politically futile, politicians turn to borrowing. And borrowing from the public and foreigners is an attractive short-term fix. But lawmakers soon discover that increasingly heavy borrowing imposes its own financial constraints. The debts have to be continuously repaid with interest, which adds to already-voluminous expenditures. This creates a demand for still more revenues, creating a fiscal treadmill whereby the government must run faster and faster just to stay in place. Creditors become increasingly uneasy about the credit worthiness of the government and its commitment to honoring its rising debts. The politicians soon discover that financing government through borrowing is an exercise in frustration—like the greyhounds racing around the dog track, trying to chase the ever-elusive mechanical rabbit.

Stage 3: Inflate and Spend. With debts piling up and the cost of borrowing rising inexorably, government often turns to its third option to pay for uncontrolled spending: Printing money. This inflation of the currency also carries with it an additional, short-term political benefit for government in that it not only raises revenues, it also reduces the real value of outstanding debt. Historically, however, the inflation spirals out of control and degenerates into hyperinflation. Ultimately the nation begins to either make draconian and painful reductions in public services and benefits, or is dragged into the abyss of complete financial insolvency.

This cycle has run its full course in countless Third World countries. In his best-selling book *Bankruptcy 1995,* Harry Figgie describes the spiralling debt and resulting hyperinflation in nations such as Argentina, Bolivia, and Brazil. In Argentina, a nation that had gained stature as one of the world's five wealthiest by the end of the first half of the twentieth century, massive public debts gave way to 500 and 600 percent inflation in the mid-1980s. These policies proved financially ruinous for the citizens of Argentina. The nation became so debt-plagued in the 1970s that inflation raged at 1,000 percent and more. Living standards in Argentina plummeted by more than 20 percent in the 1980s. This once-proud economic superpower fell to virtual Third World status by the late 1980s, thanks primarily to irresponsible government spending and lending behavior. It is only now, 15 years after the slide began, that Argentina has abandoned statist policies, and is showing signs of a genuine economic revival.

In America, we are now stuck in stage two of the fiscal cycle of national impoverishment. Through most of this century the government's *modus operandi* has been "tax and spend." A growing, prosperous nation was able to finance an ever-expanding public sector. Over the past twenty years, however, as the economy has failed to keep pace with government, the emphasis for financing government has been shifted to "borrow and spend."

$100 billion deficits of the 1970s have given way to $200 billion deficits in the 1980s, and now nearly $300 billion deficits in the 1990s.

The only real issue is whether we will cut government spending *now*, or whether we will wait till we enter into the third stage of the poverty cycle, and follow the path of the Argentinas and Brazils of the world.

Recommended Reading

Figgie, Henry, *Bankruptcy 1995*

Friedman, Milton, "Why Government is the Problem." Hoover Institution, *Essays in Public Policy*, 1993

Mr. GOSS [presiding]. Thank you very much. You were doing great with the budget stamps until you mentioned our pay. That isn't a workable idea.

Mr. MOORE. You flee for the door.

Mr. GOSS. I want to thank you both for very good testimony. You got into some very good nitty-gritty and some fun ideas. I think you both come at it from a different perspective, but you have come up with some things that certainly are interesting and deserve much more attention.

I would like to be able to correspond and ask you further questions. I presume that will be acceptable.

I wanted to ask you, Bill, a question specifically on the testimony that I read last night that you submitted on your concern about decoupling the rescissions in the supplemental. We were patting ourselves on the back thinking, gosh, for the first time we are going to start paying for some of this emergency stuff in the rescission, with the supplementals, and we are going to have some rescissions and this is a big, brave step forward and apparently you didn't buy.

Mr. FRENZEL. I served on the Ways and Means Committee, Mr. Chairman, when we took a step toward frugality by indexing the Social Security pension because Chairman Mills had been increasing it much faster than the cost of living was increasing, and we thought we were doing something good.

My problem with coupling supplements and rescissions is that it is a wonderful cover for appropriators to put back in all the junk you thought you kicked out in the last appropriations bill. What I prefer to do is spotlight what the House is voting on. The bigger and more comprehensive the bill, the easier it is to hide extra, unnecessary spending in it.

Any time you package legislation, you give people a chance to write tax preferences and little spending gimmicks in there that are hard to detect, and when you look at that $16 billion, obviously some of the supplemental things have to pass, but I would have voted for both sides. I would have voted for the President kicking out all the congressional gimmicks and for the Congress throwing out all the President's programs. Then we would have had a hell of a rescission.

Mr. GOSS. I take your point.

Mr. Dreier.

Mr. DREIER. Thank you very much, Mr. Chairman.

Let me just at the outset say that as we look at the budget issue, the question of tariffs has been one that is always on the horizon, so I would be remiss if I didn't take a couple of minutes to say how important Bill Frenzel's work has been to us as we proceeded with both the North American Free Trade Agreement, my colleagues, Bob Matsui, Jim Kolbe, Bill Archer, Phil Crane, and some of the others who worked closely with us on that, and the Uruguay Round of the General Agreement on Tariffs and Trade, and next week the Most Favored Nation status for the People's Republic of China which I know you think is very important. Those are key items and I have appreciated working with you on that.

I also appreciate your commitment to help to ensure that new Members of Congress who haven't had the chance heretofore to really focus on the benefits of free trade are going to be able to do that, and I appreciate your help. We know that as we look at the budget aspect, I will never forget the battle we went through on the Uruguay Round of GATT and the potential loss when it came to the issues as to scoring was a real tough one, so I appreciate your help there.

Sorry I had to leave downstairs, I was dealing with one of those mandatory programs, the National Endowment for the Arts, but you talked, Bill, about the issue of too many mandatory programs. I wondered what examples you would use of things that are today categorized as mandatory that shouldn't be.

Mr. FRENZEL. Well, there are big chunks in the ag function which have no reason in the world to be mandatory. That would be something that the people's Representatives decide every year, how much they want to spend. Under current law, if Congress doesn't do anything, we spend more. That is, I think, utterly ridiculous.

I think really, Mr. Chairman, Chairman Dreier, I have to say that I concluded early on in my congressional career that all entitlements were pernicious. I lived through a period in my State in the Depression when—and I was quite young—the State defaulted on its teachers and State employees' pension program, and let me tell you, that is a hell of a lot worse than not having a COLA every year.

We ought to have systems that stand on their own feet and produce, and I think that the Congress ought to make a judgment on every program every year, and if you have to have an entitlement, it at least ought to be sunsetted so that it doesn't go on after all of us die without anyone else making a judgment on it.

I think the two worst places are in health welfare and in agriculture of where these programs which never started that way, have been defined as mandatory. Due to aggressive and clever chairmen, they have become mandatories for the purposes of our work here on the budget. You know, you were talking about scoring trade. People are nervous about asking for waivers because it sets a precedent that Chairman Goss can drive all of his trucks through later on. Perhaps it does, but there would be a way of getting around that precedent problem by getting the CBO to certify whether a trade agreement was positive or negative without going into beating the numbers out of it.

Mr. DREIER. Well, in the same way, Steve raises the capital gains issue would be another example of that.

Mr. FRENZEL. Sure. Well, I think on capital gains, you would probably need a different kind of an estimate. I think on a trade agreement you wouldn't want numbers. But anyway, those are just some other ideas that I wanted to interject.

Mr. DREIER. I should say that you raised our zero capital gains tax caucus which we put together a couple of years ago. The great thing about it was that it was bipartisan and bicameral, and it has ceased to be bipartisan because those activist Democrats have become Republicans now. So let me say that—just one issue that did come out of our Joint Committee on the Organization of Congress was the issue of GNP budget analysis, and the whole idea of looking at a macroeconomic estimate as to exactly where we would stand. I wonder if you have any thoughts on that.

Mr. MOORE. I am not sure what you mean, GNP.

Mr. DREIER. Well, the committee had a budget analysis which had—it looked, it would provide Congress with advanced macroeconomic estimates of shifts in revenues and outlays, comparisons of such data and policies in other countries and indicators of Federal programs' effectiveness and that was basically an approach to just take an overall look.

Mr. FRENZEL. Who was going to provide that?

Mr. DREIER. Well, I guess that was going to be provided by the Office of Management and Budget.

Mr. FRENZEL. I think that is worthwhile to give you early warnings. I really have to warn, however, that one of the real misuses of the Budget Act was to screw around with the economic assumptions, in other words, to hire Rosy Scenario to come in so that it would look like your revenues were going to be higher and your expenditures were going to be lower so that you could have a more active government. And so I am always very nervous about economic assumptions and about prognostications for the economy for more than perhaps a year. I think we may kid ourselves.

Mr. DREIER. We would have to do that in dealing with the issue of tariffs.

Mr. FRENZEL. Of course you would. I don't think you can avoid it. I just issue a caution that you need to be careful about it, and everybody who attempts it. For instance, in your budgets this year, the Senate had a far more conservative set of economic assumptions. Far more is too strong, but it had a more conservative set of economic assumptions than the House did. It made a little difference in the numbers, and you reconciled it, so it wasn't a huge difference. You have to have the economic information, but you really have to be careful of how you use it in structuring budgets.

I think that the budget resolution should always be based on the most conservative estimates of where the economy is going to go. If I look at the President's economic assumptions, you know, you would think that our cyclical system had been repealed and that we will never have a difficulty. On the other hand, you can't expect a President, nor anybody with tenure in Congress, to predict a recession. They won't.

Mr. LINDER. How did Japan have 18 years in a row of 45 percent growth without a cyclical recession?

Mr. FRENZEL. That is a strange combination of hard work, a high degree of education, very strong organization of their economy, particularly their manufacturing sector, and a willingness on the part of the United States to provide open markets to Japan as a kind of a tradeoff for defense arrangements, particularly contributions to base services and so on.

Mr. DREIER. But their protectionist policies over the past several years have had 4 years of flat economic growth, the Nikkei average has dropped a third this year alone, the tremendous level of Japanese business investment, real estate investment here in the United States has seen them go belly up. It was U.S. property holders, so clearly——

Mr. FRENZEL. They had the twin bubbles which sustained them artificially, and MITI is now saying they are on the brink of another recession after 4 years of no growth, where would you like to be here or there?

Mr. MOORE. But Japan also has, when you compare their tax system with ours, very pro saving, pro investment tax system. We don't. Japan has zero capital gains tax on long term capital gains. So I think that Japan has done a lot of things right.

Mr. Dreier is right, that in the last few years they have really slipped, but, you know, if we put in place something like the Armey flat tax plan, we could have 4 or 5 percent growth for as far as the eye can see, I am convinced of that. I think government, if you look over the last 30 years, is probably the primary cause of recession, it has not been a stabilizing influence, it has been a destabilizing influence.

Mr. LINDER. You both talked about the balanced budget amendment, and yet most of the States that have a balanced budget amendment find ways to get around it with long-term debt. How do you get around that problem?

Mr. FRENZEL. It depends on how you write the amendment. I think the Balanced Budget Amendment this year was a good amendment which probably wouldn't have occasioned any special debt processes. The States have constitutional provisions that are supposed to balance their budget. They have found ways to get around it.

I think it would be difficult for the U.S. Government to find a way to get around the balanced budget amendment had we been able to find one more vote in the Senate.

Mr. MOORE. Also, we have done a lot of analysis of State budgets, as I was talking about before. One of the lies that has been perpetrated in this town by a lot of budget analysts is the idea that State balanced budget amendments don't work. I have heard numerous witnesses come up for the last 5 years and make that point. It is nonsense. It is true that they do have some long-term debt.

If you look at the growth of State budgets over the last 20 years, it has been much more moderate than the growth of the Federal budget. State debt is minuscule compared to Federal debt, and the fact of the matter is, if you write these laws correctly, one of the problems is you have 49 States that have balanced budget amendments, but those 49 balanced budget requirements are completely different.

And what we found is that the more stringent those balanced budget requirements, you know, for example, some States only require that the Governor submit a balanced budget. Well, that doesn't necessarily mean that the legislature is going to pass a balanced budget. But on balance, if you look at the States that have stringent balanced budget requirements, they have controlled expenditures and they have controlled debt much better than the Federal Government does, so I think the State experience argues for a balanced budget amendment, not against it.

Mr. LINDER. Of the three different committees, the appropriating committee, the authorizing committees, and the Budget Committee, which is the least necessary and most misused?

Mr. MOORE. I will leave that to Bill Frenzel.

Mr. FRENZEL. I think they can all be useful, but they have had a checkered history. For instance, the authorizers run around and complain that the appropriators appropriate against no authorization. But, the authorizers usually are not authorizing because they can't get a bill out. They have a political problem. They have an NEA in their bill or they have the fairness doctrine or something else that is contentious. Appropriators simply have grown up wrong. There is a skewed set of incentives for appropriators. The more they appropriate——

Mr. MOORE. This from someone who sat on the Budget Committee for many years.

Mr. FRENZEL [continuing]. The more they think they are going to be reelected. It is sort of the old New Deal philosophy, spend and elect, spend and elect. Also just sit in Appropriations subcommittee hearings for a day and see all the petitioners who come before you who are all going to die unless they get immediate replenishment of their project.

That is a tough committee to serve on. The Budget Committee is the one that is supposed to represent the will of the whole Congress, so of all the committees and all the Members, but if the Budget Committee does its job right in a budget process that has caps and has PAYGO and has some of the other things that work, that will restrain the appropriators.

And in fact this year you find appropriators actually showing more sand than the Congress itself, and Congress is claiming it is cutting them back too much, so I think you need them all. I do believe that authorizers should authorize.

In response to Mr. Hall's suggestion of a 2-year budget process, I think it is probably on balance not a good idea. On the other hand, if you could get Tony's vote, I would say put it in because I don't think it makes very much difference to the process. The authorizers are laying around all year anyway while the appropriators are working their tails off and the Budget Committee is working pretty hard, particularly when reconciliation is in process. They get plenty of time under today's system to do their authorizing if they can, and if they can't authorize, then the program should fail.

Mr. LINDER. Would we be better organized if we organized our standing committees in consonance with the agencies, such as one for defense and one for HHS instead of three and four committees for each?

Mr. FRENZEL. Congressman Dreier is the expert on organization and reorganization, and it is really hard to change committee reorganization. People just die over that issue. It would be better if we were rationally organized around topics that are important today. We don't have an energy committee, we have got energy in six or eight committees. We have trade in six or eight, we have health in six or eight. It would be better if we had a dozen committees that had equally juicy jurisdiction.

Mr. MOORE. At Cato we think it would be best if energy were under no jurisdiction. But let me just say this about the appropriations process: You asked, you know, which is the best, which is the worst. Right now, as I look at what is happening with the budget that you passed, I am very discouraged by the appropriators, especially because one of the real virtues of that budget that passed the House was that huge list of programs we were going to get RIFed. For the first time in 30 years, this Congress was going to prove we actually knew how to get rid of things.

Mr. LINDER. With a 284.

Mr. MOORE. If the appropriators continue on the track they are on, you will be lucky to get 10 percent of that. I have looked, there are about four or five that have been reported out of the subcommittee so far, they are eliminating virtually nothing.

Now, Bill is right, they are reaching the targets, but they are just doing across-the-board spending cuts which I think is much deficient to actually pulling up programs by the roots and saying we don't need these things anymore.

Mr. FRENZEL. I have a slightly different opinion there. I think the gentleman is absolutely correct, that you are a lot safer zeroing a program because then it isn't going to come to life and come back to bite you. On the other hand, I think I am with the appropriators with respect to zeroing out these programs.

I think you—under the current law and the process, they are charged with coming up with the dollars, not with a specific number of programs. If they get the dollars for you, I will give three cheers because it will be the first time. Congress has never really tried to pass a tough budget resolution. As has been suggested here, you have got the best one that has ever been put out. If the appropriators actually meet it, please declare victory.

First, strike medals in their honor, and then worry in step two about taking down more parts of Government. Remember, too, that a lot of the agencies you were talking about getting rid of in your budget resolution have functions that are going to be done somewhere. I don't think you get any glory for killing the Commerce Department and moving antidumping and countervailing back to Treasury and moving Foreign and Commercial Service back to State and just rejiggering things. I think it takes more thought than that.

I think what you need to do is sit back and congratulate yourself and say you got the best damn budget resolution this Congress has ever seen. Try to reconcile and appropriate it the best way you can. And, you know, if you have got a big block of votes which stymie one approach, then figure out a compromise that makes the numbers. Then next year you come back and reorganize something else.

But I think that you Members of Congress that I see today, particularly Republicans, are too critical of themselves. My God, you have moved mountains. I could never have believed that you were going to achieve what you have achieved so far. Now you haven't made it yet, but I think you are doing just marvelously.

Mr. LINDER. Sometimes I believe we get too many statistics and numbers, and we could get rid of the Bureau of Statistics entirely and not hurt us at all because we react to those numbers even when they are so wrong that they are adjusted within the quarter, or something like that, because we budget based on those numbers and particularly the scoring numbers.

You talk about dynamic scoring, just an experience should teach us that, and Gary Nodella Robbins was right on the button in the 1990 tax increase, and Dick Darman missed it by 2,300 percent. In my business, we used to fire people like that. But dynamic scoring does also give you an opportunity for mischief, if you have an administration that likes to—who do you trust and how do you get around that?

Mr. FRENZEL. Well, I didn't want to interfere in the testimony here, but I think you have to proceed with dynamic scoring with enormous care. For years in the Congress, we in the minority shuddered when the Democrats would come in and say, "We have got this really neat spending program and it is going to save trillions over the years because it is going to make people smarter or weller or whatever." And we would just cringe because all it was going to do was create an ongoing program, and I think we have got to worry about the same thing in taxes.

John Rutledge was mentioned here, he makes June Winiski and Art Laffer look like cringing violets. He really wants dynamic scoring. I think you have to proceed with that very carefully. I think you are beginning to get that in the Joint Tax Committee and in CBO. They are beginning to put a little more dynamism in, but overnight you aren't going to see the Joint Tax Committee embrace all of what the chairman calls his intuitive instincts. I feel the same way about capital gains as the rest of you seem to feel, but on the other hand, I would like to creep into that rather than explode into it.

Mr. LINDER. My favorite number game is virtually every week someone comes in and says, for every $1 you put into this program, it generates $6 in new revenues. My response is, we will give you $1 trillion, you give us back $6 trillion, we will take care of the deficit.

Mr. FRENZEL. We used to do that on the Ways and Means Committee, when you got down to the end of the year and you needed $2 trillion more to keep the deficit under $220 billion, you would put in a plug number for hiring more IRS numbers, a couple of billion dollars, and that was supposed to gain you the several million you didn't.

Well, you know what you did with that money? You hired a whole bunch of new agents out of Texas A&M who were sociology majors, and it took you about 10 years to get them before they would bring in a single penny, and yet we were showing that we were going to bring much more money into the Treasury. That is the mischievous element in dynamic scoring that you really have to be careful about, and that is why I say a true conservative proceeds very slowly until he is actually sure of what he has got.

Mr. MOORE. Let me just say about the dynamic scoring, you sound like my boss, Bill Niskanen.

Mr. FRENZEL. I learned a lot from him.

Mr. MOORE. In fact, I am going to be sitting on this advisory panel. I don't know if you are on this, Bill, too, that the Joint Tax Committee has put together to try to change the scoring that Joint Tax does. They have put together about 12 economists. In my opinion, as I completely agree with Bill, that we should move ahead with caution, but we should recognize that the system we are using now doesn't work. It produces bad results, and when we produce bad results and bad numbers, we produce bad policy.

You know, you mentioned the 1990, Dick Darman's 1990 budget deal, that was a bad policy, it was based on bad numbers, it was a $1 trillion error over 5 years in terms of what the deficit was supposed to be versus what it was, and essentially what my position is going to be on that commission is what works. We have to find something that produces good numbers. I mean, it is that simple.

If you look at the—going back to capital gains, I don't want to sound like a Johnny One Note on this, but the revenue forecasts that have been used by Joint Tax and CBO on capital gains have been atrocious. I mean, if you look at what they were predicting back in 1986 when they raised the rate to 28 percent, they were saying that we were going to be collecting $60 to $80 billion of revenue this year from capital gains. Well, in fact we are going to be about $30 billion, so they were off by a factor of 100 percent.

Now, I think we can come up with something that works better than that. I mean, there has got to be something that works better than that.

Mr. LINDER. Two more points. When you said the national referendum was radical, actually it isn't all that radical. Gingrich tried to convince the working group on which I sat to put it in the contract, he wanted it in the contract, and he didn't win that one.

You talked about the flat tax and what it would do to the economy, but you are right about the national point-of-sale sales tax which does something that the flat tax won't do, it brings in the underground economy more efficiently, it eliminates the need for the IRS. It sends our exports overseas with no tax burden on their shoulders and brings imports to our shores equally taxed.

Why are we talking about the flat tax?

Mr. MOORE. We could have a separate hearing on this. I am glad you brought it up, though. The Cato Institute 5 years ago endorsed the idea of a national sales tax for all of the reasons that you have suggested, but I used to work for Dick Armey, helped him put together the flat tax idea. I think either one of them——

Mr. LINDER. I knew there was something wrong with this guy.

Mr. MOORE [continuing]. Either one of them would be a vast improvement. My only fear really is there is a divide in the Republican Party between these two great proposals, I think, and I just hope you can get together and come up with something that works.

What we have proposed at Cato is, if you have got the votes to do the flat tax, do it this year, do it today. It might take a longer time to convince the public that something like a sales tax, which is more radical, needs to be done. If you put the sales tax in place, you know—I mean the flat tax, it is essentially the same program in terms of the economic effects, it is a flat rate, consumption-based tax system with about a 17 percent rate, you are taxing the same thing. The only difference between the Armey plan and the Archer plan is essentially whether you collect the tax at the cash register or whether you collect it at the—through the postcard return.

Mr. LINDER. That is what we want to get rid of. One of the flaws with the Armey flat tax, it seems to me, is that it doesn't tax dividends at all, it taxes corporate income tax. I think we should tax dividends. We don't want to be in the position of treating inherited wealth more special than hard labor. I think we would collect more money on 17 percent dividends than we would with the corporate income tax.

Mr. MOORE. That is a good point.

Mr. GOSS. I don't want to get off a very exciting subject, but our lease is about to expire.

Bill, I have two additional questions I will write you about. One has to do with your views. In fact, I would like yours, Steve, as well, on this question of separate enrollment that the Senate has proposed to us on the line-item veto which is similarly off the subject today.

The other is your views on the lockbox question about how you take whatever savings and at some point create a process to reduce the caps or reduce the statutes on them, which is causing us a problem now on how to deal with that.

The other point, for the record—my staff wanted me to make sure that I got this in the record—that since you would like us to redo the Budget Act and you are a big fan of GRH, the question needs to be asked, can you really expect Members of Congress to be responsible for what they can't control?

And I think it is a fair question, and it is somewhat rhetorical at this point, but I think you can see our concern on that.

Mr. MOORE. Sure.

[Answers to additional questions submitted to Mr. Frenzel follow:]

ADDITIONAL QUESTIONS SUBMITTED TO MR. BILL FRENZEL, THE BROOKINGS INSTITUTION

Question No. 1.—Lockbox?

In the end, the appropriators usually get their pound of flesh—pork, that is—one way or another. Even so, the House should make it as hard for them as possible. The lockbox is one good way to do so. One obvious problem is that you need a Senate lockbox as well, or a law, to prevent the Senate appropriators from spending your savings.

As I noted in my testimony, it is also helpful to make Appropriations handle separate bills for every action, so that spending is more evident. Combining rescissions with supplementals just provides more hiding places. A highlighted lockbox is easier to maintain.

Question No. 2.—Separate enrollment?

On my totem pole, the unrestrained power of impoundment is at the top; the line-item veto is next best; and everything else is a big step down. However, since you are short a few right thinking Senators, you must take the next best arrangement that is obtainable. Enhanced rescission is marginally better than the current arrangement. Any improvements, like separate enrollment, even though marginal, ought to be accepted with alacrity, if they are the best you can negotiate.

Thanks again for inviting me to your hearing and good luck in your quest to tighten up the budget process. I believe your work is the single most important project in the Congress.

[A letter with additional information submitted by Mr. Frenzel follows:]

THE BROOKINGS INSTITUTION

1775 Massachusetts Avenue, N.W. Washington, D.C. 20036-2188
Telephone: 202/797-6086 Fax: 202/797-6144

Governmental Studies Program
Bill Frenzel

September 18, 1995

The Hon. Porter Goss
Chair, Subcom. on
Leg. & Budget Process
Committee on Rules
US House of Representatives
Washington, DC 20515

The Hon. David Drier
Chair, Subcom. on
Rules & Org. of House
Committee on Rules
US House of Representatives
Washington, DC 20515

Dear Porter and David:

Referring to my testimony at your Joint Hearing on Budget Procedures of July 13, and my follow-up letter to you both of August 23, I would like to add a further post-script.

At the hearing, somebody, I think Porter, asked about a two year Budget cycle rather than the current one year system. My comment was that since Congress would have to do it all over again the second year it would not make much difference, but, if it helped to attract positive votes for reform from otherwise recalcitrant Appropriators, it would not do major harm.

Last week, the question arose during a conversation on another matter with a former OMB person, who felt strongly that a two year cycle would prevent the annual end-of-year spending spree by all executive agencies. My friend believes that the annual sprees would become biennial sprees and therefore be only half as bad for the Republic. She, of course, expects that the two year Budget cycle would be coupled with a two year Appropriations cycle.

Since I had never heard this argument raised in Congressional discussions about the two year cycle, I thought I should pass it along to you even though I know you guys are smarter than I am, and have probably considered it often.

As a personal aside, I am still very proud of you and your Republican associates. You are very close to real glory this year, and I hope you can tough it out. Good luck!

Bill

Bill Frenzel.

FAXed to Wendy Selig, 225 6820, for delivery to the two Chairmen

Mr. GOSS. I thank you both very much for your testimony. We have gone a little longer than we anticipated, actually not too badly, and I apologize that it is such a busy day and we didn't have more of the members, but I know this subject is going to be a continual one with us and that we will all be up to speed and that your contributions are indeed valuable.

Mr. FRENZEL. We believe the quality of the Members made up for any deficiency.

Mr. GOSS. We appreciate that. Thank you very much.

[Whereupon, at 12:10 p.m., the committee was adjourned.]

CONGRESSIONAL BUDGET PROCESS

Wednesday, July 19, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS,
AND THE SUBCOMMITTEE ON RULES AND ORGANIZATION
OF THE HOUSE,
COMMITTEE ON RULES,
Washington, DC.

The subcommittee met, pursuant to call, at 10:35 a.m. in room H-313, the Capitol, Hon. Porter J. Goss (chairman of the Subcommittee on Legislative and Budget Process) presiding.

Present: Representatives Goss, Linder, Pryce, Solomon, and Beilenson.

OPENING STATEMENT OF HON. PORTER J. GOSS, CHAIRMAN OF THE SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS

Mr. GOSS. Good morning, ladies and gentlemen.

Today, the Subcommittee on Legislative and Budget Process and the Subcommittee on Rules and Organization of the House will come to order and continue our efforts to review the congressional budget process.

Thank you for your interest, distinguished chairman, Mr. Beilenson, acting ranking member of the full committee, and the chairman of the full committee, and other members I think will be coming in.

Today's joint subcommittee hearing which focuses on the testimony of Members with interest and expertise in the budget process is the second in which we will examine the big picture of the budget process. There will be others as well as we go forward on this.

Last week, we began the project by hearing from Director June O'Neill of CBO, Associate Director Susan Irving of the GAO, former Budget Committee Ranking Member Bill Frenzel, and Cato budget policy expert, Stephen Moore. At that hearing we talked a great deal about the objectives of the 1974 Budget Act, whether those objectives are still relevant in today's fiscal environment and whether we should be looking to redesign our congressional budget process or not. We hope to continue that conversation today with Members of Congress on both sides of the aisle that have labored under the requirements of our congressional budget process, some for many years and some for only a few months.

All of today's witnesses have exhibited a commitment to ensuring that we have in place an effective and workable budget process as we proceed along the road toward balancing the budget by the year

2002 and beyond. So without further ado, we start today with Chris Cox, chairman of our Republican Policy Committee, and long-time budget process expert.

Before I call Chris, does the chairman have any opening remarks?

Mr. SOLOMON. Not really, Mr. Chairman. You have covered it thoroughly and let's get on with it.

Mr. GOSS. Mr. Beilenson?

Mr. BEILENSON. Let's get on with it.

Mr. GOSS. Mr. Linder, can we get on with it?

Mr. LINDER. Yes.

Mr. GOSS. Thank you.

I will say that the people we are going to call on this witness list, each one has submitted in writing something to us, and has ideas and so forth. Those are not the only ones we will get, but these are all very challenging and they focus on an array of ideas which are worthy of consideration. Mr. Cox.

STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. COX. Well, I want to thank you, first of all, for convening these hearings so promptly. It has only been a few months that the new Congress has been organized with new committee jurisdictions and you are out ahead exercising your jurisdiction, making sure that we get on with the important business of rewriting the 1974 Budget Act. The reason that we need to do this is that we have got a lot of experience under our belt with the 1974 Act, and it is not working.

I met with June O'Neill after reading her testimony here and talked to her for a while. She worked in the Nixon administration and watched the 1974 Budget Act being passed. I think she and I agree that if you read the 1974 Act and limit your conception of reality to the four corners of the act, it actually makes sense. It is an organized system; it provides deadlines; it would, if everyone paid any attention to it, provide some organization here in the Congress; but what we found is that while the effective parts of the 1974 Act stripped the executive of its role and substituted Congress, Congress has been able to avoid any of the requirements of the 1974 Act that were meant to impose organization on the congressional process.

It is perhaps not, therefore, a coincidence that 90 percent of our existing $5 trillion, nearly $5 trillion national debt has accumulated since 1974. I think there are several problems with the existing budget process, and I will try and be very simple and give a broad brush picture.

The first biggest, deepest problem is that at the very beginning of the 1974 Budget Act process, the President starts by sending up to Capitol Hill a budget that is so detailed that every single Member can look up and find out whether a project in his district is funded at the appropriate level, and that feature has enabled every single one of us to go immediately to our reporters and say that the President's fiscal priorities are out of whack because we haven't been treated properly. We may not be quite that up front about it and say the reason that the whole budget of the United States makes no sense is that I was treated improperly, but that is why so many people can seemingly read thousands of pages in about a half hour and go out and talk to the press.

The theory is that the President's detailed budget submissions will be the start of the process here in Congress, but what really happens is that we are all at each other's throats instantly because we have started at such a level of particularity. We have never taken the time to agree on the broad brush big picture, and that is what Congress in particular is well suited to do.

We are 535 people; we are a huge committee. Arguably, one of the few things we can do effectively together is go see a baseball game, but we should operate as a board of directors giving broad policy guidance, that is when we will be fulfilling our institutional charter best rather than attempt to operate as micromanagers of the entire executive branch.

At the very least there ought to be a time in the process when we are not micromanaging, when we do look at the big picture because that is an important part of our responsibility. And so that is the first, and I think biggest, problem because it sets us off in the wrong direction to begin with. It makes it almost a certainty that Republicans and Democrats won't agree. It makes it almost a certainty that the President and Congress can't agree.

And so here we find ourselves, for example, in 1995, the President has a 10-year budget, we have a 7-year budget, the President has a lot of different priorities that we don't share and he called us to the White House to say I hope we can avoid the impending train wreck, and no one has an idea how we are going to do that because we haven't agreed on first principles.

The second problem with the existing system is that when Congress gets around to passing a budget, as heroic as this effort has been this year, it is nonbinding; it is a nonbinding concurrent resolution of the Senate and the House, and so it has only moral force, that is to say, all the rest of our committees. It doesn't really bind anyone; it doesn't have the force of law.

During the past 15 years—I had my staff go add this up for me—overbudget spending, that is actual spending as compared to budget, has totaled more than $300 billion, so if we had simply given the budget binding force over appropriations, we would have saved ourselves $300 billion.

The President was read out of the 1974 Act in another important way. Up until 1974, President Nixon, and every President back to Jefferson who first exercised the power, could decide not to spend money at some point during the fiscal year if it proved not necessary to fulfill a program's objectives. That has been called variously rescission and impoundment, although rescission these days means something to which Congress subsequently assents.

In 1960, President Eisenhower decided not to spend 8 percent of the entire budget, and that was not uncommon. Between 1959 and 1972 the average of all actual appropriations that the President decided not to spend was 6 percent of the total. If that 1974 Budget Act provision hadn't been enacted and changed the pattern, the national debt would be $750 billion smaller today simply for that reason.

Now, I don't know that there is going to be a political consensus in the current Congress to restore the President's impoundment authority, but we ought to consider the degree to which we have read the President out of the budget process, the degree to which we have ended the President's historical role in this.

The worst problem of all from a materiality standpoint is that so much of our budget is now allegedly outside the control of Congress and the appropriators, that so much of it is on autopilot. Our budget process virtually guarantees out-of-control results because we don't exercise control over the spending. Entitlement spending is technically defined as permanent, indefinite appropriations, and they run not just to Medicare and Medicaid and AFDC and the things that we are all familiar with, but to such things as the independent counsel. There are literally hundreds and hundreds of permanent indefinite appropriations, and when you add them up in different categories you can see that it is not necessarily health care that is driving our budget nuts; it might be welfare, it might be some other category that you decide to put an awful lot of these entitlement programs into because we just don't often think of them this way, but this is what we have done with our budget. We have decided that all these programs, the favored programs, will have appropriated to them such sums as may be necessary, that is, a blank check. If you are willing to give a blank check to a program, don't be surprised that in the end it runs out of control.

These programs are not uncontrollable; they are simply uncontrolled. We have to bring them back within the budget process. To address these deficiencies that I have described in the existing budget process, nearly 200 of our colleagues in the last Congress joined with me in introducing the Budget Process Reform Act.

The bill does the following: First, in order to get Congress, Democrats and Republicans, House and Senate, to agree early on a macroeconomic budget big picture and to get the Executive and the Congress as coequal branches to agree together, we will have a one-page budget, comprising only the 19 major functions, signed into law or passed over the President's veto.

By forcing debate, discussion, negotiation, and agreement at a high level of abstraction, we can make it possible for Members of Congress to go back to their districts and defend a sound decision on the big picture and permit them to answer questions such as, what about my program in my district? We haven't gotten to that yet, but I guarantee you I will take care of it.

We can all agree on a fiscally responsible big picture and leave the detail until later, but if we have the current system, as I pointed out, and we start at that hyperdetailed level we can't agree because we all know immediately whose ox is being gored.

Second, to encourage timely congressional action, and timely agreement, and negotiation in good faith between the Congress and the executive branch it will be out of order to consider appropriations and authorizations until that budget is in place in the form of the law.

Now, fish swim, birds fly, and Congress spends money, so if you tell Congress that it cannot do that until the budget is in place, you have provided a very powerful incentive to get that document signed into law or passed over the President's veto.

Once the broad budget totals are agreed upon in the form of that one-page budget, then and only then can Congress get about the business of spending. Thereafter, if any Member of Congress proposes spending outside the scope of the budget law which Congress has passed in the form of a law intended to bind itself, it would take a two-thirds vote.

Congress can pass the budget by majority vote. Congress can set those budget levels wherever it wants, but once it makes a decision, we want it to be a serious decision that we agree then will provide the plan for all of our smaller decisions that we take for the rest of the year, and we will make it difficult for people to avoid the force of law that they have given to that budget by requiring a two-thirds vote, the same as would be necessary for a veto override to go outside the budget.

If any Member of Congress is thereafter deprived of pork barrel spending in his district, we will have the same political dynamic that presently exists with the Base Closure Commission; we can all go back to our districts and say that darn process, it is outrageous, it is political, it is wrong, but the overall system will be responsible.

Individual Members won't have to self-immolate. How many times have you heard, "The process isn't the problem, we need to make tough decisions." And yet in order to make those tough decisions we have got to come up with a process that binds us as a group. If the only defense against runaway deficit spending is that every single Member can stand up and self-immolate it won't happen, so we have to design a system that tolerates what we know to be the priorities and the incentives that operate on all of us.

The new procedure will also bring entitlement programs within budget control by adopting a proposal recently endorsed by President Clinton's Bipartisan Entitlement Commission on which the chairman and I both served. For every Federal program, except Social Security and interest on the debt, Congress will actually decide how much to spend in the coming year. Congress can raise the level of spending for any of these programs. These are not caps, but Congress will decide instead of writing a blank check.

At the same time, following the example of the Lugar amendment to the food stamp program some years ago, the agency head, the Secretary of Agriculture in the case of food stamps, is given regulatory authority to adjust benefit levels and eligibility requirements, so at the end of the fiscal year that program costs no more than Congress appropriates for it.

These days food stamps continue to run out of control because everyone knows that there will be a supplemental. If there is any shortfall, Congress will provide it in a supplemental, but under the Budget Process Reform Act, spending outside the budget, as I have already described, will require a two-thirds vote, so we will have budget control over our spending.

The process is nonpartisan, nonideological in the sense that it doesn't tell us either whether we should prefer guns or butter or whether we should spend more or less next year. Congress can triple the budget, triple Federal spending next year under this process, but once Congress decides what the budget is, there will be enforcement, and there won't be blank check spending.

Finally, the bill strips away the incentives for gridlock and year-end embarrassments, like shutting down the Government toward which we are headed again this year, by providing an automatic continuing resolution. If Congress and the President fail to do anything in time for the next fiscal year, last year's spending levels are automatically reauthorized.

You know that in a clinch we have from time to time enacted continuing resolutions that freeze everything in place. That is a result that neither the Congress nor the President wishes for the long haul because each of us has priorities that we want to impose on that process that are different from the year before. It provides a strong incentive for people to do their work on time so that they are not rendered impotent. But unlike Gramm-Rudman, which was planned irrationality, this is planned rationality, relatively speaking. We found that by having the sword of Damocles of Gramm-Rudman, planned irrationality, everyone was tempted to play chicken because they knew in the end that America would never have irrationality, so we have got to remove the incentive for playing chicken with the Federal Government and that is the final feature of the Budget Process Reform Act in that sense.

Last, the President is given a tool that is separate from and apart from, although complementary to or, indeed, substitute for if people aren't willing to have the line-item veto, and it is called line-item reduction.

Instead of impoundment authority or instead of even the line-item veto in the context of the budget, the President would be given the power to pare back overbudget spending to a level set by Congress in the budget law that it had passed. So the President couldn't impose his own priorities on the Congress; he could act as the chief executive to enforce the law that he signed or that was passed over his veto. And any overbudget spending, remember that must be passed by two-thirds by the Congress in the first place, could then be singled out by the President, he could pare it back to the level in the budget, and if Congress wanted to override it, they would need yet another two-thirds vote.

The multiple redundant supermajority requirement means that overbudget spending is going to be subjected to a special glare and public view with a hopefully view to making sure that we keep it under control and better checked that way. Overall, that is the Budget Process Reform Act.

The genius of the framers of our Constitution was that they did not rely on the self-abnegation of American politicians. As Madison famously said, "If men were angels, no government would be necessary; if angels were to govern men, neither external nor internal controls on government would be necessary." But neither Members of Congress nor our constituents are angels. We do need government controls over spending, and this kind of reform of the 1974 Act is in order based on the empirical evidence of the last 20 years, and I hope that as a result of the hearings that you are holding we can swiftly enact these needed changes.

Thank you.

Mr. GOSS. Thank you, Mr. Cox. That is appealing and well-thought-out, and written testimony will be accepted for the record from all witnesses, without objection.

[Mr. Cox's prepared statement follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Earlier this month, the House and Senate approved the first balanced budget since 1969. That was an historic achievement. To get this far, the chairman of the House and Senate Budget Committees, John Kasich and Pete Domenici, had to battle an amada of special interests. They also had to overcome the biggest handicap of all: the 1974 Budget Act itself.

The 1974 Budget Act institutionalized deficit spending. Since 1974, 90 percent of our $5 trillion national debt has been added. That's why it took the biggest landslide congressional election in nearly half a century to break the pattern. But this year's effort alone won't suffice. To institutionalize fiscal responsibility year in and year out, we've got to change the deeply flawed budget process.

During the past several years, from my days as a Counsel in President Reagan's White House through my efforts as cochairman of the Task Force on Budget Process Reform, I have developed a comprehensive proposal for the tough reform we so urgently need. I drew upon the experience and ideas of Republican and Democrat administration officials, congressional leaders, and academic experts. The proposal is the Budget Process Reform Act. In the last Congress, more than 200 Members of the House and Senate had signed on as cosponsors.

The hallmarks of our reform legislation are clarity, evenhandedness regarding the role of the President and Congress, and strict discipline. It is based on the premise that an effective budget process must do each of the following:

Be as simple as possible in concept and means of implementation, so that the process is clear and understandable to Congress and the public.

Encourage early consultation and cooperation between Congress and the President.

Produce decisions on overall budget levels early in the budgeting year.

Be evenhanded with respect to the President and the Congress, not giving either an advantage in dealing with the other or in establishing spending priorities.

Tie each individual spending decision to an overall, binding budget total.

Require explicit decisions on spending levels for all Federal programs, not just those arbitrarily deemed controllable.

Prevent threatened shutdowns of the Government.

Not raise difficult questions of constitutionality.

Contain a bias in favor of a spending restraint that could be overcome only if both the President and the Congress wish to do so.

We must adopt a new budget system worthy of the people's trust. It must be strong enough to withstand the test efforts of those who don't want to accept restraints on spending. It must be strong enough to survive the inevitable attempts to replace it with some less restrictive expedient.

Here are the key features of the Budget Process Reform Act:

BUDGET FIRST, SPENDING SECOND

This proposal would require that Congress enact a legally binding budget—in the form of a joint, rather than a concurrent resolution—by April 15 of each year. Until the budget is signed into law, no authorization or appropriations bill could come to the House or the Senate floor, or before any committee. The budget would set ceilings on all Federal spending—except Social Security and the interest on the debt—for the coming fiscal year.

ONE-PAGE BUDGET

Under the current budget system, the budget is as thick and detailed as New York City's phone book. The Budget Process Reform Act calls for a budget that will fit in a single page—setting specified ceilings on government spending within the 19 summary categories currently used. It is reasonable to ask Congress and the President early in the legislative session to agree at this high level of abstraction on how much the Federal Government should spend in the ensuing fiscal year.

To ensure that neither Congress nor the President will be able to escape the discipline of a reform budget process, I have written into the Budget Process Reform Act a series of enforcement mechanisms which, in effect, lock the door on all the exits—and deny Congress and the President the tools to pick the locks.

THE SUPERMAJORITY REQUIREMENT

First, Congress would be permitted to enact spending legislation in excess of the budget ceilings only by a supermajority vote—two-thirds of both Houses. The only way to adopt spending proposals by simple majority would be to authorize and appropriate within the ceilings of a duly enacted budget law.

NO MORE BLANK CHECKS

The Budget Process Reform Act will require Congress to determine the desired level of spending for each Federal program except Social Security and interest on the debt. Open-ended blank-check appropriations—such as those for entitlement programs, which authorize the spending of such sums as may be necessary—would no longer be allowed.

LINE-ITEM REDUCTION

The Budget Process Reform Act will also give the President enhanced rescission authority—that is, the authority to rescind spending in excess of the budget ceilings. This line-item reduction authority is applicable only to the over-budget portion of the proposed spending. The President would also get the same authority to cut back any spending in excess of the previous year's levels in the event that Congress failed to adopt any budget at all.

To maintain the integrity of congressional control over the legislative process, the Congressional Budget Office, not the Office of Management and Budget, would be the scorekeeper for determining whether particular authorization and appropriations measures are consistent with the budget ceilings.

NO MORE BUDGET ACT WAIVERS

Mr. Chairman, as you and the other members of this committee are well aware, one of the most notorious ways that past Congresses had cheated the budget process was by waiving the requirements of the 1974 Budget Act. In fact, during the 103d Congress, two out of every three rules adopted by the House actually waived the Budget Act. My bill will end this practice.

AVOIDING GOVERNMENT SHUTDOWNS

Finally, the Budget Process Reform Act provides a safeguard against the contingency that Congress should fail by October 1, the beginning of the fiscal year, to complete action on appropriations for any program or activity. In that case, the previous year's funding level would automatically be reappropriated for the upcoming fiscal year. This automatic continuing resolution would apply to all spending, except for Social Security and interest. An added virtue of this sustaining mechanism is its bias in favor of spending restraint. If no action is taken, spending does not increase from year to year.

Through the Budget Process Reform Act, we will enforce the law. We will require cooperation between the President and Congress. We will bring entitlement programs under budget control. Above all, we will make the system clear and understandable to the people whose money we are spending.

Mr. Chairman, James Madison once famously said: "If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary." It was the genius of the framers of our Constitution that they did not rely on the self-abnegation of American politicians.

Because Members of Congress—like their constituents—are no angels, we must design a system that reflects the framers' realism about human nature and political organization. The Budget Process Reform Act is just that. It will help ensure that even if individual legislators aren't all fiscally responsible, the Congress overall will be.

Thank you again, Mr. Chairman, for giving me the opportunity to testify here today. I look forward to continuing to work with the committee on the urgent task of reforming the institution of the U.S. Congress.

Mr. GOSS. I think that there may be some questions. You and I have had the opportunity to discuss a lot of this previously, and, indeed, your comments on the Kerrey Commission and the vast array of entitlements that we seem to discover in that process is worthy of note, and I think you have got some very compelling ideas.

Mr. Beilenson, do you have questions for the witness?

Mr. BEILENSON. I don't know. I don't want to argue with you because it takes time. Don't be offended if I say, Chris, that I found the second half of your testimony better than the first half. Some of your proposals I think make a lot of sense. I don't necessarily agree with them, but you are starting to hone in on some of the real problems.

I think you totally misjudged the situation when you were first talking. I think it is preposterous on the face of it to tie in, as I think you were, the huge deficits of the past 20 years to the fact—I think you said it was not a coincidence that those are the years in which we had a Budget Act. I don't know of anybody else who disagrees that our deficits would be far worse over the past 15, 20 years or so if we did not have a Budget Act.

You spoke about Miss O'Neill. I read carefully her testimony from last week, and her conclusions. They were quite different from the ones I think you were seeming to attribute to her, although you didn't do it all that directly.

The great problem with the Budget Act, the big problem with it, is of course, that it didn't control the entitlement spending, the mandatory spending. But especially since the 1990 summit—an agreement which I know some of you folks did not like at all—we have controlled discretionary spending, that fraction of our budget that comprises discretionary spending.

I disagree with you that the existing budget resolution does not give broad policy guidance. I think it does. I don't think that it excites or incites or attracts specific pork-barrel-types of considerations from Members. I mean, it isn't done in that kind of detail.

I don't think it is true that it is not binding. I think it is binding in a very real way on the allocations to the committees and is directly responsible for the fact that with respect to discretionary spending, we have been far more careful and far more constrained than we would have without it.

Finally, of course, pork barrel spending, despite the fact that the public has been led to believe that, is not the cause of the problem, as you well know, but you kept talking about pork barrel spending in each of our districts. We are getting away from that to a huge extent, thanks to a lot of folks on your side, among others, over the past few years.

If you add up all the pork barrel spending, it will amount to—I am not saying it is not money, it is a few billion dollars, but compared to the huge, continually growing mandatory programs, it barely counts. That is not what has driven the deficit.

So I am just being argumentative, and unnecessarily, and I don't mean to be. I don't mean to be unpleasant about it. I think some of your statements at the beginning were off base entirely, I don't agree with them at all, but some of your specific proposals, which of course is more important, make some sense.

Mr. COX. I take that as constructive criticism because how we talk about these things is as important as the substance of the proposals that we are offering if we are seeking to convince one another of the merits of the argument, and so I stand corrected with respect to my views and the views of June O'Neill.

I did have a chance to meet with her in my office for a little over an hour. What I understood her to say when I spoke personally with her was that the 1974 Act was in some significant respects a useful attempt to impose organization, and I have found when I read it as an academic exercise that it makes sense and if you were to follow it—for example, one of the things that it would have had us do is pass all our appropriations bills by June 30, but of course we are not doing that this year, we don't ever do it, and we invent a budget process on an ad hoc basis every year. That is why we need some enforcement.

I also agree with you that the absence of entitlement control is part of June O'Neill's pitch, it is part of what I have observed here, and therefore part of the reforms I am proposing and probably why you like the second half.

Mr. BEILENSON. That is the big part of your proposal, really, changing everything from entitlements to annual appropriations with the exception of the two programs.

Mr. COX. When I speak of pork barrel, it is probably with the bias of someone who in my first few terms served on what was then the Public Works and Transportation Committee.

Mr. BEILENSON. Then you do know more about it than I.

Mr. COX. We were trained in rhetoric to know that road building was not pork barrel, and so when we think of pork barrel, we think of all these other entitlement programs, but I will clean up my rhetoric so that I don't make that mistake anymore.

I also would agree with you that the congressional budget resolution is relatively broad brush and does not get mired in such detail that it prevents us from agreeing with each other, but the problem is that it does prevent us in many respects from agreeing with the President, and it is the President who starts off this process with a budget that under the terms of the 1974 Act mandatorily operates at an incredible level of detail.

All of that detail is misplaced. The Budget Process Reform Act requires the President to provide that level of detail and CBO will tell us that they need it from the administration and everybody in the agency needs it and so on, but it ought to come shortly after rather than before the passage of this broad brush resolution so that we can all say honestly to our constituents that we didn't vote for those numbers because the President hasn't even produced them yet and we might have our own vastly different ideas. The question is whether we can all live within this large umbrella.

Mr. BEILENSON. One final comment. I thank you. In a sense, I think we have that, thanks to you folks. We have a 7-year budget plan. It is a broad-based broad stroke.

Mr. COX. We just don't have the President onboard.

Mr. BEILENSON. I understand. But we are all going to be forced to live within it one way or another, perhaps pushing a little bit here or there, so I think we have got it, and future budgets are going to have to work within it. They are going to have to.

I think this process is working a lot better than people give it credit for because we have used it to get where you all wanted to go—although if I might say so, I don't think you went about it quite so well and so equitably as we ought to; I think our alternative did it in a more sensible and decent way, but it got only 100 votes on the floor. But because you all have had the political will and courage thus far, we are working toward a balanced budget. I hope you continue to have it because it is going to mainly involve—whatever else we talk about, it is mainly going to involve slowing the rate of growth of the health care programs. That is the key to budget deficit reduction, even though lots of other things have to be done; the big chunk of the money is there and the savings have to be there.

So long as you all have the political will and the courage, then it is going to happen. That has always been what is necessary more than a particular change in the process. We have enough of a process to force things to happen once someone has the will to impose it upon that process. I don't think you have to worry too much about the process; I think you have to worry about the will and the courage. I think you guys—with priorities a little misplaced maybe—have it at the moment, and that is what is going to get us down to zero or close to it, and you deserve a lot of credit for it.

Mr. COX. If I might——

Mr. BEILENSON. If you didn't have this process, you wouldn't be able to do it.

Mr. COX. If we didn't have the base closure process, would we have closed all these bases?

Mr. BEILENSON. No, I am not sure——

Mr. COX. I think in some way the process does make a difference; you end up cutting more spending than otherwise you would have been able to.

Mr. BEILENSON. The problem with the base closing process, which is terrific—and I supported it from the beginning—is that it gives away a lot of power of ours which I don't think you can really do here. You are not really making an analogy anyway because you are not proposing anything like it in your proposal. You can't give away the spending the way——

Mr. GOSS. I don't wish to interject unnecessarily, but we have many witnesses and not much time.

Mr. BEILENSON. We are reaching some agreement here.

Mr. GOSS. You are, indeed.

I wanted to give the others a chance as well. Mr. Chairman?

Mr. SOLOMON. Thank you very much. Mr. Linder and I were in a conference over here.

Chris, first of all, I want to commend you. You have certainly been a leader in this issue. You know what the problems are, and the budget process is deformed; it doesn't work. If we were a business, we would go bankrupt following these rules.

But one thing that caught my attention was, and I did not write it down, because I was called out of the room. You mentioned that because of budget act waivers that were given throughout this 15-year period that we have increased the deficit by $300 billion. Was that true? Would you just repeat that.

Mr. COX. The precise number is during the past 15 years overbudget spending, that is actual compared to budget, was more than $300 billion.

Mr. SOLOMON. And that was caused by this Rules Committee because this Rules Committee, as you know, in two-thirds of the rules over the last 2 years this Rules Committee has given budget act waivers, and that is the only way they have passed the budget limitations. We need to accomplish something to prevent this committee from doing that. We have committed—we have prevented it for the last 6 months for any large amount of monies that are involved, and we have stuck to that.

Mr. BEILENSON. Would the gentleman yield for a moment?

Mr. SOLOMON. I would be glad to yield.

Mr. BEILENSON. Only because I don't want us to proceed on erroneous presumptions or assumptions.

I think, although I am not sure, because I don't want to put words in your mouth, the excess spending came almost entirely in entitlement programs.

Mr. COX. No, no, that figure is appropriated spending.

Mr. BEILENSON. Appropriations?

Mr. COX. It is over a 15-year period of time.

Mr. BEILENSON. It is over $20 billion a year, out of $400 or $500 billion.

Mr. SOLOMON. I know the gentleman is right because we have researched that.

Mr. BEILENSON. I am not saying he is not right. I am sorry, I didn't mean to get back into this. According to June O'Neill's testimony, it came from changes in economic and other conditions and it wasn't because of a lack of trying to enforce the rules here, I think. Anyway——

Mr. SOLOMON. At any rate, Chris, we want to thank you for your leadership in this and hopefully we are going to come up with a remedy that will make this system work.

Mr. COX. I don't know if you were in the room when I thanked the Rules Committee for what you are doing because this is now squarely within your jurisdiction and you have taken the lead on it, and have done so relatively early in the 104th Congress. We finished our contract agenda, we are just now barely on to the rest of everything else, and this is one of the first things you have taken up. I think it is vitally important because if we can put it in place this year we might actually have a chance of a rational budget process in an election year next year when we are going to elect a new President. Every Member of the House is up. If we don't get this process better organized this year, then next year it is going to be far, far worse than anything that happens this fall.

Mr. GOSS. Thank you. Judge Pryce.

Ms. PRYCE. Thank you.

Chris, your breadth of knowledge is amazing to me, but through your experiences in Washington you really know a lot about this, and I for one am a Member who doesn't, and I appreciate your testimony and some of the very fine ideas that you have. I don't really have any questions, but I appreciate you trying to assist us here.

Mr. GOSS. Thank you very much.

If the subcommittee has, either subcommittee has further questions, I presume you will assist us.

Mr. COX. Of course. Of course.

Mr. GOSS. Thank you.

Mr. GOSS. Mr. Peter Visclosky, we welcome you, the author of H.R. 1516, the Deficit Elimination Act. We will accept your written testimony for the record, open for comments.

STATEMENT OF HON. PETER J. VISCLOSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. VISCLOSKY. I appreciate that, Mr. Chairman.

What I would like to do is to follow up on the conversation that was begun by Mr. Cox's testimony. I have always supported a balanced budget. I have always generically been opposed to new enforcement mechanisms on the theory that there is nothing in the statutes, regulations, or the Constitution of the United States that prohibits us from acting in a financially responsible fashion.

Several things have given me pause, however. One is the CBO report of this past January that said we have good news and bad news, and that the good news is this year's deficit will be lower than last year's, third year in a row, first time since Harry Truman was President; the bad news is, by the way, it is going to be $14 billion higher than we thought in August, thanks to the Federal Reserve.

I guess after being in this institution for 10 years, if you needed one last piece of evidence that whatever is going to go wrong in the budget debate was going to go wrong, that was it for me.

Second, I think that President Clinton has received absolutely no credit and abject criticism for doing a very good job on deficit reduction during his first 2 years in office by reducing the annualized deficit by nearly a third.

My second disappointment this year in the month of February is that he essentially stalled out on his efforts. The third concern I have is contained in the budget resolution that we are operating under today.

While I appreciate the fact that there is a plan in place, there is a path to a balanced budget in the year 2002, it is back loaded, and during the first 2 years you see the annualized deficit reduced by $800 million.

In the 102d Congress, Mr. Panetta introduced the legislation that is before the committee today, and I was a cosponsor of that. In the 103d Congress, Mr. Penny introduced the same legislation that is before the committee today. This year, I introduced it, along with Mr. Stenholm and a number of my other colleagues.

I would have to say that the proposal before you is wildly unpopular on both sides of the aisle. I say that because everything, everybody and every program, is potentially at risk. I don't think that we can abdicate our responsibility to make decisions, specific decisions on all of the programs contained in the budget, whether they are discretionary or whether they are mandatory.

On the other hand, if we continue to fail in the final analysis, at midnight on the last day of that fiscal year, I do now subscribe not only intellectually but emotionally to the idea that we need an enforcement mechanism. As an appropriator, I must tell you that I think the Appropriations Committee has acted responsibly.

If you look at the figure, assuming Mr. Cox is correct on the figure that there was, because of waivers with the Appropriation Act an additional $300 billion of spending over 15 years, that is $20 billion a year, we have been operating with annualized deficits in excess of $200 billion a year. I am not suggesting that this isn't part of the problem. Every dollar counts. But somewhere else there is

21-204 - 95 - 4

another $180 billion lurking out there and we have got to focus on that.

The proposal before you essentially says if there is an agreement on targets between the President and the Congress we will have to abide by those targets, and we will further subdivide that so that people are forced to act responsibly within their allocations; sequestration would take place on a committee-by-committee basis.

If there is no agreement between the President and the Congress, you would have comprehensive sequestration that would include tax increases as well as spending reductions on a ratio of $1 of tax increases to $4 of spending reductions.

From the reaction of at least one of the people on the panel, I find that again wildly unpopular. I appreciate that. When I talk to many of my colleagues on my side of the aisle, the fact that programs such as Medicare and Social Security would also be included is just as unpopular.

My point to you is we should not get to midnight on September 30 of any year and not have made wise, rational decisions on mandatory and discretionary programs. We should have done that. And the point of the exercise here is to make it so unpalatable to be fiscally irresponsible that we would force ourselves on an annual basis to make these types of very difficult decisions that are before us in this Congress.

So, again, I am under no illusions and I am not subscribing to the idea that we need a tax increase. That is simply one-fifth of the penalty we would all have to pay if we did not act responsibly. There is also nothing in the Enforcement Act that would prohibit tax cuts or, if you will, new spending for investment, but on either side of the ledger, they would also have to be paid for.

With that, I would be happy to take any questions or enter into a dialogue with members of the committee and would express my deep appreciation for the opportunity to be able to testify today.

[Mr. Visclosky's prepared statement follows:]

PREPARED STATEMENT OF HON. PETER J. VISCLOSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. Chairman: I would like to thank you and the other members of the committee for the opportunity to testify today regarding needed budget process reforms.

I am here this morning because I believe that balancing the budget is our moral responsibility as Members of Congress. Nations, like families, have to plan for the future. As a Nation, we have failed to plan. We have borrowed to achieve a false sense of security today, leaving the bills for our children to pay tomorrow. In 1994, alone, we spent $203 billion more than we had. This means that $783 was borrowed from every single person in America. Over the past 20 years, the average budget deficit has grown $36 billion in the 1970's to $156 billion in the 1980's to the unprecedented $248 billion hole we have dug for ourselves so far in the 1990's. This irresponsible spending has resulted in a money pit so deep that this year's interest payment ($213 billion) will be larger than this year's deficit ($176 billion).

I have always supported a balanced budget, and the responsibility to achieve this is not one that I take lightly. Over the years, I have frequently taken the political road less traveled in the name of deficit reduction. When I am in northwest Indiana, I tell my constituents that I am opposed to cutting their taxes because it would undermine serious efforts to reduce the deficit. I was one of very few Democrats to support the rescissions bills this year because I believe we need to start making tough spending decisions now. In January, I supported a constitutional amendment to balance the budget for the first time because I finally lost faith that the Congress has the resolve to balance the budget without being required to do so.

Regardless of the amendment's defeat in the Senate, we must not give up the fight for a balanced budget. We have the power to do this without a constitutional amendment, and it is critical that we now demonstrate the collective courage necessary to eliminate deficit spending. A majority of the House and Senate has demonstrated its support for balancing the budget, and it would be a cruel hoax on the American people to fail to do so simply because we do not have a constitutional imperative.

Because of my belief that we need to hold our feet to the fire, and enforce budgetary decisions, on April 7, I introduced the Balanced Budget Enforcement Act of 1995, H.R. 1516 along with our colleagues, Representatives Stenholm, Dooley, Barrett, Minge, and Poshard. I co-sponsored the predecessors to this bill when they were introduced in the 102d and 103d Congresses by our former colleagues Leon Panetta and Tim Penny. This legislation would force us to start now and begin bringing the budget into balance by the year 2002. It would do so by setting spending caps and using across-the-board cuts if the caps aren't met.

In addition to this statement, I have prepared a summary of our bill and other descriptive information that may be of use to you and other committee members. With your permission, Mr. Chairman, I would ask that my prepared statement and the attached summary information be included in the hearing record.

I would like to take this opportunity to outline the basic tenets of the Balanced Budget Enforcement Act:

BUDGET TARGETS

In setting targets, this legislation builds on the existing process by setting appropriations caps to control discretionary spending. Like the 1990 Budget Enforcement Act and the 1993 Omnibus Budget Reconciliation Act, it sets a single legislative deficit reduction target (relative to the baseline) for the rest of the budget—entitlements and revenues, or the so-called pay-as-you-go (PAYGO) universe. But where the budget enforcement provisions of BEA and OBRA 93 merely set a target of deficit neutrality for the PAYGO universe, my bill would require a specified amount of deficit reduction.

First, the bill sets caps on total discretionary funding—budget authority—at $540 billion through 2002. CBO has estimated that these caps would produce $536 billion in discretionary spending savings beyond the savings required by current law. The new caps are a 7-year, hard freeze at levels below current 1995 levels.

Further, the bill mandates additional deficit reduction through entitlement cuts or tax increases. The amount of deficit reduction, also shown in the attached bill summary, is spelled out in the bill. The bill does not specify what entitlement programs are to be cut, or how much, if any, of this target should be achieved through tax increases. It only specifies the total amount of deficit reduction to be achieved through entitlement cuts and tax increases combined. Congress would be free to set priorities for the mix of entitlement cuts and/or tax increases enacted to meet the targets.

Including debt service savings, over 7 years, the bill would provide $1.474 trillion of deficit reduction by 2002. According to CBO, that deficit reduction would balance the budget in 2002. In any event—whether CBO's forecast is right or wrong—this bill would require a balanced budget in 2002 and each year thereafter.

BOARD OF ESTIMATES

Second, the bill would establish a Board of Estimates, comprised of the Chairman of the Federal Reserve and four private citizens appointed by the President from nominees submitted by House and Senate party leaders. The Board must choose either CBO's or OMB's estimates of how much deficit reduction is needed in that Session. The Board's choices would be binding on the President and Congress, so that the deficit reduction requirement for each would be identical. Finally, the Board would meet again after adjournment to determine how much deficit reduction was actually accomplished by Congress during the Session based on the chosen estimates.

ENFORCEMENT

A. *Discretionary savings.*—To begin with, the cap on discretionary funding follows the existing procedure. At the end of each Session, the total amount of discretionary funding in appropriations bills is added up. If that total breaches the cap, the excess is eliminated by a simple sequestration, an across-the-board cut of all discretionary accounts by a uniform percentage. No programs are exempt.

B. *Entitlement/revenue savings.*—Let me use the attached flow chart [see attachment 1, p. 97] originally prepared by Leon Panetta to explain how the budgetary targets in this bill would be enforced through sequestration for the rest of the budget—entitlements and taxes.

As I mentioned, the cumulative deficit reduction required from these sources is specified in the bill, and the Board of Estimates will determine at the beginning of each Session how much remains to be done. To meet the deficit reduction target—as chosen by the Board—the President's budget must propose entitlement cuts, tax increases, or both. So must the Budget Resolution.

Just as under the existing process, the budget resolution would include a reconciliation directive specifying the dollar amount of entitlement cuts for each committee. If the budget resolution assumes both tax increases and entitlement cuts under the jurisdiction of Ways and Means, for example, that committee would get two reconciliation targets.

Now comes the single most important innovation in this legislation. When the conference agreement on the budget resolution is agreed to by Congress, a spin-off bill would automatically be sent to the President for his signature of veto. That spin-off bill would contain the budget-year reconciliation targets for each House committee. These targets would be legally binding and enforceable.

C. *Sequestration.*—Here the path splits. If the spin-off bill is enacted, we follow the path on the left side of Attachment 2. [See p. 98.]

TARGETED SEQUESTRATION

Suppose the President basically agrees with the entitlement and tax targets in our reconciliation directive, and therefore signs the spin-off bill. The next step is to proceed with the reconciliation process. Just as now, committees would amend programs within their jurisdiction to meet their targets. The reconciliation bill would proceed through Congress. If, at the end of the Session, it turns out that a committee has fallen short of its reconciliation target, entitlement programs under that committee's jurisdiction would be sequestered to make up for the shortfall. Committees meeting their targets would not be penalized if programs outside of their jurisdiction exceeded the targets. This is targeted sequestration.

For all practical purposes, the only exempt entitlements are debt service and deposit insurance. Under targeted sequestration, if Ways and Means has fallen short of the revenue target, the shortfall would be covered by a surtax on corporate incomes over $10 million and personal incomes over $250,000.

If the spin-off bill is not enacted, we follow the path on the right side of Attachment 2.

COMPREHENSIVE SEQUESTRATION

Assume political deadlock: The President vetoes the spin-off bill and Congress doesn't have the votes to override. Congress can try again later, by including the same spin-off targets in a reconciliation bill. But a stubbon President might even veto a reconciliation bill, or threaten a veto if the bill included both the spin-off targets and some policy, objectionable to him, that was consistent with those targets. What then?

In this case, the committee-by-committee entitlement targets in the budget resolution are not law, and so cannot form the basis for committee-by-committee sequestrations. Likewise, the distribution of tax increases and entitlement cuts in the budget resolution cannot form the basis for making up any shortfall in deficit reduction. Assuming political deadlock over basic priorities, the shortfall could be large.

Under comprehensive sequestration, every entitlement would be reduced by a uniform percentage, and that same percentage would be used to increase marginal income tax rates on personal income above $250,000 and corporate incomes over $10 million. The percentage would be calculated to offset exactly the shortfall in deficit reduction. This comprehensive approach would reduce entitlement spending by $4 for every $1 increase in revenues.

TAX CUTS/INVESTMENT

While the focus of this legislation is obviously on deficit reduction, the bill would not preclude tax cuts or new investments as long as they are paid for. The reality is that we must establish a credible and enforceable deficit reduction path. Once that is accomplished, whether it is by this bill or some similar legislation, we can proceed to a debate on tax cuts with the confidence that they will be paid for, and that they will not simply balloon the deficit over the long-run.

In closing, Mr. Chairman, I would like to urge your careful consideration of this legislation as we strive toward our common goal of balancing the Federal budget. Thank you.

Attachment 1

DISCRETIONARY ENFORCEMENT

- Set a single budget authority cap of $540 billion for 1996-2002.

- Caps enforced by sequestration: across-the-board cuts in all discretionary programs; no programs exempt.

ENTITLEMENT / REVENUE ENFORCEMENT

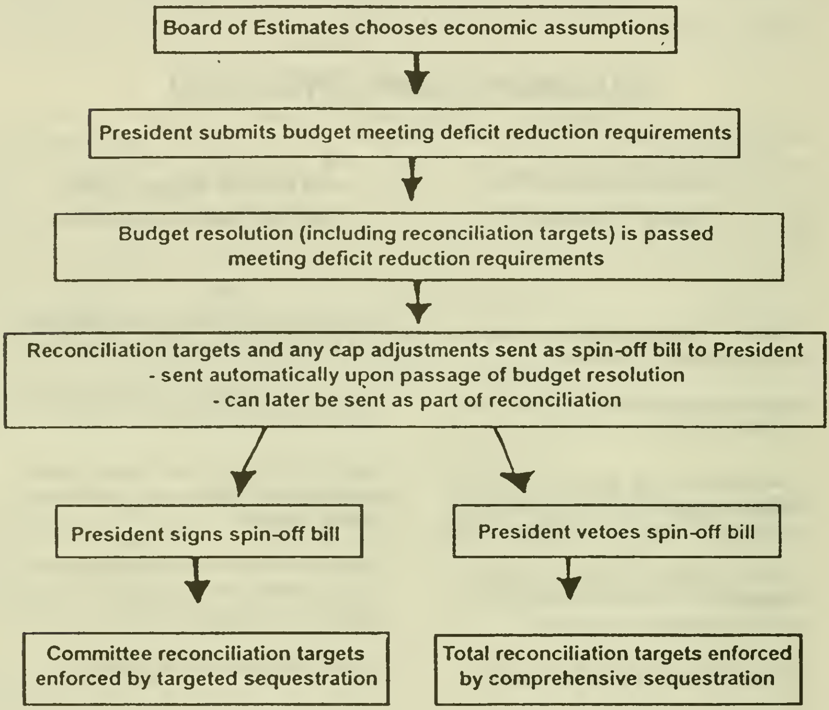
Spin-off bill enacted: Targeted sequestration	No spin-off bill enacted: Comprehensive sequestration
- Direct spending and revenue targets set for each House Committee in spin-off bill.	- Overall reconciliation target; no specific requirements for direct spending vs. revenues.
- Sequestration enforces the specific direct spending/revenue targets set in spin-off bill.	- Sequester formula yields $4 of entitlement cuts for every $1 of revenue increases.
- Spending sequester: across-the-board cuts in all direct spending programs in offending committee's jurisdiction; no programs exempt.	- Spending sequester: uniform percentage to be applied to all direct spending programs; no programs exempt.
- Revenue sequester: uniform personal and corporate surtax (revenues cannot be used to meet direct spending target).	- Revenue sequester: tax surcharge applied to annual incomes greater than $250,000 and corporate incomes over $10 million
- Sequestration changes are permanent.	- Sequestration changes are permanent.

Attachment 2

BALANCED BUDGET ENFORCEMENT ACT:

(1) Targets designed to reach balance by 2002.
(2) Appropriations cap set through 2002.
(3) Deficit reduction targets in entitlements/revenues set through 2002.

Yearly Process



BALANCED BUDGET ENFORCEMENT ACT OF 1995
H.R. 1516

Summary

(1) Deficit Reduction Targets (in addition to the amounts required by current law) to reach balance in 2002. *(in billions of dollars)*

	1996	1997	1998	1999	2000	2001	2002	TOTAL
Discretionary Caps	12.9	30.1	53.9	73.8	98.9	121.7	144.6	535.9
Entitlement / Revenue Scorecard	31.9	59.6	80 6	105.6	125.3	147.4	169.4	719.9
Debt Service	1 7	6.2	13.6	24.2	38.4	56.2	77.9	218.1
GRAND TOTAL:	46 5	95.9	148.1	203.6	262.6	325.3	391.9	1,473.9

(2) Setting Sound Economic Estimates: The President appoints a "Board of Estimates," consisting of the Chairman of the Federal Reserve and four private citizens nominated by House and Senate party leaders. The Board must choose either CBO's or OMB's estimates of how much deficit reduction is needed in that Session. The Board's choices would be binding on the President and Congress, so that the deficit reduction requirement for each would be identical. Finally, the Board would meet again after adjournment to pick either CBO's or OMB's estimates of how much deficit reduction was actually accomplished by Congress during the Session.

(3) Requirement of President to Submit Balanced Budget: The President must propose a budget that will reach balance by 2002. Further, the President's budget must use the assumptions chosen by the Board of Estimates, meet all discretionary caps and entitlement/revenue deficit reduction targets, achieve balance in 2002 and each year thereafter, and be voted on by Congress.

(4) Requirement of Budget Committees to Report Balanced Budget: Likewise, the congressional budget resolution must lay out a plan to reach balance by 2002. Budget resolutions also must use the estimating assumptions chosen by the Board of Estimates, meet all discretionary caps and entitlement/revenue deficit reduction targets, and achieve balance in 2002 and each year thereafter.

(5) Enforcement:

A. Discretionary savings -- Appropriations. The discretionary savings will be achieved by keeping appropriations bills within a single annual cap, and enforced by across-the-board sequestration of discretionary programs.

B. Entitlement/revenue savings -- Reconciliation. The entitlement/revenue deficit reduction priorities will be set through the annual budget process. The budget resolution (conference agreement) will include a reconciliation directive targeting by committee the dollar amount of deficit reduction to be achieved from entitlements and/or revenues and will generate a "spin-off bill" (to be sent to the President) putting those targets into law.

C. Sequestration: Overall reconciliation requirements will be enforced by sequestration; the type of sequestration in any year depends on whether a spin-off bill has been enacted.

(1) Targeted sequestration to enforce reconciliation (applies if a spin-off bill has been enacted, either as a result of a budget resolution or, later, as a title in a reconciliation bill). If a committee misses its entitlement target, entitlement programs within that committee's jurisdiction will be sequestered by a uniform percentage to meet the target. If revenues do not meet the revenue target, a uniform personal and corporate surtax will be imposed to meet the target.

(2) Comprehensive sequestration: (applies if a spin-off bill has not been enacted; this would generally occur if the President first vetoes the spin-off bill, then vetoes a reconciliation bill containing the committee targets). There will be a comprehensive sequestration of entitlement spending and some revenue provisions in the amount needed to hit the overall target for entitlement/revenue deficit reduction. For revenues, a surtax would be imposed upon personal annual incomes greater than $250,000 and corporate incomes over $10 million. This formula will produce $4 in entitlement spending cuts for every $1 in revenue increases.

(6) Tax cuts/Investment: Tax cuts and/or investment policies can be enacted if they are paid for.

Mr. GOSS. First of all, let me say I very much appreciated your testimony and I think you have got some ideas, that you are right, are unpopular, but we have got some tough lifting to do and popularity is not really going to be the issue, it is going to be the political will to get it right.

We all seem to be headed into the same goal and really it is just boiling down to a better path or not. I like very much your ideas about incentives. I think creating the right incentives to do the right thing helps. It maybe broadens the perspective from some of the things Mr. Cox was mentioning about self-immolation back in your own district. It gives you at least an opportunity to participate in something that is a little more noble than just your own backyard. I think that is a good area to look further at.

You also have a multiyear process, as I recall in your proposal, and that is something we discussed on the Kerrey Commission and others have mentioned as well.

Mr. Dreier has some——

Mr. VISCLOSKY. I might mention, and I don't mean to interrupt, Mr. Chairman, what we would want to do with the proposal is avoid the shifting of responsibility. Again, I get more nervous the more days there are between now and the balanced budget, so we want to make sure that in each year people would have to act responsibly.

Mr. GOSS. I understand. I think that is good wisdom. The only concern I have, and it is not a consolidated concern at this point, it is sort of an intuitive feeling, is that going back through the progression from 1921 to 1974 to 1985 to 1990 to 1993 of all of the steps we have tried to take, there is always sort of this concern. You mentioned back loading it, in your concern about how we get to 2002. There is concern about the magic of the out years, and I always think of Gramm-Rudman-Hollings where it sort of got to be too tough to do so we stopped doing it. That is why I think it is good to have incentives, but it is critical to have a major enforcement stick in there somewhere. When it gets too tough to do, you don't have an option, you have got to do it, and somehow or other you have got to figure that out.

Mr. VISCLOSKY. If you don't do it the first year, you will never do it in the fifth year or seventh year. And, second, for the sake of the next generation, the more dollars you shave in those first years, the easier the job is later and the less deficit people have to carry in the long-term.

Mr. GOSS. Thank you. Mr. Beilenson.

Mr. BEILENSON. Thanks, Mr. Chairman, and Mr. Visclosky, please forgive me, I hadn't read your testimony before, not having received it earlier.

Mr. VISCLOSKY. It is not the most exciting testimony.

Mr. BEILENSON. No, it is just that I am missing your major point, I guess, either because I am inattentive or you had to summarize it too quickly. Is the principal thing that you are suggesting some kind of a mechanism to force us to cut entitlement spending?

Mr. VISCLOSKY. As well as discretionary. There would be a target for the appropriators.

Mr. BEILENSON. Aren't we in the process of doing that with discretionary spending? Haven't we done that? Discretionary spending is pretty tightly capped.

Mr. VISCLOSKY. We are. But from a political judgment, it is my belief, and the others who have joined with me in this effort, that if we do not continue to put the appropriators on the table, and in my opening comments mentioned that I think they have acted responsibly here during this debate.

Mr. BEILENSON. They have.

Mr. VISCLOSKY. If we do not put them on the table, plus that still tends to be the path of least resistance, then we are never going to get agreement on the mandatory and the entitlement spending.

Mr. BEILENSON. So what are we doing on mandatory under your proposal?

Mr. VISCLOSKY. On the mandatory, you would have one of two options. You would try to have the President and the Congress statutorily come to an agreement as far as what the targets would be. You would then have, as you do under the current process, an allocation made for savings to each committee, including a revenue target to the Ways and Means Committee. If that specific committee does not meet its target, sequestration across the board for all of the programs within that committee would take place. So another problem that we have seen in the past where one committee acts irresponsibly and throws an additional burden on everyone else in the Congress does not occur.

If there is no agreement—and everyone has speculated openly about the great train wreck that we are facing this fall, and it certainly wouldn't be the first, hopefully it will not occur—if you are faced with that possibility and there is no agreement, then you essentially have comprehensive sequestration across the board if no one blinks on that last day.

Mr. BEILENSON. So in a sense, that is the beauty of your proposal, that it forces action if we fail to come to some decision ourselves.

Mr. VISCLOSKY. It forces action. If there is no agreement, you will pay a very serious price.

Mr. BEILENSON. How will those entitlement reductions be—

Mr. VISCLOSKY. It will be on a percentage basis, dependent upon what the gap between the target and the final outcome is. The ratio within the sequestration, if you would, would be $1 of tax increases to $4 of spending cuts.

Mr. BEILENSON. It would be applied by committee allocation or by program?

Mr. VISCLOSKY. Essentially by program.

Mr. BEILENSON. Where does it fall? Would it not——

Mr. VISCLOSKY. It would be an across-the-board cut, but because it is a percentage cut, the largest program would bear the largest brunt of the savings and cuts.

Mr. BEILENSON. Okay.

Now, why would that be a better way of doing things than our Republican colleagues have succeeded in doing within the existing process? I mean, they have grabbed—you don't grab the bull by the horns, you grab something by the throat—whatever it is, but anyway, they are doing this.

Now why would your proposal be better than what they are doing? In the last analysis, what you are going to have to do—what we keep coming back to—is cutting a lot of money out of Medicare and Medicaid anyhow, right, to oversimplify it?

Mr. VISCLOSKY. I don't disagree with you, and emotionally I think I was in absolute agreement with you up until this year, and again after 10 years it is my impression that whatever is going to go wrong is going to go wrong, whatever excuse presents itself is going to present itself, and finally in the resolution that we are operating under today, despite what I believe is a very serious intent on the Republican side to proceed here.

Mr. BEILENSON. We may not get there.

Mr. VISCLOSKY. You may still not get there and the actual annualized deficit 2 years from now will only be $800 million less than it is today. I have despaired, I guess, at lacking that last enforcement action, in the end we won't get to it.

Mr. BEILENSON. Fair enough. I understand.

You also made what I think is a very valid point that even giving our Republican comrades all the credit in the world, the truth of the matter is they put off the hardest decisions and the biggest cuts into the future. Even the big cuts we are trying to do on the floor now and next year are minor compared to what we are going to be faced with having to do 3, 4, 5, 6 years from now, and you are suggesting we may well not be able to face up to that challenge, even if the Republicans still have the majority.

Mr. VISCLOSKY. You think about the intense political pressure today on everyone, and you think about the posturing taking place today for what will in the end be nickels and dimes. It is only going to get worse. And in the end what you want to do is give everybody some self-protection.

Mr. BEILENSON. I have caught up with you. I think you have a pretty good idea.

Mr. GOSS. Mr. Chairman, did you have questions?

Mr. SOLOMON. No, that is okay.

Mr. GOSS. Judge Pryce.

Ms. PRYCE. I don't have any questions. I think I have gained a lot from the dialogue you had with Mr. Beilenson, and I appreciate it, and once I get to read more fully your testimony, if you wouldn't mind entertaining some questions at that time, when I understand a little better, thank you.

Mr. VISCLOSKY. I wouldn't mind.

Mr. Chairman, thank you very much. I appreciate it.

Mr. GOSS. We will ask you for further assistance if we have questions.

Mr. Steve Largent who is the chairman of the Speaker's budget process task force.

I am sorry. I would apologize, accept my apologies, I am following the list, Mr. Horn.

Mr. HORN. Okay, I don't have your list.

Mr. GOSS. We are behind. We will move a little more rapidly. Thank you.

Mr. Largent, please come forward. Does anybody have any objection to a video camera being in here? We no longer——

Mr. BEILENSON. It depends on who they are going to video. No, of course not. As long as it is Mr. Largent.

Mr. GOSS. I am not in a position to make any assurances.

Mr. BEILENSON. As long as it is this gentleman who is being videoed and not us.

Ms. PRYCE. No objection.

Mr. LARGENT. Does it make you any more comfortable to know it is ESPN?

Mr. GOSS. If this is a fitness exercise, we are all in trouble, at least some of us.

Mr. Largent, thank you. You have been a player in lockbox and had a good deal to say about this budget process. We welcome you, we accept your testimony into the record and we welcome your comments this morning.

STATEMENT OF HON. STEVE LARGENT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. LARGENT. Thank you, Mr. Chairman.

Thank you for the opportunity to testify this morning, I come to try to offer a fresh perspective, as somebody that is serving on the Budget Committee and has made a diligent effort to try to understand the budget process.

And I think rather than coming and advocating a particular bill or a specific item that I would like to see addressed in budget process reform, I would like to speak not only in broad terms of why I think budget process reform must take place, but also include comprehensive remarks. I want to address not only the budget process specifically, but when I say budget process, what I am talking about is what people at home sitting around the kitchen table consider budget process. In other words, budgeting is not just coming up with the numbers and the roadmap, but also the process of actually appropriating the dollars as well.

There are many issues surrounding budget process reform that need to be aired and deserve full discussion. I understand that you share my interest and enthusiasm for reforming the current budget procedures, and I appreciate you calling this hearing.

Because we are in the heat of the appropriations process, frustrations and tensions of Members who want to be fiscally responsible are at an all-time high. You can witness that on the floor on any given day, particularly over the next 2 weeks. However, I believe the problems we are facing this summer are not those of personalities or even politics, but more frustrations that come from a poor budget process.

Just look at the attached graph that we have here on the chart behind me, and you will see the futile maze. [See p. 107.] After looking at this tangled web, is it any wonder that we are faced with the difficulties that we have? On the left you see the budget process that we are talking about today.

To begin, let me say that, No. 1, it is refreshing to hear Members from both sides of the aisle talking about ways that we can bring the budget beast under control. I think that is a refreshing change. But, let me say that I believe part of the problem is ignoring the checks and balances that we currently have on the books.

For example, I believe the beginning of any good legislative project has to do with enforceable deadlines. So far this year, to my knowledge, we have not met one statutory deadline concerning the budget. We haven't met one of them. What good are the deadlines to help the process run smoothly if everybody ignores them?

One of the suggestions that I would make here in my testimony, I heard the gentleman who just previously testified talked about enacting $4 of cuts for every $1 of tax increases. My suggestion of what I think would be real reform in meeting deadlines is actually enacting financial penalties on Members of Congress as we miss budget deadlines where salaries are actually reduced as a result of missing deadlines. I can almost guarantee you that we will not miss any more deadlines.

In addition to upholding the deadlines, we should also follow our own rules. No appropriations should be allowed without the authorizing legislation to go along with it. Also, we should not allow appropriations to exceed the amount approved by the authorizing committees. And, again, as most of you know, those are already House rules and budgetary rules that we routinely waive.

Another problem that I have noticed in my short stay here is emergency spending. The first 2 months we were here we passed several emergency appropriations bills.

In Oklahoma, we have a rainy day fund, and I don't know why as a Federal Government—we know there is going to be emergency spending, there is no question about it—and why we don't budget for emergency spending. Why we don't have some form of rainy day fund is beyond my understanding.

Additionally, no Federal program should be on automatic pilot. We heard both people who testified before me talk about our mandatory spending, and, clearly, if you would look at the growth of mandatory spending as a percentage of our Federal budget, we have seen it grow astronomically over the last 20 to 30 years. I am not here to participate in partisan rhetoric. However, I am saying that that is a process reform problem, not a political problem. There is a process reform policy that we can adjust if we take mandatory spending and basically do away with that language and say that everything is discretionary and we must authorize it and appropriate it on a yearly basis. Then we can't simply dodge the bullet by saying that these programs are politically sensitive and we can't deal with them any longer.

Finally, and this is something as a freshman that I can speak very adeptly about, we have got to get rid of the budget-speak that reigns supreme in Washington. Here in Congress, instead of talking about inflows and outflows that every family can understand, we talk about the finer points of 602(a)s and 602(b)s, and authorizing and appropriating, reconciliation, rescissions, spend-out-rates, and out years. That is enough to make the guy on the street's head spin. It is no wonder we lack the accountability and responsibility in dealing with the Federal budget when nobody understands it.

I would just highlight my testimony today by saying one of the first conversations that I heard between a senior Member in Congress and Chairman Kasich of the Budget Committee. The conversation went something like this: "Mr. Chairman, are you going to make the budget this year so that we can understand it?" Now, that is coming from a senior Member in Congress who does not understand the budget process.

If the Members of Congress don't understand what we are doing, how is the guy on the street going to be able to understand it? And if the guy on the street doesn't understand it and the Congress doesn't understand it, where is the accountability in the process?

In closing, I believe we must keep the budget process simple and understandable. Members of Congress and members of the public should understand one of the most basic responsibilities of Congress—setting a budget. I believe through simplicity we will gain accountability and working together we may finally gain real control over the ever amorphous budget beast.

With that, Mr. Chairman, I would be glad to answer any questions.

[Mr. Largent's prepared statement follows:]

Prepared Statement of Hon. Steve Largent, a Representative in Congress From the State of Oklahoma

To the cochairman and members of the subcommittees, thank you for holding this hearing today. There are many issues surrounding budget process reform that need airing and deserve a full discussion. I understand that you share my interest and enthusiasm for reforming the current budget procedures, and I appreciate you calling this important hearing today.

Because we are in the heat of the appropriations process, frustrations and tensions of Members who want to be fiscally responsible are at an all time high. However, I believe the problems we are facing this summer are not those of personalities or politics—the frustrations come from a poor budget process.

Just look at the attached graph of the current process—you will see a futile maze. After looking at this tangled web, is it any wonder we are facing difficulties today?

To begin with, let me say that part of our problem is ignoring the checks and balances currently on the books. For example, I believe the beginning of any good legislative project has to be enforceable deadlines. So far this year, I do not know of one statutory deadline concerning the budget that we have met. What good are deadlines to help the process run smoothly if everyone ignores them?

In addition to upholding deadlines, we should also follow our own rules. No appropriations should be allowed without the authorizing legislation to go along with it. Also, we should not allow appropriations to exceed the amount approved by the authorizing committees.

Another problem I've noticed in my short stay here is emergency spending. In my home State of Oklahoma, our State government has a rainy day fund to help keep the State on budget. I am not saying there will never be emergencies—I know emergencies come along. But let me say that since unexpected emergencies happen almost expectedly every year, shouldn't we budget for emergencies and prevent higher deficits?

Additionally, no Federal program should be on automatic pilot. All programs—both mandatory and discretionary—should be subject to annual review and annual funding. Congress should not abdicate its responsibility to oversee programs that consume tax dollars just because these programs are deemed too sensitive. We must take the budget beast to task and shore up our chronic deficit habit.

Last, we must end the budget-speak that reigns supreme in Washington. Here in the Congress instead of talking about inflows and outflows that everyone can understand, we discuss the finer points of 602(a)'s and 602(b)'s, authorizing and appropriating, reconciliation, rescissions and spend-out-rates.

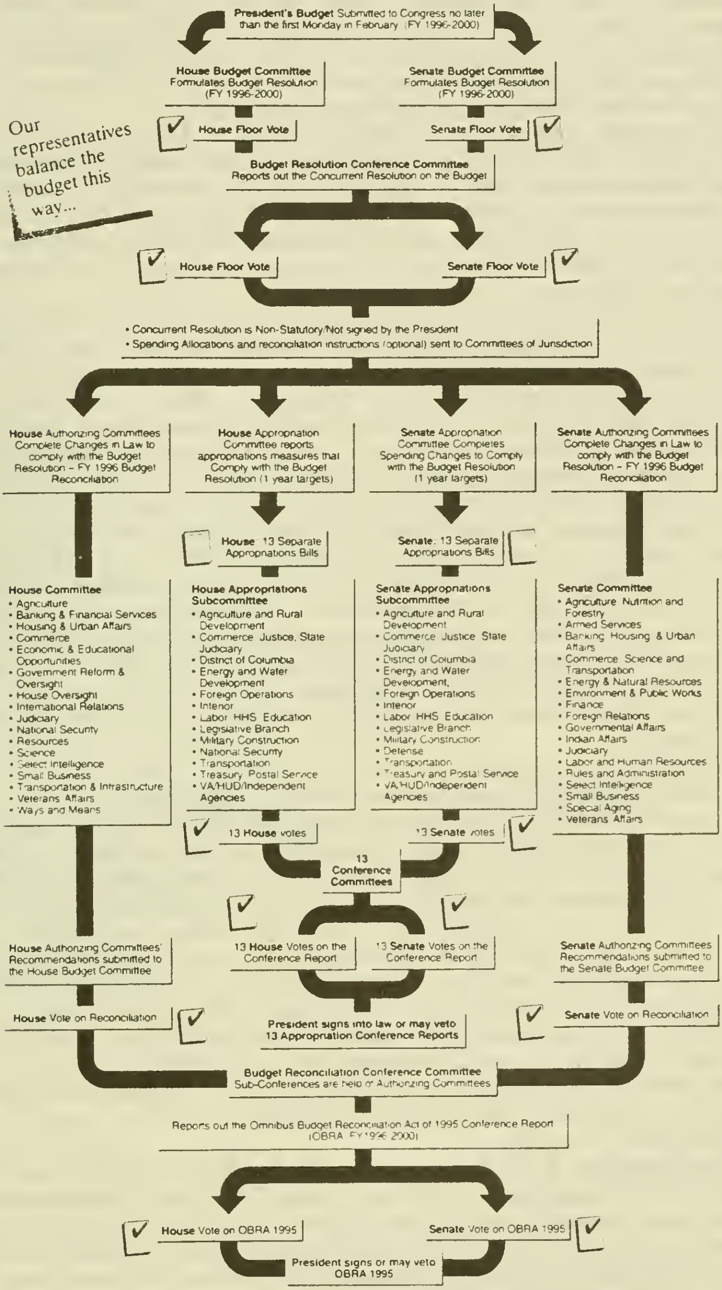
Committees of jurisdiction do not line up between the House and the Senate. In the House, committees of authorizing jurisdiction do not coincide with the same subcommittee of the Appropriations Committee. Budget function numbers that are used by the Budget Committee do not correspond directly to an authorizing committee or to any particular Appropriations subcommittee. With no clear lines of responsibility—accountability is lacking.

In closing, I believe we must keep the budget process simple and understandable. Members of Congress and members of the public should understand one of the most basic responsibilities of the Congress—setting a budget. I believe through simplicity we will gain accountability and working together we may finally gain real control over the ever amorphous budget beast.

[The graph referred to by Mr. Largent follows:]

THE BUDGET PROCESS

This complex maze explains the process the House, the Senate and the President must go through to produce the federal budget.
Is it any wonder reducing spending is so difficult in Washington?



Mr. GOSS. Thank you very much. I appreciate your testimony and your chart. Your chart reminds me a little bit of something I saw during the health care debate which I hope to never see again.

I do have a question. You have made some observations that I think are generally in line with some of the thoughts we have had and some of the motivation for getting going in this area, and I applaud what you are trying to do as well with the freshman group. And do you have any particular plans that you are following? Are we on a parallel track with what you are doing?

Mr. LARGENT. We are on a parallel track. I would tell you that I am working with Chris Cox as well on his bill and trying to make it more comprehensive. The bill that he has currently is one that he introduced as a Member of the minority. He feels like there is even some more aggressive changes that we can add to his bill, and our office is open to his office. So we are speaking from the same song sheet right now.

Although I would tell you that I think in my opinion that while I am in total agreement with Chris in what he is trying to do, I think there is even more comprehensive things that need to be done in terms of streamlining the process. I think that when our committees don't line up with the Senate's committees and that when function totals are spread out over a half a dozen subcommittees and across committee lines, that you really lose any clear line of responsibility for any particular line in the budget, and I think all of that creates a convoluted system whereby nobody understands it and it is hard really to have any kind of accountability.

Mr. GOSS. Well, *"a"* words are particularly troublesome in Washington. Accountability is one of them. Affordability is another. I agree with your views on simplicity. I agree with your views on fair play. I certainly agree with your views on accountability and I certainly agree with your views on balance.

Mr. LARGENT. I have been called a few *"a"* words since my time in Washington.

Mr. GOSS. Mr. Beilenson.

Mr. BEILENSON. Just two or three things, one minor.

You may be right about not making deadlines, Steve, but our friends have been pretty good about getting pretty close to them. If I may say so, it is not tragic if we don't make deadlines as long as we get it done in a reasonable fashion. If we get the budget resolution done 2, 3, or 4 weeks after we were supposed to, it is not quite so nice as if we got it out when we were supposed to. But it is okay, they did their job pretty well. The net difference there wouldn't be a difference. They are doing—you all are doing what you need to do and what you want to do, and if you don't quite make the deadlines I wouldn't worry overly about it.

When you said no Federal program should be on automatic pilot, I guess you were including Social Security.

Mr. LARGENT. Yes, sir.

Mr. BEILENSON. A good many of us I think agree with you. The problem is 30 years or so ago it was not—I mean, Congress used to vote every election year to raise Social Security benefits by usually twice as much as the cost of living was going up because they wanted everybody to vote for them in November of that year. So originally the whole idea of indexing benefits was to slow down the rate of growth of Social Security and make it fair and just have it jibe with the actual cost-of-living increase. If you go back to that, even though at the moment, we might all take a deep breath and cut the COLA's or whatever, in the long run it might lead led to more spending rather than less. We don't want to repeat the failures of the past.

And finally, with respect to accountability, which I agree with you very much about, no matter what kind of process you have, whatever it is that you might come up with, if we were to put that into effect and to simplify as much as possible, it still won't be terribly well understood by the person on the street back home and there is no reason why it should be. If you don't have 602(a)s and 602(b)s you will have something else because there is going to be some act with numbers in it which we are going to refer to which is going to throw other people.

The accountability is happening right now, if I may say so, through the votes on the floor and the specific program cuts. Some people perhaps didn't understand quite what we were doing when we passed the budget resolution, but they do understand now as we vote on the NEA and everything else, Medicare eventually. Now that voting on the floor is taking place, that is where the accountability takes place.

So long as whatever process we have provides for votes on specific programs and portions of the budget, then we have to make the difficult decisions and the people back home will know how we are voting on it. For all of us, of course, at this point it becomes far more difficult than it was, let's say, for you all when you voted for your budget resolution, which was very good in theory. When you start getting down to cutting specific programs, which we are now beginning to do on the floor, that is when it gets tough, and in the last analysis we have accountability. I mean, your thoughts are nice and they are good. But I would be interested in hearing from you in another year or so from now.

Mr. LARGENT. Well, I accept that pat on the head and that you are new here in town, and I mean that in a positive way. But let me just say a couple things. One is that I think deadlines are important. If they are not important, let's don't set them because I think it is a credibility issue.

Mr. BEILENSON. If you didn't set them, we wouldn't do it at all. You know, it is better that we miss them, then do it, which is what is happening.

Mr. LARGENT. In my opinion, it is really a credibility issue. If we are going to have the rules, let's adhere to the rules. One of the things we did in the first days of Congress is to say we are going to adhere to the same rules we passed for everybody. I think that applies as well for our own House rules. And if we are not going to adhere to them, then let's change them so that we don't have this hypocrisy.

Mr. BEILENSON. You think other folks in the world adhere to the rules they are supposed to follow? No, we are no different. We are human beings.

Mr. LARGENT. What I am saying is we are held I think—and you know this is true, we are held to a different standard than everybody else, and it is a much higher standard, and I think rightfully so. Because I think that part of our responsibility is not the votes that we cast out on the floor but the fact that we are looked at as leaders of our society as well. We should be held to a higher standard.

In many respects, I think that is maybe the most important role I play in Tulsa, Okla., is trying to set a positive example by my own personal integrity. And I think this is an integrity issue.

Second of all, I would tell you in terms of how they used to do it, when they would vote on Social Security every year—I think one of the things that I would add to Chris' bill, I think where you start in the budget process is the same place every family starts with their budget process. They don't start with, "Hey, how much do you want to spend next year?" They say, "How much do we have to spend?"

And I think that there are some ways to do that in a credible way through CBO, or whatever, to say based upon revenues of last year and any tax changes that will be implemented between last year and this year, this is a very accurate estimate of what we will have next year to spend, and that is where you start the budget process.

Mr. BEILENSON. Chris exempts Social Security. He doesn't deal with it.

Mr. LARGENT. I know he does.

Mr. BEILENSON. That is his first mistake.

Mr. LARGENT. That is part of the minority mindset that he had with his bill last year. So we are lighting the fire under him, as far as that is concerned.

Mr. BEILENSON. Good.

Mr. GOSS. Thank you.

Judge Pryce?

Ms. PRYCE. Thank you, Mr. Chairman.

Well, Steve, as always, you and the freshman class are lighting fires and keeping them burning, and we appreciate that. I and—on that note, I would just like to say about these *"a"* words, we did have a couple reserved for you last week but we caught ourselves short of not using them. Anyway—but we all learned something from that process and I think we are growing in our majority status with the help of the freshmen, so no disrespect intended, of course.

I would like to know from you how you believe we can get around the problem that we face about having no authorizing legislation and meeting our time frame for appropriations, and we find ourselves absolutely out of time to do all that, and should we be changing the deadlines?

Should we be working harder to get it done in advance? Or do you have any thoughts about that? That is where the problem was last week.

Mr. LARGENT. Let me tell you, I am firmly fixed on the fence in terms of going to a 2-year budget where you have more time to do the authorization. I also understand that this year is an unusual year. We had the Contract With America for the first 100 days, so that a lot of the authorizing timetable was shifted to the point that this year is really an anomaly.

However, if you do not authorize programs before you appropriate them, you essentially are having a redundancy of committees so that your authorizing committee becomes irrelevant. The only critical thing that is relevant if you are going to appropriate money without authorization is the Appropriations Committee.

Ms. PRYCE. Well, subject to authorization, would that fix it for you if that language were included in the appropriations bill? In case we face these situations in the future, which, you know, I think that we run up against it all the time, and I have not been here much longer than you actually, so I don't really know too much of the history.

Mr. LARGENT. Right. I think that would be a step in the right direction. But I still believe we must have an opportunity to have a clear and public debate on the subject of authorization prior to appropriation. That is the best way to deal with it. But you know, the second best would probably be to have appropriation subject to authorization.

Ms. PRYCE. Well, I think that yours is a very refreshing approach because it is testimony that I consider and understand without having read it beforehand, and there is something very good about that. Because if the American people can come to understand our budget process, they, like you freshmen, are going to hold our feet to the fire because they can see exactly how it progresses. And so I am all for simplifying things as much as we can around here and I think that is where we should be going in all of our legislation.

Thank you very much for all you do.

Mr. GOSS. Thank you Judge Pryce.

Chairman Solomon.

Mr. SOLOMON. Steve, first of all, I apologize for missing most of your oral testimony. We have got about nine appropriations bills running through the process right now. But I did read in advance your written testimony, want to commend you for really focusing us on the problems that exist.

You know, one of the big problems that a 2-year budget would help solve is the fact that the Federal Government's fiscal year ends September 30. We as a Congress usually come in and by the time we get going in any particular year—it was different this year because we got going January 3—but normally you don't get going until the last week or so in January and you aren't really focused until February, which means the authorizers never have time to authorize before you have to meet these deadlines of September 30 for the new fiscal year for the Federal Government. I don't know what we can ever do about that. But it does create a tremendous problem.

The other thing I want to commend you on is—your efforts on part of the lockbox, and if you have got a few minutes I would like to talk to you right after we finish here——

Mr. LARGENT. Okay.

Mr. SOLOMON [continuing]. About that. But in my opinion, that will go a long way towards getting these deficits under control. But again, simplicity is the word and we appreciate all of your efforts. Keep pushing us in here.

Mr. LARGENT. Thank you.

Mr. BEILENSON. Will the gentleman yield?

Can I say one thing because we are on an important subject, obviously, but specifically with respect to authorizations, you are right and none of us disagree with you, Steve. But it is also obviously a subject we have worried about and talked about, tried to do something about over a good many years, and there are at least two partial answers.

The one is that we should encourage, many of us think, multiyear authorizations. So a program is authorized for a while—2, 3, 5 years. And the appropriators, as they deal with the annual appropriations, are dealing with an already-authorized program. That is probably the simplest and best way of solving the problem.

And the second, which the chairman is very good about enforcing—and we tried to be in the past—is that when appropriations bills do come up, that we check with the authorizing committee and ensure that there has not been anything proposed or done in the appropriations bill that either the authorizing committee does not agree with, or in some fashion is doing itself.

They often are in the process of getting their authorizing bills out the House, but of course it is a long journey before the Senate also passes them and they are signed into law. But we are pretty careful, I think, about trying to ensure that the authorizing committee retains its role and makes the basic policy decisions for the programs which are being funded by the Appropriations Committee. So it is not as clean and as neat as it ought to be, but in truth, it does not work too badly—not that it couldn't be greatly improved.

Mr. LARGENT. Well, the whole discussion always takes us back to mandatory spending which represents the biggest chunk of what we are dealing with and need to deal with.

Mr. BEILENSON. Yes.

Mr. GOSS. Thank you very much.

Mr. Bill Orton is not in the room, I believe. We will go to Mr. Horn.

And I will say for the record, Mr. Horn is a chairman who runs his meetings on time, and I obviously have something to learn from him with regard to that.

We welcome you here as the chairman of the Government Management, Information, and Technology Subcommittee, which has been helping us with the lockbox and other matters and clearly have an interest in this area. We accept your testimony for the record and we welcome your comments and are listening intently.

STATEMENT OF HON. STEPHEN HORN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. HORN. Well, we were delighted, Mr. Chairman, you could join with us the other day. Let me make a couple of basic points. I am here to talk about not critical accountability but responsibility, not critical concerning Congress but the President, as well.

I think the major flaw in this budget process is that the Congress cannot act as the board of directors of the Nation. They are nibbled away by this little thing and that little thing and everything that Everett Dirksen once said: "A billion here, a billion there and soon it adds up to real dollars."

We need to clearly be able to state if we have a deficit situation what type of cuts need to be made across the board. Now, what you run into, there are a number of court decisions that say:

Wait a minute, you can't do that. You have an entitlement.

And unless you specify how you deal with that entitlement in such a situation, you can't do what Governor Deukmejian did, and Tony might remember this. I forgot if you were a State senator in 1983.

Mr. BEILENSON. He was a classmate of mine.

Mr. HORN. Yes. In 1983 or not?

Mr. BEILENSON. He was elected to the Assembly in 1982.

Mr. HORN. Right.

But you will recall when he became Governor he did not know and we didn't know that there was a $1 billion deficit facing him that had been left over from the Brown administration. And the first thing he did within 45 minutes of taking the oath was issue an executive order to all State agencies, and I was president of California State University, Long Beach, where we duly got a copy of the executive order, that said we have a $1 billion deficit. We will need 2.5 percent of your budget for the current fiscal year. And we were already halfway through the current fiscal year because the Governor isn't sworn in till halfway through the change, and we had to take 5 percent out of our budget for spring.

With the Government we are basically talking about a labor-intensive budget. Now, we did that. And what I want to see is where Congress sets that type of cut, if it is a cut, or that type of cap, if it is on the upward side, and that the Executive can then make the choices to carry it out as long as they meet the target of the Congress. So that is, to me, accountability and responsibility.

In the last Congress, I started in on the deficit aspect and put in H.R. 1099, the current Speaker was a coauthor, the current majority leader was a coauthor. I am not sure they would coauthor it again. I will put them to the test in the next few months when I finally develop it.

But it had a number of unique points, and one of them—and I have talked to the President about that when I told him one time, I said, "You have absolutely no authority about moving money around." Personally, I think the President ought to have that authority. And under H.R. 1099 Congress would have set the goal. And I came in here the first time with Dan Burton, and we recommended a 2 percent cut, then I came in here the next time at a 1.65 percent cut. And then I came in my last time, with a plus-2 percent cap and was turned down by the Rules Committee in the 103d Congress.

One of the elected Democratic leaders was in the room at the time, and as I walked outside he put his arm on my shoulder and said, "Steve, you know we can't bring that to the floor, it would pass."

It would pass because it made the cuts in a reasonable way. It wouldn't meet the test of the court cases, however, if you got into entitlements. I had excluded seven sacred cows: Social Security, Medicare, the various trust funds related to civil service, veterans, military retirement. I had thrown in Headstart, which has no protection at all, just because I thought we ought to do something for the young since we are always doing something for the elderly, of which I am a constituent. And I also obviously excluded the interest on the national debt which we have to pay.

So I think if we can simplify this so that Congress could make that judgment and we do put in the criteria by which a Cabinet officer would make the cuts in those entitlement programs that we have not exempted—I listed mine for exemption and it would have taken $138 billion out of the deficit and we would have made a little progress over a 5-year period.

And what is the test a Cabinet officer should impose if he or she had to grapple with the problem that I as a university president and all other colleagues in State government had to grapple? And we had no guidelines, thank heavens, because I did not want the legislature to tell me what I had to cut on the Long Beach campus.

The President presumably knows those programs. A distant legislature does not. But you tell me how much money you want back and if I am anything of an executive, I can do that. And if we don't have Cabinet officers that can do it, maybe they ought to resign and the President would recruit a few that could do it.

And, obviously, the criteria to cut entitlements would relate to population changes; they would relate to means testing, perhaps. They could relate to a whole series of criteria. I think if we are serious about changing the 1974 Act, which I regard personally as a disaster, I think we need to face up to a few things like that and say what are the guidelines by which you cut money?

In terms of the President's right to move some money around, under H.R. 1099, I gave him that right within some firewalls where a certain percent could be moved between budget categories. And I think, frankly, the President ought to have that right, just as Presidents had historically from the time of Jefferson and the Army having too much hay on hand to feed the horses of the cavalry, impounding money that they didn't need to spend. I think that is what we elect Presidents for, to be the Chief Executive of the United States as the Constitution clearly states.

Now, let me just mention a few other things here in passing. I noted that since the Budget Act, the Rules Committee has probably waived matters about 500 times. I really think the Rules Committee, and maybe you already have, Mr. Chairman, needs to analyze what those waivers are, and if there are waivers that maybe shouldn't have been done for simply political expediency, I would say let's deal with it somehow so we don't have a situation where you have to come in for a waiver.

And as you know, as the new majority, we find a number of programs we thought were authorized were never authorized, our predecessors simply came to the Rules Committee, secured a waiver to permit authorizing on an appropriations bill and avoided the fight we ought to have on an authorization. That is what the Congress, the democratic process, small *d*, is all about. We need to ask. Does this program need to exist or doesn't it?

As chairman of the Government Reform and Oversight Subcommittee on Government Management, Information and Technology, we are very seriously looking at how do we measure outcomes in Federal programs. Right now when we talk about programs, we talk about processes. But we need to focus on outcomes rather than simply on inputs or outputs.

The latter do not mean a thing if the agency is accomplishing nothing. We need to ask, What are you trying to do? How far along are you achieving the goals that Congress has set for you to reach?

The State of Oregon is doing benchmarking of its programs. The State of North Carolina is doing it. Minnesota is doing it. The Federal Government should do it.

We need also to include our long-term liabilities. I held a hearing on the unfunded liabilities, and when you look at a balance sheet for the Nation, as you would look at a balance sheet for a corporation, we have real problems. And I first put a statement in the Congressional Record the end of 1994 on this—September 30, 1994. And I think as a special exhibit of the annual budget, the President ought to tell the people, including Congress, where we stand as a Nation on unfunded liabilities. That ought to at least be a special appendix and it ought to be part of his budget message. If the United States of America were a corporation, we would be in chapter 11 right now and we shouldn't be.

We need to institute a capital budget. That is going to be controversial. A lot of people are going to resent us trying to get the trust funds, such as Airport Improvement, the Highway Trust Fund, other basic trust funds off budget. I disagree with the President, they have not used that money and simply tried to use it to reduce the amount of their annual deficit.

If you are not going to use it, let's not collect it. The taxpayer that drives up to the gasoline pump expects those few pennies to go for road maintenance. And as you all know, we have a major infrastructure maintenance problem in this Nation. And I think we need to face up to that.

The point was made earlier about a reserve for natural disasters. Couldn't agree with that more. Governor Earl Warren, one of the great Governors of California, set aside a rainy day fund during the Second World War which was able to help the State deal with the emergencies, and the immediate postwar expansion as California adjusted from a small population State to what is now the largest population State in the Nation.

We need to establish an investment component within the discretionary caps where Congress can clearly see what we are doing that will pay off for the Nation in long-term investment. I don't think we should be calling investment, something that you can do in 1 or 2 years. A strict 5- to 10-year criteria ought to be applied. Finally, basically our problem is: How do you rein in entitlements outside the sacred cows?

This committee is in a unique position to do that. You represent the House as an institution. You don't have the thirst for spending that the typical authorizing committee has. And we would be glad to cooperate with you since we and the Committee on Budget still have part of the budget reform authorization under the rules of the House. We will be dealing with it, but we are delighted that you are taking the lead in it and we are glad to cooperate with you in any way that we can

[Mr. Horn's prepared statement follows:]

Prepared Statement of Hon. Stephen Horn, a Representative in Congress From the State of California

The major goals of the Congressional Budget and Impoundment Control Act were twofold: No. 1, to respond to President Nixon's decision to impound appropriated funds, and No. 2, to give Congress greater control over entitlements. Congress is on its way towards establishing a real line-item veto authority for the President. Establishing a systematic process of controlling entitlements is still a long way off.

The Congressional Budget Act sought to control backdoor spending not subject to annual appropriations review. However, authorizing committees were reluctant to give control over entitlement spending to the Appropriations Committee. This problem was solved by creating the Budget Committee to coordinate and centralize budget issues, and require a budget resolution to set appropriations spending limits and establish targets for entitlements within the jurisdiction of the authorizing committees.

The Budget Committee coordinates this process, but does not have extensive powers. No Member may Chair the Budget Committee for more than 6 years and the committee does not have jurisdiction over the Budget Act.

The Budget process established some of the discipline sought by the authors of the 1974 Act. Pay-as-you-go requirements were a helpful check in restraining discretionary spending. However, some problems are evident:

1. Entitlements have not been controlled because PAYGO is applicable only to new entitlement spending; and

2. Congress has waived the Budget Act over 500 times in its 20-year history. Congress must be bound by the process it establishes. I do not mean to criticize the Rules Committee, but this is a problem which needs to be addressed.

The Congressional Budget Process needs to be reformed in several important ways. Congress should:

Establish a line-item veto authority.—Clearly, Congress can hide objectionable provisions in these large appropriations bills, and the cost of a veto—a shutdown of the Government—are prohibitive. A line-item veto would establish accountability within a reasonable framework.

Focus on outcomes rather than inputs.—Congress and the administration needs to be judged on positive results such as the achievement of objective program goals. In this vein, Congress passed the Government Performance and Results Act in 1993. Congress needs to ensure that agencies comply with the act, and begin using performance data as a basis for decisions on funding. We should compare costs for achieving various results, and eliminate programs that are not working. The current appropriations process has not eliminated many programs—we need to eliminate those programs that are not working.

Examine long-term liabilities.—Congress is focused on balancing the budget. But this only balances the checkbook—it tells us nothing about our assets and liabilities, program results, or the achievement of government goals. We need to have an annual review of Federal liabilities integrated into the budget process. Ideally, an annual review of long-term liabilities would have told us years ago that current Medicare projections are unsustainable, and it would have been easier to fix the problem over that longer period of time. We need an action forcing mechanism.

Institute a capital budget.—A capital budget will assist Federal agencies in making rational investments in technology and capital investments. A capital budget should include only Federal capital spending which has a useful life of longer than 1 year. Many Federal agencies have faced difficulties in buying equipment. Instead, agencies such as GSA have had to turn to more expensive leases.

Establish an investment component within the discretionary caps.—Congress needs to recognize that certain investment spending brings long-term benefits, including highway projects, airports and wastewater treatment plants. These projects are not under Federal control, and therefore cannot be reasonably included in a capital budget. Congress should explicitly vote on the level of Federal capital spending in the annual budget resolution.

Obtain more accurate budgetary information on certain programs.—Cash-based accounting is appropriate for most activities, but accrual accounting should be examined for certain programs. Too often, cash-based accounting is a lagging indicator of large losses in loan, credit and retirement programs. In recognition of this, Congress passed the Credit Reform Act of 1990, which required agencies to fund most costs—excepting administrative costs—associated with a loan at the time of disbursement. We should examine whether Federal retirement and insurance programs should be moved to accrual accounting, along the lines of the Pension Benefit Guaranty Corporation—which moved to accrual accounting.

Rein in entitlement spending.—I was frustrated in my first congressional term that the current process impedes anyone who wants to freeze government spending—entitlements cannot be frozen. We need to establish better control over entitlement spending. Congress should be able to cap entitlement spending in a meaningful way. I have drafted a bill to do just that.

These changes would help Congress make wiser budget decisions, and increase the positive economic impact of Federal spending.

Mr. GOSS. I thank you very much for the testimony. I think you have given us some very good guideposts along the way. I agree with your observation that capital budgeting will be controversial. We found that out and I am sure the continued testimony will show that.

Your observations on entitlements are obviously on target. Bill Frenzel suggested to us that we have got to get down to means testing. Do you agree that means testing is something——

Mr. HORN. I don't agree with means testing on Social Security. I will tell you, I worked very closely with Wilbur Cohen when I was assistant to the Republican Whip of the Senate and the Republican drafting team on Medicare. As a very young man, Wilbur had been one of the authors of Social Security in the 1930's. He used to carry a list in his pocket of millionaires that had gone broke and needed Social Security.

I think the way you handle the overexpenditure—and I am going to propose this. I will propose it now and hope the staff will develop it before one of you run with it.

But I think one way to get at it is have a person that feels they are making too much money to take that Social Security check, deposit it with the U.S. Treasury and give them an extension on the exception they would have from inheritance taxes under Federal law. So they would be able to get an exception at the other end by not taking out the cash now. It would mean the cash remains in the Federal Treasury. And I do have a lot of friends that say, "I don't know why I am getting or taking this check." And that is my answer to them. We ought to give them a little credit at the other side of the equation.

Mr. GOSS. It is an interesting idea.

Thank you.

Because of time constraints, I will stop there.

Mr. Chairman?

Mr. SOLOMON. Steve, let me first of all commend you for focusing us on the real problems. And let me just get on to the Social Security thing for a minute because I disagree that people shouldn't accept that check.

Basically when it was put into effect back in the early 1930's, it was put there for a reason, the reason being, that it was a forced savings account. It actually forced the American people and their employers to put aside a little bit for a supplemental, an additional security that they might have so that they would not become total wards of the State should they have lived an irresponsible life or should they have run into a life that was full of problems and through no fault of their own ended up having no money. That is what it was, it was a forced savings account.

And if we had, as all the other retirement programs in various States, State governments, private sector, IBM, General Electric Co., if we had taken those contributions by the employee and the employer and if we had invested them actuarially in a private program, the program then could have paid out benefits that would equal what the earnings were. In other words, over that period of a lifetime of work if we had done that, we would have a good system today and that is what the system ought to be.

But instead of that, we had the previous person testify that every other year, Congress would vote in excess of a payment of benefits and that in itself wasn't the problem either. Over a period of years—and we have that chronology, they have then added all of these additional benefits to the Social Security forced savings account, and it goes into black lung, it goes into benefits for children if they are attending college, benefits for prisoners and on, and on, and on, and on. And if we had not done that, if we had kept it as a single supplemental Social Security retirement program, contributory by the employee and the employer, we wouldn't be facing this problem—we wouldn't be faced with this problem today. Unfortunately, we didn't do that.

I have got a bill which is supported by every major senior citizens organization, both conservative and liberal, in the country that does just that. It establishes a commission. It sets up a Social Security board of directors who would then from day one take those contributions from the employer, employee and invest them—as other private systems do from that point on. Then we wouldn't be faced with this point of making it political and adding extra benefits or extra dollars to the recipients each year.

Mr. HORN. Well, you are absolutely right, and that is why I was an early fan of Medicare because I saw Congress constantly adding benefits and money to Kerr-Mills in an election year and it was coming out of the General Fund, and the conservative way to account for that is to tie a trust fund tax to it and say, "You want to get more benefits?" Then the tax is going to go up.

Mr. SOLOMON. Exactly. Your points are well taken. Your points are well taken on all the entitlements, and the line item veto as well. We appreciate you coming before us.

Mr. GOSS. Mr. Beilenson?

Mr. BEILENSON. I better not. Thanks.

Mr. GOSS. Judge Pryce?

Ms. PRYCE. I missed Mr. Horn's testimony and I am sorry about that because I always enjoy his thoughts. I was with a constituent. I will read it and if I need anything further, I will call you.

Mr. HORN. You being with a constituent is important.

Mr. GOSS. I will assure Judge Pryce that Chairman Horn and I are going to have a lot more discussion as we have overlapping jurisdiction and we have a great deal of interest in this issue.

Mr. HORN. Thank you, Mr. Chairman.

Mr. GOSS. The next person on the list is the Honorable Bill Orton from Utah, who I understand is graciously going to yield to the Honorable Joe Barton from Texas who has to Chair a meeting.

Mr. ORTON. I didn't know that, but I will be happy to.

Mr. GOSS. We will definitely be going to the 5-minute rule. I apologize to you. There was a confusion and it is my fault.

Mr. BARTON. Well, I am going to——

Mr. GOSS. Mr. Barton.

Mr. BARTON [continuing]. Submit my written testimony for the record.

Mr. GOSS. And it is without objection accepted.

STATEMENT OF HON. JOE BARTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. BARTON. I want to very briefly talk about the bill I will be introducing later this summer. It is called the Truth in Budgeting Reform Act. It has been put together with quite a bit of input from an outside group called A Committee for a Responsible Federal Budget, and I do want to talk a little bit about that group.

They were established in 1980. They are a bipartisan group. Their current board of directors, and I think it is worthy of reading, they have on the Democratic side the chairman, the cochairman is former Congressman Robert Giaimo from Connecticut. Their directors are Betty Anderson; Tom Ashley; Bill Gray III; Robert Kerr, Jr.; a former Senator, James McIntyre, Jr.; former Senator Edmund Muskie; former OMB Director, Charles Schultz; former National Democratic Committee Chairman Robert Strauss; former Senator Paul Tsongas.

On the Democratic—on the Republican side, former OMB Director, Roy Ash; former Congressman Bill Frenzel; former OMB Director, James Lynn; former Congressman Henson Moore; former Congressman Peter Peterson; former Congressman and Ranking Minority Leader John Rose; former Senator Warren Rudman, former OMB Director, David Stockman, former OMB Director, Joseph Wright.

Then their nonpolitical directors are Howard Moskett, Marie Hobernouer, Rudy Penner, Leland Crusha, John Snow, Elmer Stats; Paul Volcker, former Chairman of the Federal Reserve; Carol Coxwait and several others. So this is a very prestigious group, a bipartisan group, and they have been working for the past 14 years to develop a reform process for the budget.

It has got several components. I am going to go through those very briefly. First, it goes through a biennial budget, a 2-year budget that is a joint budget resolution that has the force of law. This means the President has to sign the budget, so the President becomes involved in the process very early.

It has all the enforcement mechanisms that we have in the current budget act plus additional enforcement mechanisms. It has very explicit spending caps. It has a new and revised sequestration procedure. It develops firewalls between various categories of spending, sets up a new reserve fund, a rainy day fund, that you talked about for contingency purposes. And it puts caps and also sequestration on entitlement programs with the exception of entitlement spending that is because of an economic downturn or population growth, which is something that we don't have in the current law. It strengthens the pay-as-you-go requirements that we have today.

As I said earlier, we set up an emergency fund so that you do away with the emergency supplemental appropriation bill. It changes the baseline which is something I think is very important. The baseline would be current spending, not current services, so that each year we know that what is proposed to be spent, if it is more money than we spent the last year, that is an increase and not some sort of a phony decrease because of some sort of a baseline adjustment.

To referee between the OMB and the CBO, we have created an Independent Bipartisan Advisory Board. The President appoints a Member, the Speaker of the House appoints a Member, the majority leader in the Senate appoints a Member and those three Members then appoint two other Members that cannot be active political forces. This independent economic board would look at the numbers from OMB and CBO, issue a report on what they felt were the true numbers or the most true numbers.

So to summarize, what we have done through this committee—and I give them the lion's share of the credit, they have looked at the Budget Act of 1974. They have tried to determine what its flaws are. They have tried to take into account all the games that can be played and come up with a very responsible, well-thought-out proposal on how to reform it.

And again to summarize, you go to a biennial budget that the President has to sign. It is a joint resolution, so it has the force of law. You have real sequestration. You set up a rainy day fund so you eliminate the emergency supplemental. You put in spending caps by subcommittee.

You go down to the subcommittee and the authorizing committees, and that is important. You set up an outside independent economic board to referee between the OMB and the CBO.

And I have talked to Chairman Kasich about this. Much of what is in the proposed bill he does support. There are some things that he doesn't support. But he did tell me yesterday that if this thing became law, he wouldn't lose any sleep over it. So I am going to continue to refine it.

I am going to try to get a very senior Democratic Congressman to be a chief cosponsor and introduce it later this summer, and then work with this committee and the other special committees that have been set up, the task force that Chris Cox of California is chairman of, and I am also going to implement as much of this as possible, hopefully this year.

[Mr. Barton's prepared statement follows:]

PREPARED STATEMENT OF HON. JOE BARTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I want to thank Chairman Solomon and the other members of the Rules Committee for holding this series of hearings on budget process reform and allowing me to testify. I am here before you because I believe that budget process reform is the most important issue facing the 104th Congress. Passage of meaningful process reform would leave its mark on this Nation for generations to come. The plan I am about to outline to you I am presenting on behalf of an organization called the Committee For A Responsible Federal Budget. I want to take a minute and talk about this organization because I think it is important to know where this material came from. The committee is chaired by former Senator Henry Bellmon (R-OK) who served as ranking Republican on the Committee on the Budget, and former Congressman Robert Giaimo (D-CT) who served as chairman of the House Budget Committee, as well as a member of the House Appropriations Committee. The group has included other former Budget Committee chairmen, former Directors of the Office of Management and Budget, leading economists and businessmen. I share the goals of this group and truly believe that there is a need for discipline and order in making spending and revenue decisions at the Federal level.

TRUTH IN BUDGETING ACT

The following is a summary of major components of the Truth in Budgeting Act.

1. We should move to a biennial, joint budget resolution. A joint, rather than the current concurrent, resolution would bring the President into congressional budget deliberations and make him accountable for its success or failure. And, because the President would have the authority to veto an unacceptable resolution, a joint resolution would require Congress to pay attention to Presidential concerns. Unlike the current budget process, this new framework would make both the executive and the legislative branches stakeholders in the resolution's outcome and require them to agree on overall spending and revenue levels, annual deficits, total debt levels, and on the allocation of resources among budget functions and committees.

A biennial resolution would permit more focus on oversight and evaluation of program performance. In odd numbered years, the President should propose and Congress should act on the budget, spending, and tax legislation. In even numbered years, Congress should conduct meaningful oversight, monitor and evaluate programs, and authorize/reauthorize programs. This may require that Congress take more of a long term view, focusing more on policy and less on detail. It would require serious impediments to enactment of new/additional spending legislation in even numbered years.

The biennial budget also may require Congress to give the President more flexibility to execute and implement policy—fewer set-asides and earmarks, and/or broader reprogramming authority.

2. We should simplify and consolidate process and enforcement law. Under the Truth in Budgeting Act, budget enforcement measures including reconciliation instructions and budget process modifications—for example, new or revised spending caps, new or revised sequestration procedures, new or revised firewalls between categories of spending, and new or revised reserves/contingencies for unforseen needs—could be implemented in the joint budget resolution. This means that enforcement can be tailored to the conditions of the biennal budget year.

If Congress and the President do not enact a joint resolution by May 15 in a given year, the amounts and allocations in the previous resolution become binding. This would provide a strong incentive for timely action on the resolution.

The debt ceiling could be revised through the joint resolution rather than requiring separate legislation.

Spending limits could be revised through the joint resolution instead of through separate budget process legislation. Such cap adjustments would require a separate vote and would not be hidden or obscured through an up or down vote on the entire budget resolution.

3. Discretionary spending limits should be extended. New limits should be set for entitlement programs. Committee allocations would be written into law. Spending limits and enforcement would be committee- or subcommittee-specific.

Spending limits would be enforced through sequestration. Sequestration would be limited to programs/committees that produced excess spending. A November 15 OMB sequestration report would identify spending in excess of budget resolution allocations in the completed fiscal year and projected excess spending in the current fiscal year. It would report the amount by which spending in the current year would have to be reduced to bring total spending over the prior and current years into compliance with the totals provided in the budget resolution—a look-back sequester. It would also identify the amount of excess spending due solely to economic or demographic factors.

Following the OMB report, the President would issue a sequestration order to eliminate actual and estimated excess spending. Only interest on the national debt would be exempt from sequestration. A uniform percentage reduction of total outlays would be applied to all programs, projects, and activities funded by appropriations acts to eliminate excess discretionary spending. For all other programs, benefits/new obligational levels would be reduced by an amount sufficient to eliminate overage. The sequester amount would be calculated to produce a uniform reduction in the monetary value of benefits across programs and beneficiaries affected by the sequester.

Excess spending resulting solely from economic or demographic factors would not be counted in the determination of whether a sequester will be triggered. However, there would be no suspension of spending limits, and the sanctions for exceeding those limits, during an economic downturn. The automatic stabilizers built into the budget would cause spending to go up and revenues to go down during a recession.

Adjustments to the statutory spending limits for changes due to employment, inflation, and caseloads would hold Congress and the President harmless for overages due to factors beyond their power to control.

Sequestration could also be triggered if new legislation is enacted that would cause a breach of current year caps. Overages due to legislation enacted after July 1 would be eliminated through a look-back sequester. A within session sequester would be triggered to eliminate overages projected as result of legislation enacted before July 1.

4. Pay-as-you-go requirements should be strengthened. Congress would be prohibited from considering legislation that increases spending or reduces revenues unless the spending increases or revenue loss is fully offset or the joint budget resolution is amended in the same—authorizing—legislation to account for the increase in the deficit.

5. We should budget for emergencies. An emergency should not be defined as a requirement lacking budgeted funds. The Truth in Budgeting Act would establish an emergency/contingency reserve fund that would set aside a prudent amount for emergencies. These funds would be included in overall spending limits. Increases in emergency requirements beyond the amounts available in the reserve fund would be offset by decreases in nonemergency amounts. If offsets are not feasible, then Congress could vote for, and the President could sign into law, higher spending limits. This increase in spending would be explicit, and not hidden through an emergency designation.

The use of emergency funds would be restricted to specified purposes. This may require us to differentiate between emergencies—that is, unanticipated and immediate threats to public safety or health, life, or property—and recovery/rebuilding requirements that could be addressed more appropriately through insurance or through better budgeting.

6. We should use the current law concept for baseline spending projections. Inflation and other adjustments would only be included in the baseline only to the extent that if they are specifically identified and mandated by law. The joint budget resolution could be used to modify scorekeeping rules and clarify baseline issues as necessary.

7. We should create an independent, bipartisan advisory board to periodically review budget concepts, and budget and economic projections made by OMB, CBO and other public and private organizations. The limited purpose of this organization would be to ensure and preserve the credibility of budget and economic estimates and recommended changes designed to strengthen the budget process.

Members of this board would not be government employees. They would not generate forecasts and estimates made by official government agencies. The board also might comment on the quality of the data based on which government makes major economic decisions.

CONCLUSIONS

The Federal budget process is decentralized with a vengeance. Too many executive branch agencies, too many congressional committees and subcommittees, go through too many steps each year, until it seems that no decision on spending and tax policy ever is final. The process is replete with duplication, overlap and redundancy. Complexity compounded by confusion undermines accountability. We speak of so-called uncontrollable spending as if those Federal outlays resulted from natural laws rather than statutes enacted right here on Capitol Hill.

The thrust of the Truth in Budgeting Act is two-fold: Make government and the budget process more accountable, and use public accountability to encourage Congress and the President to live up to the promises made in the budget process every year.

We need to be concerned about government accountability. The polling booth is the market clearinghouse of democracy. When government becomes so complex that concerned voters, willing to spend a reasonable amount of time, cannot understand the Federal budget, the system breaks down.

Public accountability is the most effective instrument we know to assure government accountability. Congress and the administration often fail to live within the budgets we currently adopt. Passage of the Truth in Budgeting Act would make it very difficult not to live up to what we promise.

I am convinced that real, binding spending limits hold the key to serious budgetary restraint. We can balance the budget any number of ways, but we never will balance the budget unless we agree that there is an amount of money more than which we will not spend, and stay within that limit we have set on spending. To keep spending within binding limits, we should adopt automatic reductions similar to sequestration under the Budget Enforcement Act. This means extending the concept of caps to the entitlements and other mandatory spending in the budget. I believe we should hold individual committees and subcommittees responsible for excess spending in their jurisdictions. And we should force a separate vote any time we want to raise the spending limits in the budget.

This system will work because our constituents will understand it. And that is where public accountability comes into play. Nothing here would keep Congress and the President from busting the budget. But if we do bust the budget, under this system, the media will know and our constituents will understand, whom to hold accountable. That is the best, most healthy kind of enforcement mechanism in our system of government.

Mr. GOSS. I thank you for your testimony.

We are going to take all of this testimony obviously and study it in greater detail. I presume there are many people who are saying similar things or have some overlap that we are going to encourage you to work together so that we try and get some focus down on it.

We have already had, incidentally from one of your board of directors, in this room, Bill Frenzel, who testified in front of us and the appropriators in the budget. Mr. Kasich and others will testify in further hearings before us as well. So we are all in this process of winnowing down, and I appreciate very much your effort as part of it.

I think at this point because of interest of time, I will continue to yield to Mr. Beilenson.

Mr. BEILENSON. Fine, thanks.

Ms. PRYCE. I have no questions.

Mr. GOSS. Thank you. We appreciate your contribution.

Honorable Bill Orton and I appreciate your graciousness in accommodating Mr. Barton. Apparently, we had a misunderstanding there. My fault.

Mr. ORTON. That is fine.

Mr. GOSS. We welcome your testimony. We accept your written testimony into the record. I will tell the world that I have worked with you on the subcommittee on entitlements. I think you have many good ideas and I think we have got a real mission there. I am glad you are here today.

STATEMENT OF HON. BILL ORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH

Mr. ORTON. Thank you, Mr. Chairman and members of the Rules Committee. Before going into my specific comments, I would like to reflect on what Mr. Barton of Texas just spoke about, by indicating that many of the recommendations made by that commission included in his bill are also reflected in legislation which I have filed in the last two Congresses. I think there is pretty widespread understanding of the parameters that we need to work within in order to resolve the budget process.

And as you suggested, we will all be trying to work together on those. We will be working with Mr. Barton and others in trying to incorporate all of these ideas into a piece of legislation that hopefully we can actually adopt.

I am on the Budget Committee. I have one of the most conservative voting records on deficit issues and spending issues. I would like to just share a couple of observations with you about the 1974 Budget Act.

There is an argument that could be made that without the 1974 Act we would currently be experiencing fiscal anarchy. At least that act does give us direction with the creation of a budget resolution and the appropriations process. I think that at least we have some direction.

Subsequent to the passage of that, there have been intervening budget constraints, such as Gramm-Rudman, pay-as-you-go, and discretionary spending caps. All of these have sought, some more successfully than others, to put some constraints on this process. And I would like to just share three general points with you. Then, if you have any comments or questions, I would be happy to respond.

First of all, it seems clear to me that the advent of the discretionary spending caps and PAYGO requirements are an absolutely clear success. This has forced appropriators to work within specific spending limits. It has, in fact, required that any increases in spending through the process be matched with offsetting spending cuts to pay for those increases. It has resulted in not just spending freeze on discretionary programs, but in fact overall an actual decrease in real terms. So that is a success story.

The second point I would like to make is that efforts to control entitlement spending have generally been ineffective. That is our failure story. Entitlement spending not being subject to annual approval in appropriation means that spending caps are awkward.

We have tried process changes, including Gramm-Rudman and pay-as-you-go, the Balanced Budget Amendment, and an entitlement cap which I worked with Mr. Stenholm last year in an effort to impose. I also proposed bringing to the floor resolutions dealing with entitlement spending, to talk about the long-term implications and options.

The real problem with any of these mechanisms that we have attempted to use is that all of those mechanisms have a built-in, fail-safe, a built-in option to pull out of the fiscal constraint. Congress always finds it easier to get out of the constraints than to go ahead with the constraint.

There is really no substitute for congressional and Presidential action on specific authorizing legislation to reform entitlement programs to achieve a reduction in spending. What it boils down to is that we are not going to be able to have some process out there that forces us to lower entitlement spending. We are only going to accomplish it by really getting into the programs of Medicare and Social Security and welfare, to deal with them separately.

As a final point, having concluded that Congress has to take the responsibility of reforming those programs, we should continue to explore budget process reforms. I think the discipline that these process reforms forces on us allows us to make better choices. I favor reforms, and have supported the line-item veto, lockbox legislation, biannual budgeting, capital budgeting, and sunset authority. In fact, I have introduced a number of these measures into a budget process bill that I filed in previous Congresses.

I would also like to take this opportunity to inform the Rules Committee of my intention to come before you for all of the remaining appropriation bills that we have outstanding to offer line-item veto.

I am distressed that after having passed H.R. 2 through the House with a resounding majority, The Washington Post has indicated that line-item veto has bit the dust for the current Congress. It is therefore my intention to come before the committee and ask you to allow me to present essentially the provisions of H.R. 2 as a separate amendment to each appropriation bill that we have remaining before us. In effect, rather than creating statutory line-item veto authority, we would give the President the authority on that particular bill to exercise the provisions of line-item veto that are in H.R. 2.

I will be appearing before you this afternoon on the transportation appropriation bill to ask your support in waiving points of order to allow me to do that. When the House and Senate failed to come together after the Senate passed this bill with a different proposal, it has been argued that it is not moving forward because of one of two reasons: Either there is a legitimate debate between the House and Senate on the process or there may be some reluctance of a Republican House and Senate to give a Democratic President line-item veto. Regardless of what the reason, it makes sense to me that we ought to at least try it.

What better way to do it than to put it on one particular appropriation bill and give the President the opportunity to line-item veto that and see if the provisions of H.R. 2 work. That is a simple, one-case analysis. So I am going to be coming and asking you to do that on this appropriation bill, the transportation bill and every other one that remains.

And finally, I have just one other point on budget process. I will submit a table, an analysis of congressional budget estimates, Table B-3 from the CBO Source Book. [See p. 128.] It reflects that over the last 15 years, both CBO and OMB have missed on their estimates an absolute average of $45 billion per year.

When you take a real average of the entire 15 years, it is $28 billion per year. Clearly, one of the faults of our budget process is it is based on estimates.

We estimate incorrectly. If we had actually achieved what we said we were going to achieve under our estimates over the last 15 years, we would still have a deficit of, a cumulative debt of approximately one half of a trillion dollars because we missed that far on our projections.

The problem is that no real enforcement mechanism to require us to look back and determine whether we actually achieved a balance or not. By having a balanced budget requirement, without an enforcement mechanism, we will be encouraging the estimators to simply estimate incorrectly. Because if we are only required to estimate a balance and we never get there, there is currently no mechanism to require us to go back and pay back the difference.

So I have proposed in Title I of H.R. 1138 from the last Congress an enforcement mechanism which requires a look-back at the end of the fiscal year. We have to look back and determine whether we actually achieve the target, whether the target is a balanced budget or simply deficit reduction.

If we did not, my proposal requires the President to submit to the Congress a recommendation of whether to increase revenues, decrease spending or waive the requirement to achieve the target. And it requires Congress to vote on whether we agree with the President or whether we want to do something differently to in-

21-204 - 95 - 5

crease revenues, decrease spending or waive the requirement. And if we do none of the above and simply adjourn sine die, there would be an automatic sequestration which would exempt interest on the debt, and Social Security from the sequestration. And so I would encourage you to look at an enforcement mechanism.

I am encouraged that Mr. Barton indicated in his legislation that it would include an enforcement mechanism with sequestration. We will be working with him on options for an enforcement mechanism.

In summary, I think the Budget Act and the process reforms have been working with regard to discretionary spending. They have not been working with regard to entitlement spending. We need to find a mechanism. That mechanism is to actually change the programs and to institute an enforcement mechanism. I also agree with capital budgeting and many of the other process reforms that have been recommended.

[Mr. Orton's Prepared Statement follows:]

PREPARED STATEMENT OF HON. BILL ORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH

I appreciate the opportunity to testify on congressional budget issues. As a member of the Budget Committee and a committed deficit hawk, I have long believed that the budget process itself can have a profound effect on the level of both government spending and on deficits themselves.

First, I would like to make some general observations about the effect of the 1974 Budget Act and budget process changes since then. Giving the tremendous growth of interest group politics in the last two decades, a good case can be made that there would be fiscal anarchy without the 1974 Act, which seeks to reconcile competing claims under an overall plan called a budget resolution.

In intervening years, we have enacted more detailed budget constraints, including Gramm-Rudman, PAYGO, and discretionary spending caps. Without going into detailed analysis of the effect of these changes on our budget policies, let me make three general points.

First, the advent of discretionary spending caps has been an unmistakably clear success. Spending caps have forced appropriators to work within a total spending limit, and have forced floor debate to address discretionary spending on a deficit neutral basis. That is, any Member of the House can propose amendments to increase spending for any item, but must identify offsetting spending cuts to pay for such increases. The result has been an absolute freeze in total discretionary spending over the last few years—actually a decrease in real terms. Next year, this will mean a substantial cut in both real and absolute terms.

Second, efforts to control entitlement spending have generally been ineffective. Because entitlement spending does not require annual approval, dollar limits like those used in discretionary spending caps are awkward. We have tried a number of direct and indirect budget process changes to deal with this problem, many of which I have supported. These include the passage of Gramm-Rudman and PAYGO, and the consideration of a balanced budget amendment, an entitlement cap which I unsuccessfully cosponsored last year with Charlie Stenholm, and efforts I led last year to have debate on resolutions dealing with entitlement spending, structured as more generalized long-term options. The problem with all of these approaches is that Congress usually finds it easier to invoke built-in escape mechanisms than to follow through with the tough spending cuts.

Probably the best conclusion that can be drawn from all of these efforts is that the only real answer can be found in the advertising slogan of NIKE—"Just Do It." Quite simply, there is really no substitute for congressional and Presidential action on specific authorizing legislation to reform entitlement programs to achieve a balanced budget in the intermediate term and to maintain solvency in the long run for the Social Security, Medicare and other entitlement trust funds.

This brings me to my final point. Having concluded that Congress must take responsibility to reform entitlement spending, I do believe we should continue to explore budget process reforms which facilitate budget discipline and better spending choices. These include budget process reforms like line-item veto, lockbox legislation, controls on emergency spending, biennial budgeting, capital budgeting, sunset authority. By the way, I have introduced a number of these measures in budget process legislation in previous years.

I would like to note for the record that the House has already passed H.R. 2, line-item veto legislation. I am very disturbed at recent reports that the line-item veto—to quote the Washington Post—has, "Bit the dust," for the current year. It is my opinion that failure of the House and Senate to reach agreement on the form of a permanent line-item veto bill should not prevent us from applying line-item veto to individual spending bills. Therefore, I would like to announce my intention to offer the specific provisions of H.R. 2 as an amendment to each of the remaining appropriations bills to come before the House—starting with the Transportation bill, which you will be considering at 1 p.m. today. Of necessity, I will be requesting your support for a waiver of points of order against this amendment.

Finally, there is one budget process reform which I believe we should make, in the area of budget enforcement. I appreciate the efforts this Congress has made to enact a budget blueprint which projects that the budget be balanced by the year 2002. However, history has shown us that such budget projections are usually made through rose colored glasses. In fact, according to the Congressional Budget Office, actual budget deficits have exceeded budget projections by an average of $28 billion per year over each of the last 15 years. As a result, even if we passed a balanced budget constitutional amendment in 1980, in the absence of enforcement language, we would have run up cumulative deficits of $420 million over the last 15 years.

The American public is quite honestly skeptical that we will follow through on mere plans to balance the budget. We need enforcement language. That is why I recommend the House take a close look at the enforcement language I have developed in Title I of H.R. 1138, a budget process reform bill I introduced last Congress. The enforcement provisions of my proposal strike a sound balance of hard enforcement language, political accountability, and congressional flexibility to respond to different situations. Let me briefly describe this approach.

Originally, my legislation was designed to enforce a balanced budget requirement. However, it can just as easily be adapted to enforcing a specific deficit target—for example, a fiscal year 1996 target of $150 billion. My approach requires that this deficit target must be met in actuality, not just in projection. Here is how it would work. At the end of each year, OMB is required to report the actual deficit for the fiscal year just ended. If this actual deficit exceeds the deficit target for that year, the President is required to submit a report to Congress which either (a) recommends specific changes in outlays or revenues sufficient to eliminate the shortfall, or (b) recommends waiver of the requirement to eliminate shortfalls.

In turn, if the actual deficit exceeds the deficit target, Congress is required to either (a) eliminate this excess through a reconciliation bill, or (b) vote, by recorded vote, to waive the repayment of this excess. However, any such waiver must be approved by the President, subject to veto and two-thirds override.

Finally, if Congress adjourns without taking either of these two actions, there is an automatic sequestration, exempting interest and Social Security benefits.

I believe this is an effective, balanced enforcement mechanism. In effect, this requires the immediate repayment of actual budget excesses. This will make Congress more accountable for budget projections and for real performance. At the same time, it allows Congress and the President flexibility to waive enforcement provisions, provided that they do so on the record—incidentally, just before election.

I urge Congress to adopt this approach as part of the reconciliation bill later this year. Upon request, I would be happy to provide Members with legislative language on this proposal.

In closing, again I appreciate the opportunity to testify, and stand ready to answer any questions you may have.

[The table referred to by Mr. Orton follows:]

Table B-3.
Sources of Differences Between Actual Budget Totals and First Budget Resolution Estimates for Fiscal Years 1980-1993 (In billions of dollars)

	Policy	Economic	Technical	Total
		Revenues		
1980	6	8	-4	11
1981	-4	5	-13	-11
1982	13	-52	-1	-40
1983	-5	-58	-3	-65
1984	-14	4	-4	-13
1985	a	-20	3	-17
1986	-1	-23	-2	-27
1987	22	-27	7	2
1988	-11	4	-17	-24
1989	1	34	-8	26
1990	-7	-36	9	-34
1991[b]	-1	-31	-24	-56
1992	3	-46	-34	-78
1993	4	-28	3	-20
Average	a	-19	-6	-25
Absolute Average	7	27	9	30
		Outlays		
1980	20	12	16	48
1981	25	6	16	47
1982	1	24	8	33
1983	18	a	8	26
1984	1	7	-18	-9
1985	23	-5	-13	5
1986	14	-12	20	22
1987	7	-12	13	8
1988	-2	12	12	22
1989	17	14	12	43
1990	13	13	59	85
1991[b]	-19	1	-22	-40
1992	15	-21	-60	-66
1993	16	-19	-90	-92
Average	11	1	-3	9
Absolute Average	14	11	26	39
		Deficit		
1980	13	4	19	37
1981	28	1	29	58
1982	-12	76	9	73
1983	22	59	11	91
1984	15	3	-14	4
1985	23	15	-16	22
1986	16	11	22	49
1987	-15	15	6	6
1988	9	8	29	46
1989	17	-20	20	17
1990	20	49	50	119
1991[b]	-19	32	2	15
1992	12	25	-26	11
1993	12	9	-93	-72
Average	10	21	3	34
Absolute Average	17	23	25	44

SOURCE: Congressional Budget Office

NOTE: Differences are actual outcomes less budget resolution assumptions.
The allocation of revenue differences between economic and technical factors is done soon after the fiscal year in question and is not subsequently changed to incorporate revisions in economic data.

a. Less than $500 million

Mr. GOSS. Thank you.

By way of proceeding, if I may interrupt for just a moment, if Mr. Wise would like to go downstairs and vote now, we will keep the hearing going.

Mr. WISE. All right. Otherwise, I am prepared to sequester my statement to make it much shorter.

Mr. GOSS. Then we will keep going.

Mr. BEILENSON. We can finish then.

Mr. GOSS. How about Mr. Emerson and Mr. Stenholm?

The STAFF. They are on their way.

Mr. GOSS. We are going to have to come back if you wouldn't mind voting now.

Mr. WISE. Sure.

Mr. GOSS. And I understand that I would go vote in a moment also. One quick question.

Ms. PRYCE. Thank you.

Mr. GOSS. Mr. Orton, I want to just assure you the look-back provision is something we have had brought to our attention by CBO, GAO, and other people. The H.R. 1138 process that you are talking about, I hope you will get together with the others that are also doing this.

Mr. ORTON. Yes, sir.

Mr. GOSS. And I share your distress on the line-item veto. My distress is that I think the Senate's version is totally unworkable, and I assure you that I am doing what I can to keep momentum going on that. I don't have any quarrel with what you plan to do.

I am going to turn the Chair over to Judge Pryce and go vote so we can keep going.

Mr. BEILENSON. It is all right? Will she ask me if I have any questions?

Mr. GOSS. I am sure she will. She is an immensely fair person.

Ms. PRYCE [presiding]. Do you have any questions?

Mr. BEILENSON. Yes, I do, just a couple comments.

Bill, I liked your testimony very much and we will talk about line item this afternoon, and I guess in the future as well, but that is that for the moment. Just a couple of comments.

One, I am glad you pointed out not so much necessarily the strengths but the benefits of our having lived within a system, which we essentially strengthened in 1990. A couple of our earlier witnesses today gave no credit to the Budget Act, said it is no coincidence we have had large deficits since we first passed the Budget Act. And, frankly, I think that is nonsense. I cannot imagine where we would be without it.

I think you are exactly correct. I think you are also correct that the spending caps we put in 5 years ago have been especially useful and helpful and the whole basis of the problem, as you have pointed out several times—although there are other things perhaps we ought to do—the heart of the problem, the nub of the problem, is that we have never gotten ahold of entitlement spending, and that is what we have to do.

I also agree with you about what I think you were saying on the bottom line of page 2, you were talking about just doing it. [See p. 126.] The secret, the answer is in policy reform more than in process reform.

Again, I couldn't agree with you more. And earlier, before you came, I gave some credit to our Republican colleagues—even though I disagree with many of the specifics that they have gone ahead and done, or are in the process of trying to do, including most important, most specifically, changes in Medicare, Medicaid, which are critical because they are the biggest programs and because they are the fastest growing programs. I mean, those are the key programs, although lots of other things perhaps ought to be done, we have to concentrate on them.

So I would be critical—I don't even mean to put it this way—but I am just mildly critical of your talking about a whole series of process reforms as well. That is fine and maybe some of them will be useful. But we have to concentrate on doing something about entitlements. I think we have to get our colleagues who haven't thought so much about it as you and a few of the others who testified today, perhaps a few of us, to concentrate on what has to be done. The answer is policy changes in the entitlement programs.

And finally, again, when you are talking about some way of looking back and enforcing what we learned among other things in the past 10 years was that spending goals could be met and enforced under the BEA, but the deficit goals were very difficult to achieve under Gramm-Rudman-Hollings. And I worry a little bit about our focusing again on deficit goals as such, because I think we have had much more success with specific spending limitations in specific areas, and again most importantly, on entitlement bills. That is all. Some rambling comments.

Mr. ORTON. If I might very briefly respond.

Mr. BEILENSON. Sure.

Mr. ORTON. Part of the problem in estimating has not only been spending, it has also been in revenues. We have missed in estimating what the revenues would be. We have overestimated, we have been overoptimistic.

Mr. BEILENSON. And economic conditions.

Mr. ORTON. And economic conditions have an impact in that. That is part of the problem. The problem is not specifically geared entirely to spending.

As to your other point on process reforms, you are right. We are not going to resolve deficit spending simply with process reforms. You can't do it without entitlement reforms. I agree with that. And we need to make the entitlement reforms.

But the reason I still encourage us to make process reforms is that this will facilitate the process of making better decisions, based on priorities and judgment. It focuses those priorities and allows us to make better policy decisions, rather than a process which ignores many of the policy decisions that we should be making.

Mr. BEILENSON. Got you.

Mr. ORTON. And so that is the reason that I think we ought to have a capital budget. A capital budget isn't going the resolve the deficit crisis. The capital budget will allow us to make better decisions about whether we ought to be acquiring a building or equipment under a lease or build it or acquire it ourselves.

There are decisions that we can make through our fiscal process that are guided by our statutes and our budget process. And I think by changing that process we can facilitate better decisions and that is why I favor that.

Mr. BEILENSON. I got you.

Thank you.

Thank you, Mr. Chairman.

Mr. GOSS [presiding]. Thank you very much.

Mr. ORTON. Thank you.

Mr. GOSS. Have you voted?

Mr. BEILENSON. No.

Mr. GOSS. The Honorable Robert E. Wise of West Virginia.

Mr. BEILENSON. May I say this at this point as the Honorable Wise comes up here, because I have to go vote.

I want to tell the Honorable Wise, (*a*), I have read his testimony. (*b*), I agree with him completely. (*c*), I argue all the time back home with folks who talk about how everybody has to have a balanced budget, and we don't; of course, they don't, either. I mean, they borrow to buy their homes and their cars and send their kids to college. If you have a capital budget you would, (*a*), make it easier for us to reach zero, and, (*b*), it would take a little pressure off of our failing to invest or make the kind of investments we have got to do to keep growing because all spending is thought of as the same kind of spending. So if I don't get back here in time to say anything more, I want to tell you that I totally agree with you and for all kinds of reasons.

Mr. WISE. Thank you.

I want to thank the Honorable Beilenson, and I wish to, if I could, open my testimony by saying I would like to echo the gentleman's remarks, and I won't because he has made them so well.

If I could open by saying, Mr. Chairman——

Mr. BEILENSON. I am going to leave now. I will be right back.

STATEMENT OF HON. ROBERT E. WISE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Mr. WISE. If I could open, Mr. Barton testified to you that he had spoken to the present Budget Committee Chair on his proposals and had been told he wouldn't lose any sleep over it. I have to be honest with you and let you know I talked to a previous Budget Committee Chair about my proposal and said he would be an insomniac if mine passed.

But I think that for all the reasons that Mr. Beilenson just said, capital budgeting is vital, and I might point out that the legislation I have sponsored, I have actually cosponsored with people like Government Reform Chair Bill Clinger and many others who have looked at this over the years. I will introduce my testimony of course for the record and simply——

Mr. GOSS. Without objection.

Mr. WISE [continuing]. And simply point out that, When do we match our rhetoric? All of us have made speeches about the need to have the Federal budget like the family budget, the business budget, the budgets of 50 States. The fact is the Federal budget isn't because the Federal budget does not recognize long-term investment in physical infrastructure as a separate accounting item and indeed the Federal Government discourages that kind of investment. The result is that the pencils that go into the Federal courthouse, that dollar for those pencils is counted exactly the same as the construction cost of the courthouse. The dollar that you put into filling a Federal vehicle up with gasoline is exactly the same according to the Federal budget as a mile of highway that that car will drive over. And so for these reasons, I think it is vital that we have a capital budget.

Mr. Chairman, I am talking critical about physical infrastructure. Some have—would argue perhaps that job training, research and development, that that might go into a capital budget. That is an argument for another day, but I think that you need to limit it to physical infrastructure.

I believe that many recognize the need for some type of accounting for investment. The GAO, while not embracing capital budgeting, does talk about a separate investment account so that you can look at how much you are investing.

Indeed, our own unified budget process has certain procedures in it so that we can try to separate investment from simply consumption. But a capital budget would permit us to get about the business of building the roads, the bridges, the infrastructure, the water, the sewer systems that are so vital and put us in line incidentally with every—with I believe every State, with every city, with every business, and certainly with every family.

You will borrow, you and I will probably borrow for our homes, for our children's education. We know we better not be borrowing when we go to the grocery store and that is the spirit of the capital budget. We think this is a good time to press for it, because I think while we may have great differences on some of the proposed cuts that are coming up to get to a balanced budget in the year 2002, I suspect that everyone in the Chamber can agree on the need for growth as being a central element of getting to a balanced budget, and capital budgeting permits us to distinguish and invest in long-term investments that bring us that growth and eventually guarantee that we will get to a balanced budget, and will do it with a growing economy, not with a contracting one.

And I thank the committee for taking its time.

[Mr. Wise's prepared statement follows:]

Prepared Statement of Hon. Bob Wise, a Representative in Congress From the State of West Virginia

Mr. Chairman, members of the committee, I want to thank you for the opportunity to testify before you today about budget reform and the importance of moving toward a Federal capital budget.

But before I begin, let me commend this committee for focusing on budget reform as a part of comprehensive congressional reform. As a Member, I have served 6 years on the House Budget Committee and I am a veteran of several balanced budget debates where I have offered amendments with a capital budget component. I have come to believe that many of the budget problems facing this Congress, particularly the shift in recent years from public investment toward consumption spending, have as much to do with the budget process as with decisions made—or not made—by the Congress.

Perhaps the greatest, and to me the most mystifying, problem with the current system is the fact that the Federal Government's unified budget makes no distinction between money spent on investments and money spent for consumption. Highways, Federal salaries, health benefits and foreign aid, which are all examples of Federal programs that are paid for through taxes and borrowing, are all accounted for in basically the same way. But all borrowing is not created equal. Borrowing for physical infrastructure can be justified if it pays for itself in the long run by increasing the Nation's wealth and capacity for future economic expansion. Borrowing to meet the day-to-day expenses of government cannot.

This year I have reintroduced legislation that would divide the Federal unified budget into an operating budget and a capital budget. Under my bill the operating budget would include all programs that meet the immediate obligations of running the Government. The capital budget would include long-term, tangible investments in infrastructure. This legislation would direct the operating budget to be balanced but would allow the Federal Government to borrow money for certain investments in infrastructure that increase the national wealth and contribute to economic growth. Money borrowed for those infrastructure investments would be paid back over the life of the road, bridge, sewer system or other infrastructure investment. Over 30 of our colleagues in the House from both parties have cosponsored this budget reform legislation.

The concept of a Federal capital budget is not new. The budget was expanded in the 1950's to include information on investment spending. Reform in the 1980's required even more investment information in the unified budget. Many other industrialized countries employ a capital budget, and businesses and most State and local governments have investment budgets that separate long-term capital investments from year-to-year operating costs. Individuals and groups as diverse as former OMB Director Richard Darman, the General Accounting Office and the Progressive Policy Institute have endorsed distinguishing between investment and consumption spending in the budget. As a recent GAO report on the harmful effects of the deficit points out:

> A new [budget] decisionmaking framework is needed, one in which the choice between consumption and investment spending is highlighted throughout the decision process, rather than being displayed for information purposes after the fact.

Businesses know the difference between borrowing to consume and borrowing to invest. Borrowing is a smart move when the money is used to finance productive investments that help a business modernize its equipment, expand and become more profitable. But borrowing money to pay salaries or executive bonuses or to send employees to expensive conferences rather than to modernize would be foolish.

I believe the Federal Government should make this same distinction in its budget. By borrowing for current expenses the Government is asking future generations of taxpayers to pay for the cost of running the Government today. But borrowing to invest is different. If the Government passes part of the cost of building a road to future taxpayers, it also gives them something in return—a new highway that will encourage economic development, facilitate commerce and increase growth for years to come.

Instituting a capital budget would force policymakers to decide whether or not each investment is worth borrowing money to finance. In addition, the public would benefit from knowing that the Government's current costs are being paid for and that any borrowing is for investments in the future rather than paying for the present and saddling future generations with bad debt.

All of us agree that the United States must make investments that are critical to future economic growth while balancing the budget. Rather than going from crisis to crisis, the Federal Government should have an institutional system of long-term investment planning. Adopting a Federal capital budget would provide such a mechanism.

Mr. Chairman, members of the committee, this is a time of fundamental change in the way government serves the people. In order to be more responsive to taxpayers' needs and more responsible with taxpayers' money, I believe the Federal Government should reform its budgeting to distinguish between consumption and investment. Adopting a capital budget would begin to effect this critical change and I hope you will seriously examine and ultimately endorse this important budget reform.

[A section-by-section summary of the Capital Budgeting Act of 1993, submitted by Representative Bob Wise follows:]

The Capital Budgeting Act of 1993
Rep. Bob Wise

Section-by-section summary

Section I: Short Title

Section II: Statement of Findings and Purpose

Section III: Establishes Capital and Operating Budgets

-- Requires that the budget submitted by the President be a unified budget comprised of an operating budget and a capital budget.

-- Limits the capital budget to major activities, projects and programs that support the acquisition, construction, alteration, and rehabilitation of physical infrastructure that produces services or benefits for more than five years and has an initial cost of at least $500,000.

-- Restricts expenditures from the capital budget to: roadways and bridges; airports and airway facilities; mass transportation systems; waste water treatment systems; water distribution delivery and related systems; water resource projects; medical facilities; resource recovery facilities; public structures; space and communication facilities and strategic petroleum reserves and mineral stockpiles.

Section 4: Review of capital expenditures

-- Requires the Comptroller General to review and report to Congress to ensure that those investments included in the capital budget adhere to the criteria set out in this act.

Section 5: Balancing the operating budget

-- Requires the Budget Committee to submit to the House proposed legislation to establish additional deficit targets that require the eventual elimination of deficits in the operating budget.

Section 6: Evaluation of capital investments

-- Directs the Government Operations Committee to report legislation directing the Comptroller General to evaluate the value and usefulness of actual and proposed investments in the capital budget.

Section 7: Implementation of capital budget

-- Directs the Rules Committee to report legislation establishing rules to enforce this act.

Section 8: Reports to the House and the Senate

-- Transportation: Requires the Secretary of Transportation to report on capital investments in roadways and bridges, airports and airway facilities and mass transportation systems.

-- Water pollution: Requires the Administrator of the Environmental Protection Agency to report on capital investments associated with waste water treatment, water distribution delivery systems and related facilities.

-- Water resources: Requires the Assistant Secretary of the Army for Civil Works to report on capital investments associated with water resource projects.

-- Public buildings: Requires the Administrator of the General Services Administration to report on capital investments associated with public buildings.

Mr. GOSS. I assure you we thank you for you taking your time. You mentioned Mr. Clinger, we indeed have invited him and we know that he is gracious——

Mr. WISE. Is he presently occupied.

Mr. GOSS. We understand that, and unfortunately he couldn't be here. That doesn't mean we aren't going to have further hearings. We are, in fact, as I have announced, and we are going to be pursuing it.

This is one of the areas that we are certainly going to look into and, obviously, there are some strong pluses. There are also some suggested minuses. Whenever we get into talking about consumption and infrastructure, I always think about beach renourishment. And I don't care which it is as long as it is the thing that gets the money. Those are the kinds of problems we come into when we talk about this—that everybody asks.

I am not sure that we have got all of the problems worked out, but I think that most people who have ever managed a budget understand the difference between a capital account and an operating account and there is value in that. And if you can get to that, we can all agree with the definition is then I think we are ahead. But I am a little nervous about just saying capital budgeting, and capital budget is a great idea, unless I know what it is.

Mr. WISE. Certainly. And that is why the legislation directs that the Government Reform Committee and others be involved in framing that definition. And also as we move towards, hopefully, tax simplification, it seems to me that between GAO and the IRS, we ought to be able to figure out depreciation schedules, life of assets, those type of things since they are doing it already, that that problem, I know you have been in business before, that as you are able to reach those decisions and to define what capital is, so should the Federal Government.

Mr. GOSS. I agree. We should at least think about it.

Thank you very much for your testimony.

Mr. WISE. Thank you, Mr. Chairman.

Mr. GOSS. I apologize for keeping you waiting. Mr. Stenholm, apologize for keeping you waiting.

Without objection your written testimony is accepted.

I guess we saved the best for last.

Mr. STENHOLM. I hope so, but I am not sure about that.

Thank you, Mr. Chairman.

Mr. GOSS. I am not sure you are going to be last because Mr. Emerson may come in.

Mr. STENHOLM. I appreciate the opportunity. I assume my entire statement would be made a part of the record.

Mr. GOSS. It will without objection.

Mr. STENHOLM. I will attempt to summarize it.

STATEMENT OF HON. CHARLES STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. As a Member of Congress first elected in 1978, I have seen many, many changes go through. I don't believe the process has looked the same or done things the same in any one year of the 16½ that we have been there. And there are many that might be arguing to you now just leave the act alone and stop mucking up the process, that the budget is working just fine just like it is.

But I think it can be improved. My conclusion is that of course the tough choices always will have to be made, but the process by which we make decisions and the way that we talk about the choices we face have a tremendous impact on the outcome of policy.

The budget process should be more comprehensible to the average American. You know, we have so much terminology, it is so difficult to understand for the general, average American, and I suggest if that is true, it may also be difficult for Members of Congress to understand, and that may be one of the problems, and maybe making it a little more simpler might be—might be helpful.

In that vain, I believe there is married an idea such as baseline budgeting reform, the budget treatment of Social Security trust funds, truth in legislating. I do commend the current House leadership for endorsing some of these ideas at the beginning of the 104th Congress by changing House rules, and I was happy to support those changes. I believe these efforts could be reinforced in statute.

The budget process also should hold Members more accountable. The fact that we even have spending categories which we call uncontrollable is a statement of our failure in the area of accountability. I believe we should pursue several measures, including entitlement caps along the lines which was proposed on the House floor last year. A 10-year window on PAYGO so that games cannot be played in the out-years, which we are again doing this year in this year's budget, and we have done it in almost every year that I can remember.

At this point, I would like to submit for the record a number of the suggestions that I am hoping your subcommittee will consider. Just refer briefly, the Balanced Budget Amendment, we were successful in the House, hopefully we willl find the one other vote in the Senate.

Balanced budget enforcement, I won't repeat what Pete Visclosky has already testified to you. But I strongly endorse the approach he has recommended to you for getting accountability.

Entitlement caps, the discretionary caps of the Budget Enforcement Act has served us well to curb discretionary spending but left untouched entitlement caps. I think the same general concept would work for entitlements as well. If Congress does not pass and the President signed legislation sufficient to cover the excess of entitlement spending, there would be a sequester similar to PAYGO sequester.

I know that Chairman Kasich also is interested in entitlement caps. I commend him for his leadership, but I feel that approach which allows Congress to revise the entitlement caps each year in response to political pressure would not control entitlement growth. I also feel his proposal carries forward a great weakness by exempting 40 percent of all entitlement spending from any review by excluding Social Security.

The discretionary caps, while the Budget Enforcement Act discretionary caps would work reasonably well in controlling discretionary spending. The one weakness comes from OMB's ability to continually adjust the discretionary caps once they are out or they are set. I would recommend that the Budget Act be amended to remove that adjustment opportunity and have the caps remain intact as set by Congress.

Firewalls, by reinstating the fire walls between domestic and defense spending and adding a fire wall between entitlements and discretionary would ensure that cuts in any area beyond those called for in the Budget Resolution be dedicated to deficit reduction.

I was very encouraged to learn that this committee will be marking up a deficit reduction lockbox bill later this week. I commend you for that.

Mr. GOSS. Tomorrow.

Mr. STENHOLM. You are moving, encourage this committee to act promptly to bring this measure to the full House, because I think it offers some very positive budget implications.

A Joint Budget Resolution signed by the President, a suggestion here, if every congressional budget resolution would be subject to Presidential signature, it would have the force of law. Such a change would mean that both parties, spending a year of political posturing, postponing to the last few months or waiting when everyone finally gets serious about how we can come to agreement would not be possible as it again is this year.

Truth in legislating, here we—just simply, this is a bill that has been around for quite a while. They require committees to include in their reports the identity, sponsor and cost of each provision of a bill which benefits 10 or fewer beneficiaries.

Baseline reform, eliminating the current services baseline. I commend Chairman Kasich for following through on this idea, think this is certainly a step in the right direction.

Continuing resolution reform, it looks like we may be heading to one of those crises again this year and I think a simple freeze—freeze and/or cut on any—based on the current fiscal year spending levels would place strict limits on the inclusion of legislative language also in the continuing resolution. In other words, no games being played. If we have to have a continuing resolution, freeze it at last year's spending and/or a cut, and no legislative language whatsoever.

Which leads me to the limitation of waiving budget rules. You know, we have waived them over 600 times now. Why not require a three-fifths vote to waive any rule?

If we have a budget rule, a budget law, and we are waiving these rules as we constantly and consistently do in order to accomplish somebody's legislative agenda, why not make it more difficult with a three-fifths vote to waive the rule and vote on them? And I think this would give credibility, much more credibility to the Budget Act than as we currently in the rule waive these routinely.

Social Security Trust Fund protection, removing the annual surplus occurring in the Social Security trust fund from the calculation of annual budget deficit. We would have a wonderful sunshine effect on telling us the true budget deficit and would also help us I think deal with the honesty factor, what I call it is dealing with the—our children and grandchildren as well as the current senior citizen population.

Line-item veto, this is an interesting one. As you know I have not supported it, and I am not sure, Mr. Chairman, exactly where you are on this issue, but I have never really supported giving any President one-third plus one line-item veto, but I have endorsed enthusiastically the modified rescission order which the only difference being is that, you know, a majority vote on any issue. If it is Charlie Stenholm's provision that gets vetoed, so be it. If I can't get 50 percent to agree with me over the President, then it ought to go. But I lost that battle. The House spoke its will and said we needed it tougher. The Senate has spoken. It is amazing to me now that we have the Houses speaking that we don't get moving.

Why don't we get moving on this one and get it out of the way? Let's have the line-item veto given to the President. I think it might be very helpful to us, even though I don't agree with giving any President—I lost that battle, so I am now for it. I think the House has spoken. It is a great idea. Let's do it.

In summation, budget process reforms will not solve our budget problems by themselves. However, by increasing the understandability, credibility, and accountability of the budget process, the reforms outlined here might be helpful. We hope they are.

We look forward to working with you if you see anything meritorious in anything that we have said. Thank you.

[Mr. Stenholm's prepared statement follows:]

PREPARED STATEMENT OF HON. CHARLES STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Chairman Goss, Chairman Dreier, and subcommittee members, I appreciate the opportunity to appear here today to discuss potential budget process reforms. I am delighted that you have taken up this subject, and I commend you for holding this hearing.

In announcing this hearing, you took an historical approach, posing questions relating to the objectives of the 1974 Congressional Budget Act, the relevancy of those objectives today, and how the budget process should be amended. As a Member who was first elected to Congress in 1978, I have been here for almost the entire life of the act. I have to say that I have witnessed the budget process go through just about as many changes as my children went through during the first 20 years of their lives. I don't believe the process has looked the same or that we have done things exactly the same way in any 2 years during the life of this act.

There are many who might argue that we should just leave the act alone and stop mucking up the process of the budget just because we Members have difficulty dealing with the substance of the budget. They argue that those of us who feel the deficit is a problem should just cut spending by altering Federal programs rather than through changing the process. There is some merit to their arguments and it is in response to those concerns that I start by saying whatever we do must be done with the goal of investing everyone equally—every Member, every program, every constituent—in seeing that the process work. You have already heard from my colleague, Representative Peter Visclosky, with a proposal that makes a good first stab at that goal of investing everyone, I believe. But there are proposals I hope these subcommittees will entertain as well.

My conclusion is that, of course, the tough choices always will have to be made. But the process by which we make decisions and the way that we talk about the choices we face have a tremendous impact on the outcome of policy.

The budget process should be more comprehensible to the average American. Our budget process is enormously confusing and disjointed. We have all seen the looks of frustration and confusion on our constituents faces as we have tried to explain the nuances of outlays and budget authority, authorization and appropriations, discretionary and mandatory spending, budget caps, 602a and 602b allocations, and on and on. Granted, much of that complexity is inevitable when you are trying to run an operation the size of the Federal Government. But to the degree that we can make our budget process more efficient and more understandable, we should do so.

In that vein, I believe there is merit in ideas such as baseline budgeting reform, the budget treatment of Social Security trust funds, and truth in legislating. I do commend the current House Leadership for endorsing some of those ideas at the beginning of the 104th Congress by changing House rules and I was happy to support those changes. I believe those efforts could be reinforced in statute.

The budget process also should hold Members more accountable. The fact that we even have spending catagories which we call uncontrollable is a statement of our failure in the area of accountability. The Federal Government has run deficits for 26 years in a row—obviously, for all of the years of the Budget Act of 1974—and for 57 of the last 65 years. Obviously, no business could function with such a record. While the Federal Government has been able to avoid complete financial catastrophe, we are clearly feeling the pinch of fewer dollars to expend on programs because we must spend them on interest payments. In that vein, I believe we should pursue several measures, including entitlement caps along the lines which I proposed on the House floor last year, a 10-year window on PAYGO so that games cannot be played in the outyears, and setting deficit targets enforceable by a suspension of the Government's ability to borrow money.

At this point I would like to submit for the record a number of the suggestions I am hoping your subcommittees will consider. There may be nothing particularly novel in my list—many Members such as Chairman Kasich, Bill Orton, Chris Cox, Peter Visclosky, and others have done excellent work in developing ideas such as these. I believe each have merit and can contribute to improving our budget process.

BALANCED BUDGET AMENDMENT

It almost goes without saying that in my opinion, the best starting place for budget reform is a constitutional amendment requiring a balanced budget. Our body certainly has done its part in that regard and, once again, I commend the current leadership for doing so much to bring about passage of the BBA at the beginning of this year. I don't expect this committee to act further in that regard, unless you have some magic to work on the other body. I simply mention the BBA here because I do believe that if we were to have the larger context of a constitutional requirement, much of the rest of what we need from our budget process would follow more naturally.

That being said, I quickly follow with the assertion that a constitutional amendment is not a panacea. It is a first step. It must be followed by hard choices and priority making. It also must be followed with other procedures which will aid in the achievement of a balanced budget. That is what I would like to spend the rest of my time discussing.

BALANCED BUDGET ENFORCEMENT

Earlier you heard from Congressman Visclosky about his proposal which establishes deficit reduction targets, a board of estimates, a requirement of the President and Congress to follow the targets, and tough enforcement mechanisms employing a potential sequestration. I won't repeat what Pete shared with you but I do strongly endorse this approach.

ENTITLEMENT CAPS

One clear lesson of our experiences with the Budget Enforcement Act (BEA) is that placing restraints on the growth of entitlement programs is imperative to controlling Federal spending. The discretionary caps of the BEA have served well to curb discretionary spending but left untouched entitlement spending. The failure of the BEA to deal with entitlements prevented it from effectively controlling total spending or significantly reducing deficits. Experience has taught us that Congress takes action to reduce entitlement spending only under extraordinary circumstances.

My proposal would establish an overall target for all entitlement spending at the levels projected most recently by CBO. The target would be adjusted to reflect legislative actions affecting entitlement spending. In the future, if entitlement spending is projected to exceed the target, Congress and the President would be required to agree to cut entitlement spending, lower the discretionary caps, raise taxes or increase the targets to make up the excess of entitlement spending. If Congress does not pass and the President sign legislation sufficient to cover the excess of entitlement spending, there would be a sequester similar to the PAYGO sequester.

I know that Chairman Kasich also is interested in an entitlement cap along the lines that he proposed on the House floor last year. Once again, I commend him for his leadership but I feel that that approach, which allows Congress to revise its entitlement caps each year in response to political pressure, would not control entitlement growth. Congress would have every opportunity, if not incentive, to set the entitlement caps high enough to avoid the tough choices. I also feel that his proposal carries forward a great weakness by exempting 40 percent of all entitlement spending from any review by excluding Social Security. If we truly care about the future of Social Security, we do it no favor by exempting it from these provisions. If we do provide such an exemption for Social Security, we will be in the same situation, only many times more extreme, as we face in trying to save the Medicare program today.

DISCRETIONARY CAPS

While the BEA's discretionary caps have worked reasonably well in controlling discretionary spending, the one weakness comes from OMB's ability to continually adjust the discretionary caps once they are set. I would recommend that the Budget Act be amended to remove that adjustment opportunity and have the caps remain intact as set by Congress.

FIREWALLS

Reinstalling the firewalls between domestic and defense spending and adding a firewall between entitlements and discertionary would ensure that cuts in any area beyond those called for in the budget resolution be dedicated to deficit reduction. It would require that any new domestic initiatives beyond those called for in the budget resolution be paid for by cutting other domestic programs instead of by cutting defense further than the cuts in the budget resolution. This would force the choosing of priorities within each category by removing the temptation to raid one category for spending in another.

DEFICIT REDUCTION LOCKBOX

I was very encouraged to learn that this committee will be marking up a deficit reduction lockbox bill later this week. This is one of the measures which is vital for restoring the public's confidence in Congress' rhetoric. Currently, when we go to the floor during appropriations bills and offer amendments to cut spending, it is really a charade to imply that we are affecting the deficit in any way. While it is perfectly fine for Members to propose cutting one area of spending to pay for increases in another, the public should be aware that is what we are doing. Members also should have the opportunity to designate savings from cuts to be directed to deficit reduction rather than reallocation. I encourage this committee to act promptly to bring this measure to the full House.

JOINT BUDGET RESOLUTION SIGNED BY PRESIDENT

If every congressional budget resolution would be subject to Presidential signature it would have the force of law, contrasted with its current, nonbinding status. Such a change would mean that both party's spending a year of political posturing, postponing the last few months or weeks when everyone finally gets serious about how we can come to agreement, would not be possible as it is this year. The earlier in the budgetary year that everyone becomes invested in finding solutions to our fiscal problems, the better it will be for our country.

TRUTH-IN-LEGISLATING

Congress has been embarrassed on many occasions by provisions in tax and spending bills that the public justifiably felt benefitted special interest, privileged narrow interests, and other Members' special constituencies. In past years I have introduced the Truth in Legislating Resolution in response to those concerns. This resolution would require committees to include in their reports the identity, sponsor and cost of each provision of a bill which benefits 10 or fewer beneficiaries.

Any Member who includes special benefits would have to be willing to experience any resulting publicity about those benefits. Beyond being a simple, good policy of honesty in legislating, it would very likely have the secondary effect of reducing the number of this type of special interest provisions. This legislation is not intended to forbid such provisions, but simply assure that the House is not afraid to shed some sunshine on the laws it passes. By assuring the public that we in the House have nothing to hide, this resolution will enhance the public's confidence in Congress.

BASELINE REFORM

The previous baseline created a bias to increased spending. Eliminating the current services baseline as the House dealt with the budget this year began to restore common sense and honesty to our budgeting process, and I commend Chairman Kasich for following through on that idea which he, Tim Penny and I, along with others, were promoting last year. We must recognize increases in spending for what they are, and not talk about cutting spending when what we really mean is that we are not increasing spending as much as anticipated.

I did have some complaints with my friend and chairman about inadequate information about these changes and technical difficulties in this year's budget, particularly in the realm of entitlement spending, but in general I totally agreed with the goal. I believe statutory changes along the lines of last year's common sense bill would further that goal.

CONTINUING RESOLUTION REFORM

In past years, we have passed massive, omnibus continuing resolutions in which one huge bill made substantive changes in law and policy throughout the Federal Government without thorough debate and opportunity for review. While these problems have not resurfaced in the last few years, there is nothing in the rules to prevent similar abuses from reoccurring and, in fact, discussion about a continuing resolution this year has increased. Legislation I have supported in the past included provisions that would freeze continuing resolutions at current fiscal year's spending levels and would place strict limits on the inclusion of legislative language in the continuing resolutions.

LIMITATION ON WAIVING BUDGET RULES

We have waived the provisions of the Budget Act over 600 times since it was passed in 1974. The credibility of the budget process is undercut by the routine waivers of budget rules. Requiring that waivers of Budget Act rules be approved by a three-fifths vote would ensure that the rules are waived only in extreme circumstances. Alternatively, I would suggest providing for separate votes on each waiver under the Budget Act. Either change would do much to restore credibility to the Budget Act.

SOCIAL SECURITY TRUST FUND PROTECTION

Removing the annual surplus occurring in the Social Security trust fund from the calculation of the annual budget deficit would deter using Social Security revenues for other purposes and unmask the true size of the Government's operating deficit. Clearly, the surpluses will be needed early in the next century for retiring baby boomers. Those who claim that we must protect Social Security today but refuse to plan for its future are simply sticking their proverbial heads in the sand.

LINE-ITEM VETO

I have made clear repeatedly on the House floor that I support a modification of the line-item veto concept, that being an expedited rescission procedure. I have supported that approach because I believe it will meet constitutional muster and maintain the balance of power between the Congress and the President, while still giving the President the authority to single out individual spending items and targeted tax benefits. I raise the issue here, however, simply to ask why a House and Senate, both of which so strongly supported the line-item veto in the first few months of this year, have refused to provide President Clinton with this authority. Each year that we have debated this issue in the past few Congresses, I have emphasized that we must construct a procedure which is defensible by either party regardless of whose President is in the White House. Any law constructed for a particular political circumstance never should be enacted. I have been disturbed by reports on Republicans unwilling to give the line-item veto to President Clinton and I am hoping that my friends on the other side of the aisle who have been such zealous supporters of the line-item veto in the past will find their religion again this summer. If the House and Senate Republicans continue to find themselves at an impasse in reconciling the two measures that passed their respective bodies, perhaps they would consider expedited rescission procedures as a compromise. Particularly in light of the fact both Chairman Kasich and Domenici have been primary sponsors of expedited rescission legislation, this should be considered a viable alternative, at least for the interim until the purer line-item veto language is resolved.

In summation, budget process reforms will not solve our budget problems by themselves. However, by increasing the understandability, the credibility and accountability of the budget process, the reforms I have outlined here all would be useful tools in dealing with our budget problem.

Mr. GOSS. Mr. Chairman, Mr. Stenholm, I see an awful lot meritorious in what you have said. There are an awful lot of ideas in here that when I first came to Congress I think I heard first from you. Others have associated themselves with those, and we have heard many of them in testimony previously today, and I am sure we will be hearing more of them again because there are some good ideas.

There are some degree differences in how they might be applied, management techniques and how they might be applied. I think there is a lot out there. I think we are a shade apart on line item, but I think we got it. I did happen to favor the version we have. Truthfully, I——

Mr. STENHOLM. We are not anymore. I want to make it very clear, I am with you now. If you are for the tough one, I am for it, too. Let's go.

Mr. GOSS. I am for the tough one. I am not for the complexity of the Senate enrollment process. I don't understand how that is going to work. That is something I think is a legitimate problem.

Mr. STENHOLM. Go to conference and work it out.

Mr. GOSS. I would like to very much. I would like to have your support and the support of the folks on your side.

Mr. STENHOLM. I am ready.

Mr. GOSS. Thank you.

On the continuing resolution, Chris Cox has got an automatic continuing resolution program, with many of the things you mentioned and that we have heard today. I don't know if you are aware that other people are also pushing these things out.

Mr. STENHOLM. Very much so. I have joined with Chris on several of the proposals in the past that he has had.

Mr. GOSS. The only area, on the Social Security issue, I go back, we may have a difference of opinion, and it is not honestly just because I happen to come from where I come from. When we went through the Kerrey Commission stuff, Social Security did stand out for a reason, and it was because with the proper management, the Social Security Enterprise Fund should not be a problem. It can be brought around. Prospectively, there is enough time to deal with it, even the graphics of that, and the way the dollars are going to flow in that.

I don't believe it is the same kind of problem as Medicare and some of the others, primarily Medicare, and when you look at the stuff, and if you haven't looked at the Kerrey Commission stuff, the reason I mentioned this, I would be curious to have your views on that, because I came away from the Kerrey Commission thinking we can manage Social Security out of its problem, we have got time to do that. We don't have time to manage Medicare out of its problem. We have got to do something different there.

Mr. STENHOLM. I agree with both of those general comments. My proposal dealt with the manner in which we hold the deal with the Social Security trust fund, which we both know is inadequate to meet the future needs.

Mr. GOSS. Absolutely.

Mr. STENHOLM. But it is also helping to mask the current deficit problem.

Mr. GOSS. Of course. I have said that many times, I agree. It is an accounting procedure. I think it is just absurd. Mr. Beilenson.

Mr. BEILENSON. Oh, I have one question which I hope is not unfair, Charlie.

In your discussion with us, you talked about 13 different ideas. If you had to pick one—if one of them were to be put into law just as soon as possible, which one would you pick? Take a minute. Do you not think that that one idea would do 80 to 90 percent—assuming you pick the same one I do—of what needs to be done?

Mr. STENHOLM. That is an interesting question. Pick one.

Mr. BEILENSON. Yes. If you could just wave a magic wand and one of these would go into effect, in the interests of bringing our deficits down, isn't the choice obvious and easy or am I wrong?

Mr. STENHOLM. Which one do you pick?

Mr. GOSS. Do you want to lead the witness a little here?

Mr. BEILENSON. Should I?

Mr. STENHOLM. Yes, lead me a little bit.

Mr. BEILENSON. Entitlement caps. Isn't that the big chunk of our problem or am I oversimplifying? I mean, we can keep doing these other things. I am not saying we shouldn't.

Mr. STENHOLM. I guess that is the one I was about to say myself, is entitlement caps, because that is the part of the budget that we seem to be—when we say uncontrollable——

Mr. BEILENSON. It is the biggest part of the budget—as I said at the outset, I hope I am not asking an unfair question. I want to concentrate all our friends' attention. We can fool with process as much as we want. We can tighten things up and do all kinds of things that ought to be done, but at the end of the day, what we have to do if we are serious about bringing the deficit down is to get control over, (*a*), the part we have not gotten control over and, (*b*), the part that within a short time will be three-quarters of the spending.

We can have lockboxes to make it even more difficult for the Appropriations Committee and its discretionary spending. I am not arguing strongly against it at this point. I don't think it makes a lot of difference, but the other is the big stuff, isn't it, or am I oversimplifying?

Mr. STENHOLM. No, you are not, and here, as I have taken to saying over and over in my senior citizens' centers and everywhere, cost-of-living adjustments, since when did a cost of COLA become an entitlement to anybody?

And when you start talking about capping, if you don't assume automatically that there is going to be a cost-of-living adjustment because inflation goes up, it is not that difficult to meet the needs, assuming you are willing to make some priority choices, and that is one of the concerns that I have now, that we are in this business that we have got to cut the growth rate of Medicare and Medicaid without talking about how we are going to do it. That bothers me a little bit.

I would rather spend the time—you know, we spent 2 years on health care reform, and we came to a conclusion that all the ideas out there weren't too good, at least the major ones, so we backed off. There were some good bipartisan ideas that were out there of how we could have dealt with it.

Now then, you know, we have got a wonderful opportunity in welfare reform, and in Medicare reform, which I agree with the chairman's comment, Medicare is different from Social Security, we have got an immediate problem that has got to be fixed, but I am a little bit worried that we are not spending the time on the process of how to fix it that we ought to.

Mr. BEILENSON. Absolutely.

Mr. STENHOLM. But entitlement caps, if you could deal with that like we have discretionary, and that is what we pointed out in our testimony, discretionary caps have worked, and we, Congress has gotten very little credit for that, but it has worked.

Mr. BEILENSON. But a lot of the process reforms people talk about on both sides of the aisle, still of necessity at the moment, are dealing largely with discretionary spending which isn't the big problem.

Mr. STENHOLM. Is there a reason for all of these waiver of budget rules other than convenience?

Mr. BEILENSON. Well, if I may say so——

Mr. GOSS. Mr. Beilenson has had a lot more experience than I have.

Mr. BEILENSON. But you guys are going to equal us. I can't answer properly off the top of my head. We ought to commission our staff, Mr. Chairman, if I may suggest it, to go through the 500, 600 waivers, looking at them very specifically. I remember not only saying but believing very often when I was carrying rules that had waivers, often two or three in a single rule, that the vast majority are technical waivers.

I think there is very little effect, real effect in terms of the size of the deficit. I am not saying we should have these waivers, but I'll bet you any amount of money if you go carefully through the record that only 30 or 40 out of the hundreds were significant or substantial in any way, and I bet you find that those aren't too great, either. And I wouldn't argue that, that is fine, but we should look at everything.

All I am saying is I want to try to concentrate our colleagues' attention on the big thing that has got to be done without letting them think that they can do all these little process changes around the edges, and say we have reformed the budget process. It may or may not help a little bit, but it is not going to help a lot.

Mr. GOSS. The gentleman needs to be assured——

Mr. BEILENSON. Including, incidentally, line-item veto, which you know, I am on the losing side of.

But like a lot of you, I dealt with line-item veto in the State legislature with a most conservative Governor, Mr. Reagan, before he became the most conservative President, and I tell you that you will not see a difference in deficits that is discernible. Not that you won't save a few million, I am sure, and it is important, but as you suggested originally, its biggest effect is that it will allow a substitution of the Executive's point of view for our point of view. But spending will be at just about the same level. I am not saying you shouldn't have a line-item veto, but it is not going to begin to solve the deficit problem.

Mr. GOSS. Will the gentleman yield or are you through?

Mr. BEILENSON. I am all through.

Mr. GOSS. I think the gentleman's comments suggest that maybe we aren't going to get to the meat of the matter. Believe me, it is my intention to do that. I am not just interested in tinkering with the edges of this thing. I think it is extremely important.

I think the gentleman is right, having sat on the Kerrey Commission, there is no question, the big bear in the woods is Medicare. You can't ignore it. It is there.

Mr. BEILENSON. He has come out of the woods. He is in our suburban neighborhoods.

Mr. GOSS. The trouble is there are some poisonous snakes out there as well as the big bear. I think we ought to do it all. The reason you have to do the poisonous snakes as well as the big bear is to get credibility. To get a hunting license to go after the big bear, you have to show you can deal with the poisonous snakes. You have got to build the constituency. That is the problem we keep running into.

Mr. BEILENSON. Maybe I am not being helpful. But you can argue all you want, Porter. You can go home and tell people as much as you want that we have, in fact, been really responsible compared to earlier Congresses. In the last 4 or 5 years since the BEA of 1990, the congressional cap on spending has frozen it to death over the next few years.

People are going to be screaming back home when they see we are not spending on discretionary programs. We will never ever get credit for it. You will never establish that until you start bringing the deficit down and you will never bring it down in a discernible way until we get to entitlements.

Mr. GOSS. I would like to say that the Governor of Florida, Governor Lawton Chiles, a very good Governor, when he first took over the office as Governor, he said, we need to do some things, but before I have the credibility to do them, I am going to stomp on all waste in Tallahassee, and there will be no waste dollars spent in the government, and then we will get down to the hard questions of cuts and raising taxes, either/or.

The Governor after one year announced that all waste had been excised from Florida and then went about his business. It was a brilliant, brilliant exercise in what I will call conditioning people for what is coming, and it worked very well, and I congratulate him for it.

Now obviously there is still a dollar or two of waste there but you have to, I think, show a sensitivity to that waste problem before you can get people to say, okay, I will tighten my belt, and that is all I am trying to say, Tony. I am not disagreeing with you.

Mr. BEILENSON. I understand. You are a sweet guy. If we had only you to deal with, we would solve these problems.

I would say only one other thing, that some of the folks on your side of the aisle for several years have been taking potshots at what I believe were responsible, and really fairly successful efforts to bring the deficit under control, including the deficit reduction bill which only Democrats voted for, no Republicans, a couple years ago. Frankly, that bill is making your problem a little bit easier to solve now because we reduced deficits by one-half of a trillion dollars over a 5-, 6-year period, even though we got absolutely no credit for it at all.

So when some of your folks shoot at government, take potshots at government, reduce our credibility even when we did the responsible thing over the past few years, it makes it harder for all of us together to continue to do the right thing.

I was impressed, if I may say so, as a very partisan jibe, and I don't mean to put it this way, but the most thoughtful suggestions with respect to reducing the deficit further and for process reform—today, again, I was reminded of it—have come from Democratic Members who over the past few years have been laboring mightily without as much success as we would have liked to do the right thing.

Mr. GOSS. I think we are going to have to have bipartisan cooperation to resolve this, and I hope your wife is in good health today. Please give her my regards.

I will announce to the World and Mr. Stenholm that we will have another general hearing for the Members and the staff in this area when it is appropriate. Then we will try to break these down by category and deal with the hearings item by item because I think it is going to have to go in that direction.

Having said all that, I thank you, Mr. Stenholm, very much. I really do truly value your input and all of the wisdom that you have given over the years to me as a Member of this body as well as this subcommittee.

Having said that——

Mr. STENHOLM. We sincerely look forward to working with you. Appreciate you holding these hearings, and we really look forward to working with you to accomplish some things, if we can.

Mr. GOSS. We mean for these to go somewhere. Thank you. We stand adjourned.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned.]

CONGRESSIONAL BUDGET PROCESS

Wednesday, September 13, 1995

House of Representatives,
Subcommittee on Legislative and Budget Process,
and the Subcommittee on Rules and Organization
of the House,
Committee on Rules,
Washington, DC.

The subcommittee met, pursuant to call, at 9:31 a.m. in room H-313, the Capitol, Hon. Porter J. Goss (chairman of the Subcommittee on Legislative and Budget Process) presiding.

Present: Representatives Goss, Dreier, Solomon, and Beilenson.

Mr. Goss. Professor, would you join us?

OPENING STATEMENT OF HON. PORTER J. GOSS, CHAIRMAN OF THE SUBCOMMITTEE ON LEGISLATIVE AND BUDGET PROCESS

Mr. Goss. The meeting will come to order. Good morning, ladies and gentlemen. This is a joint meeting of the Subcommittee on Legislative and Budget Process and Rules and Organization of the House, which David Dreier Chairs, and we are today continuing the process that we started previously of reviewing our budget processes, possible suggestions, ways of making improvements.

We have had two subcommittee hearings already. I don't know if you have had a chance to review any of that material. Certainly we are going to have more as we go along, and we want to talk to a number of experts, which is why you are here today, Professor, as well as some other good witnesses we have in the budget field; and we have sort of started from the question of the 1974 Budget Act. Is it really still relevant? Is it still useful? Is it the machinery we should be using?

I think that it is pretty obvious that we are going to have extra attention on budget matters, if not budget process, in the immediate days ahead. I think the term du jour is train wreck, and I think that we can certainly do better than that. Of course, that certainly goes well beyond the budget process, but I think there is a very clear commitment from the White House and on the Hill to try to balance the budget, and that is a big chore. And making sure that we have the machinery to get to that kind of a task, I think, is extremely important.

I am not sure that the process that we have is as good as some people think and I am not sure it is as bad as some people charge. And that is why we are investing the time and energy and soliciting the views, experience, and expertise of people such as yourself, Professor, and the other witnesses we are going to have today and those witnesses we have had already to find out if there are some things that suggest themselves as very obvious.

In our last hearing, we heard proposals from a bipartisan cross-section of Members, and I guess that if we had every Member in the room, we would have that many different suggestions and views on this. This is a very lively topic, but I think that it is fair to say while there is much difference in the specifics, there is certainly consensus that maybe now is the time to change, make some changes in the process; and how far, how many, I think is an exercise that is fully justified.

I think as we go down the road we are going to find out that every time somebody has a good idea for change that once you look at the details of that you find out maybe it is not as good an idea as it sounded up front, and there is more complexity because everything seems to lead to something else in this.

But I think that we—the primary function of the legislative branch, which is establishing and overseeing the budget of the United States—basically we are the house of revenue; this is where the buck starts. We have got to make sure that process works.

I frankly think—my personal view and the reason I am excited about doing this is—I think we are going to make some changes because we are going to reach some conclusions that there are some ways that we can improve things, at least bring them up to date.

In order to get the debate on a somewhat common-denominator process for ourselves as we go through the hearing process, we started out with the three questions that we have made available, and by no means are they meant to be exhaustive or exclusive. What are the objectives of the 1974 Congressional Budget Act? Which of those objectives are still relevant to today's fiscal environment? And should the budget process be redesigned? That is broad enough so that you can virtually draw any conclusions you want.

I think that we have had some good ideas already which have led to some others, and I think that we probably will be visiting some of those; and we would like to be able to come back to our witnesses and bounce ideas on them, and I am sure that is something that is going to happen.

I don't expect this job to be complete this month or next month, but I do expect that we will be focusing it down to something more specific, I hope by the end of the year, so that we can get on with the implementation of anything we think is a good idea. Having said all that, I yield at this time to Mr. Dreier.

OPENING STATEMENT OF HON. DAVID DREIER, CHAIRMAN OF THE SUBCOMMITTEE ON RULES AND ORGANIZATION OF THE HOUSE

Mr. Dreier. Thank you very much, Mr. Chairman. Before we proceed, I should probably observe with the gathering of both subcommittees of the Rules Committee—at least we have certainly high quality representation of the two subcommittees and also guests here—that Chairman Goss just became a grandfather for the third time this past weekend. The frightening thing is he is now the grandfather of Porter Goss II. I certainly congratulate you on that.

Let me say, Dr. Schick, that we appreciate your being here. In 1993, I had the opportunity to co-Chair what was called the Joint Committee on the Organization of Congress. We spent a great deal of time on this issue; and obviously, we are proceeding with that now because not much was done in the wake of the tremendous, very exhaustive hearings that we had on budget process reform back in 1993, and I hope that we are going to be able to proceed with them now.

We had the opportunity to hear from your present colleague and our former colleague, Mr. Frenzel, and I think that he, having played a key role in the whole issue of budget process reform, and the ranking minority member of the Budget Committee had some very interesting observations, and I am familiar with your position, obviously, and I think that there is room for debate and this debate is going to proceed as to exactly where we are going to be on this question.

I look forward to your testimony.

Mr. BEILENSON. I do, too, Allen.

Mr. DREIER. That was Mr. Beilenson's opening statement.

Mr. GOSS. We have been joined by the distinguished chairman of the committee and distinguished acting ranking member, Mr. Beilenson of California. I have not yet introduced the professor formally, if you care to say something, Mr. Chairman.

Mr. SOLOMON. Dr. Schick, it is a privilege to welcome you before our joint subcommittee. I apologize for being late. We have a dairy crisis in New York State, would you believe?

Mr. SCHICK. A daily crisis?

Mr. DREIER. A daily crisis is very true.

Mr. SOLOMON. Incidentally, this is one of them, the dairy issue. But I appreciate your being here.

Mr. GOSS. Mr. Beilenson.

Mr. BEILENSON. I appreciate your being here, too, Allen. It is good to see you, sir.

Mr. GOSS. Thank you. I think we have reached a consensus at last in the Rules Committee. We are pleased to see Professor Allen Schick from the University of Maryland.

Mr. BEILENSON. Let's hope we are pleased to hear what he has to say.

Mr. GOSS. I have read his testimony; I find it most stimulating. He also comes from The Brookings Institution today, and I think many of us know Dr. Schick's work. He is the author of the definitive book, "The Manual on the Federal Budget Process," so I would suspect not only will we get some special insights; I would also expect that we will get a little bit of that paternal pride I feel as a grandfather perhaps drifting through the——

Mr. DREIER. If the gentleman would yield, for those Members who just arrived, I announced Mr. Goss has become a grandfather for the third time and his grandson is called Porter Goss II.

Mr. SOLOMON. The second.

Mr. BEILENSON. For the first time?

Mr. DREIER. Third time.

Mr. SOLOMON. Congratulations, Porter.

Mr. GOSS. Thank you very much.

Mr. BEILENSON. Aren't you a little young to be a grandfather?

Mr. GOSS. You are very kind. I think he will be running for Congress in the year 2121.

Mr. BEILENSON. If he has any brains at all, he will never run.

Mr. SOLOMON. I hope he doesn't move to Utah or he might have a primary with Elizabeth, Mrs. Waldholtz' daughter.

Mr. GOSS. Professor Schick, to the business of the day.

STATEMENT OF PROFESSOR ALLEN SCHICK, UNIVERSITY OF MARYLAND AND THE BROOKINGS INSTITUTION

Mr. SCHICK. Mr. Chairman, as one of those who was present at the creation of the congressional budget process during the final years of the Nixon Presidency, I must assure you that it can't all be so bad because when the Congressional Budget Act was passed in 1974, I had no grandchildren. Now I have eight. So there is some progress, and I look forward to further reports on your progress.

Mr. GOSS. Thank you.

Mr. SCHICK. With your consent, I will summarize my statement rather than read it into the record.

Mr. GOSS. Without objection.

Mr. SCHICK. I am going to present a relatively favorable verdict about the congressional budget process. I believe that the design enacted in 1974 has withstood the test of time. There is no need to uproot it or to disregard the true successes in congressional budgeting, including those achieved in the current session of Congress. Indeed, 1995 is the vindication of the 1974 Act, because it is the first time that Congress has truly and independently formulated its own budget policy and priorities; that is what was intended in 1974.

All the Budget Act does is give Congress the opportunity and the instruments to embark on its own course. It doesn't mandate congressional independence. It doesn't force it. This time, whether one agrees with those priorities or not, Congress has seized the opportunity and is moving in that direction.

Congress could not possibly have established momentum toward a balanced budget in 2002 without the rules and the procedures of the congressional budget process. It would have had to work through individual appropriation and authorization bills, and through separate revenue legislation, without reconciliation. With all its warts and limitations without a budget resolution, Congress would be spinning its wheels. There would be a lot of rhetoric about a balanced budget, but there would be little movement toward a balanced budget.

I must admit, however, that during the two decades that the congressional budget process has been in operation, hardly anything favorable has been said about it. The bill of particulars against congressional budget procedures runs as follows: It is too detailed. It is not detailed enough. I remember, Mr. Chairman, when the present majority party labeled the congressional budget resolution as an adding machine with the subtract button disabled. Yet this year the budget resolution has worked in the opposite direction to cut Federal spending.

The process is not broken. It works as well as Congress wants it to and it serves whatever objectives are endorsed by congressional majority.

Let me stress this point. The whole purpose of the budget resolution, not as it was initially drafted in 1973 but as it was enacted in 1974, was to empower a congressional majority to create whatever budgetary policy it wants. As sentiment in Congress shifts, so, too, do the uses to which the process is put. The congressional budgeting has operated during periods of government contraction as well as during periods of expansion, when Democrats controlled both Houses of Congress and when Congress was divided between the two parties. Now, for the first time, it is functioning under Republican control.

As a matter of fact, the budget process has proved to be extraordinarily pliant and elastic. Look at all the adjustments that have been made over the last 20 years. It started as a 1-year resolution, and was expanded in the 1980's to 3 years, and in the early 1990's to 5 years. Now it extends to 7 years.

We began with two budget resolutions, the first was a target, the second was binding. Congress decided that double process didn't work well enough, so it discarded the second resolution and made the first one the mechanism of enforcement. At the start, Congress had a reconciliation procedure that was limited and unworkable. In 1980, Congress, led by the House of Representatives, changed the timing and purpose of reconciliation. Today it is the leading and in some ways the only instrument for dealing with deficit reduction through changes in entitlement law. The record of the past 20 years demonstrates that the budget process has a capacity for self-improvement.

Let me consider several possible changes in the congressional budget resolution. One is the proposal that the resolution be made legally binding by converting it from a concurrent resolution to a joint resolution, that it itself become a statute, that rather than having the clumsy mechanism that rather than first adopting a budget resolution, then going through all the other legislative hoops—13 or more appropriations bills, dozens of authorizations, tax legislation, reconciliation bills—that it create a legally binding budget resolution which would be signed by the President. In this way, the President would be brought into congressional debate early rather than late in the process. Perhaps, if that occurred, rather than talking about a train wreck in September, we would be talking about it in February or March.

I think that the notion of involving the President early in the process so that he and Congress can reach agreement on a timely basis and not go down to the wire looks good in theory, but doesn't work out that way in practice. Whether in collective bargaining between union and management or in political bargaining between the President and Congress, it is harder to reach agreement early in the day than late in the day. If the President and Congress reach agreement, and they most certainly will on 1996 appropriations and other budget matters which are now in dispute, they will do so because they are down to the wire, not because they have months to spare and the President is required to sign a congressional budget resolution. So I would suggest that the budget resolution be kept as a concurrent resolution and not be made into a binding document.

Keep in mind that even though it is an advisory, internal guideline to Congress, the budget resolution is not just a sense-of-the-Congress resolution, it is not just wishful thinking. It has strong enforcement through section 602, the Budget Enforcement Act caps; and even though the lack of the President's signature or congressional override or his veto doesn't give the resolution statutory force, within Congress, it functions almost as if it were a law. In fact, this committee, which is called upon frequently, as its Members know, to waive one or another rule of the House, has been exceedingly reluctant to waive substantive rules of congressional budgeting.

The section 602 allocations and the caps on the amounts that may be appropriated have not been waived willy-nilly by action of this committee.

Congress has the best of both worlds: It has an advisory resolution, and it has the capacity to enforce its will. That is what we want from the congressional budget process.

One other thought about turning this measure into a joint, statutorily binding resolution. I think in short order this resolution process would swallow up appropriations, and would move from natural priorities and large policy frameworks into the line items of the budget. The resolution would become a vehicle for changes into entitlement law. If this were to occur, Congress would indeed have a super committee in the form of the Budget Committees which would unbalance the division of power and responsibilities and committee jurisdictions in the House of Representatives.

Although, I would keep the budget resolution the way it is. I would, however, make some other changes in the process.

First, I would limit reconciliation bills to provisions that directly deal with deficit reduction. There is a provision in the Congressional Budget Act that has opened the door to a massive amount of nongermane legislation in reconciliation bills. That provision says that the Budget Committees must incorporate the recommendations of the various committees subject to reconciliation instructions without substantive change.

I am not quarreling with the, without substantive change language, but I believe the House should adopt its own version of the Byrd rule which now governs in the Senate. The Senate's Byrd rule is extraordinarily complex. There are nine definitions of what is nongermane, there are five exceptions to what is nongermane, and there is at least one Member of the Senate who understands the Byrd rule. But I am not sure that there is a second. The Byrd rule has been unevenly enforced to the disadvantage of this House.

Just 2 years ago, in 1993, Mr. Chairman, the House had a provision in the reconciliation bill that would have capped entitlement spending. This provision was dropped in conference because the Senate claimed that it didn't deal with deficit reduction. I can't understand the logic of that, but I sure can understand the politics of it. The Senate didn't like the cap, so it pulled out the Byrd rule in conference. The House had to retreat in conference because it cannot dictate the Senate's interpretations of its rules.

The House should arm itself with its own rule of what belongs in a reconciliation bill and what doesn't belong in it. Such a rule would enable it to balance its relationship with the Senate and give it a more disciplined reconciliation process.

The reconciliation bill produces a problem for which there is no easy solution. There has been a trend centered in this committee, Mr. Chairman, to allow future floor amendments on this bill. The larger the bill, the fewer floor amendments are allowed. A 1-page bill may have an open rule; a 50-page bill, maybe 5 or 10 amendments.

A big bill—and nothing is bigger than a reconciliation bill—this is likely to have a rule that permits very few amendments. While the current minority might protest this pattern, there is a compelling logic. The Rules Committee cannot possibly bring before the House of Representatives a 1,000-page bill covering dozens of programs, producing hundreds of billions of dollars in changes in Federal spending as well as changes in Federal taxation, and allow the House to work its will through an open or even a loosely constructed rule.

Whether one or the other party is in the majority, there is a necessity to discipline and limit what the House does on a reconciliation bill.

Nevertheless, I felt when the Republicans were in the minority that they were unduly restricted in the amendments that they were permitted to offer, and I hope that the current majority would allow the minority at least some opportunity to offer amendments to the reconciliation bill.

I would urge the committee to establish and enforce fair procedures for the consideration of reconciliation bills. At times the reconciliation bill has been considered before the report was available. There were times when it was considered before the ink was dry on the printed bill. I recall the time when some Members were walking to the floor on a reconciliation bill, crossing out and putting in numbers as they were about to move final passage of the bill, and they were uncertain as to a particular number in the bill. Somebody suggested that they check with an analyst at the Congressional Budget Office, they put the name of the analyst and her telephone number in the margins of the bill; they then passed the bill with the analyst and her telephone number.

We ought to enforce, even in the tight schedule of reconciliation, a layover rule of 3 days, perhaps even longer, so that all Members of Congress know what is in perhaps the most important single bill that the session takes up.

Now, I want to move to something which is extremely controversial and complicated, and on which my views differs somewhat from that of the Congressional Budget Office. It wouldn't surprise me if additional witnesses commented on this issue—the use of baselines. The budget resolution passed earlier this year called for replacing baseline budgeting with a form of budgeting that requires full justification and analysis of budget proposals and maximizes congressional accountability for public spending.

The problem the Majority has with the baseline is that it provides a distorted view, in its judgment, as to the trend in spending. Under baseline budgeting, it is possible for a spending increase to be labeled as a spending cutback. But suppose we abandon baselines altogether, and score not against future projections, but against current levels of spending. That also would introduce a type of distortion in congressional budgeting.

Today's spending is not at all a reliable guide as to how many people will be on Social Security 5 years from now, or 7 years from now. In the promised balanced budget year of 2002, there will be approximately 3 million more Americans on Social Security. Each of those pensioners and the 42 million others whom they would be joining will receive a cost-of-living adjustment for each of those 7 years. Congress cannot possibly have a reliable guide to its budget action based on current rather than projected spending.

Each approach is flawed: The baseline distorts, the current level of spending doesn't guide. Let me make two modest suggestions. No. 1 is, to require CBO to show both sets of numbers in all its reports. Why just show cuts against the baseline? Also, show the other picture, increases against current spending, and let people take whatever set of numbers and draw whatever conclusions that they want.

The second suggestion is that CBO should be more explicit and transparent with respect to the assumptions that drive the baseline. Every number in the baseline is an assumed number. Every cutback against the baseline is an assumed cutback. We don't know whether, in fact, $270 billion would be saved in Medicare over the next 7 years through a set of proposals that might be enacted later in the session. I believe that Medicare and Medicaid, which happen to be the two most controversial parts of the cutback package and also are the most difficult to score that the CBO numbers are overstated.

CBO is reluctant to adjust the future Medicare-Medicaid spending trend downward in response to the recent slowdown in the rise in health care costs. It was burned in the past when it made an adjustment for what proved to be a temporary dip followed by resumption in the steep upward march of Medicare and Medicaid spending. CBO doesn't want to go down that path again.

Yet, I don't think that if Congress does nothing, Medicare and Medicaid spending will rise about 10 percent in each of the next 7 years. Market forces are at work, not only political forces, that are slow, in the rise in health expenses.

What I am getting at, Mr. Chairman, is, CBO gives Congress the bottom line of the baseline; it doesn't give it the recipe for computing the baseline. It doesn't tell you enough about how the numbers were derived. Medicare is many programs. Medicaid is many programs. Each has different drivers, different elements, some that go up—utilization rates, disproportionate share payments, elderly population, inflation in the health sector, introduction of new technology and drugs, things such as that. It would be prudent to disaggregate the baseline so Members of Congress and the informed public can have a much better picture as to what is happening.

The third issue I want to discuss is whether rescission rules should be changed to strengthen the President's power to withhold funds. The House has already spoken on the matter this year. It passed the line-item veto bill which changed the rescission rules, so I will be very brief.

The current rescission rules do not give any sitting President sufficient power to rescind. The current rules say, that if Congress does nothing, the withheld money must be spent. In rescission, congressional inaction prevails against Presidential action.

The bill passed by the House earlier this session would reverse this relationship. Presidential action would prevail against congressional inaction. If Congress failed to act on a Presidential rescission, the affected funds would be cancelled. In my judgment, that goes a bit too far. I would prefer a more balanced approach in which the President is assured a vote through House and Senate rules on rescission. But if the vote were to go against the President, he would have to release the funds.

I want to move briefly to the Budget Enforcement Act and other aspects of the congressional budget because the budget resolution is not freestanding. I believe the firewalls between discretionary spending and the PAYGO accounts, the direct spending, ought to be enforced. There is an extraordinary danger that if the firewall were removed, a restored spending would be cut below present levels.

We don't see this problem today, but we will in the future. If we simply cap discretionary spending without making program decisions at that time and we allow the caps to be taken down in order to finance legislated increases in entitlements or cutbacks in taxes, these actions will be so popular that we may reach a point in the future where the Federal Government, would be inadequately financed.

I believe that we have to be inventive in capping entitlement spending. Entitlements should not be an open-ended draw on the Federal checkbook. There are ways of controlling these expenditures. Congress, 2 years ago, made a start.

It is hard to cap direct spending, but it is not impossible. The fact that we haven't made the effort tells us that we have a double standard in Federal budgeting. The parts of the budget that are most responsible for the deficit get off the hook, while the parts that are least responsible for the budget deficit are tightly controlled.

Finally, on authorizations and appropriations. At the very least, let's change the rules of this Chamber to require a minimum of 2-year authorizations. There is no logic in the world that permits authorizing bills to be for a 1-year duration. Authorizations are supposed to chart policy, not to make line-item spending decisions.

Look what is happening this year. Congress has an annual defense authorization bill, as well as an annual defense appropriation bill. The fighting over the authorization bill has become so intense that the appropriation bill is moving ahead of the authorization bill.

Let's go for at least 2 years. If you want to prescribe a longer period, 3 or 4 years, that would also be fine. But to have no minimum standard for the duration of authorization bills is to congest the House calendar, to invite conflict and to, in some cases, paradoxically to have less rather than more action on authorization bills.

21-204 - 95 - 6

When the authorization bill doesn't get enacted, action moves to the appropriation bill.

I also would look beyond the short-term advantage of loading legislation on to the appropriation bill. The chairman of the Appropriations Committee, Mr. Livingston, has spoken quite firmly this year about that he doesn't see the appropriations process as the suitable arena for legislating across the board.

This Chamber has had very intensive conflicts over legislation on appropriations bills. I would prefer a severer application of the rules governing legislation on appropriation bills. In addition, although it is not within the jurisdiction of this committee, but let me urge that perhaps the committee can suggest to the Appropriations Committee to look at its own subcommittee structure.

Why 13 appropriations bills? The appropriations caps are going to be in place for a long time. These are not temporary caps. I can assure you that even if at some time in the future Congress raises the caps it will still have caps. It finds these spending limits to be an extraordinary useful device.

Within the caps, the Appropriations Committees has to make discretionary spending decisions. We have 13 sets of Appropriations subcommittees. Therefore, 13 sets of conferences, 13 sets of rules, 13 sets of fights.

Some of the appropriations bills are small.

Every committee, except for Appropriations, examined its subcommittee structure this year. The Appropriations Committee did not. It should.

[Mr. Schick's prepared statement follows:]

Prepared Statement of Professor Allen Schick, University of Maryland and The Brookings Institution

Mr. Chairman, I am delighted that the Legislative and Budget Process and Rules and Organization of the House Subcommittees have jointly undertaken this review of congressional budget practices. An assessment of how Congress makes and enforces budget decisions is timely because budget policies and outcomes will determine whether key legislative objectives set by congressional leaders are achieved or thwarted. In this session of Congress, almost all roads lead to the Federal budget. Are the roads clear or congested? Do traffic patterns facilitate or impede progress? Should new paths be laid out to bypass bottlenecks or to shorten the distance between departure and destination? These questions suggest that congressional budgeting should not be thought of as a self-contained process but as part of a larger legislative framework.

Although my statement concentrates on the budget resolution, it also touches on other congressional actions—revenue measures, authorizing legislation, and appropriations bills. These are the legislative measures by which Congress implements—or blocks—the policies and priorities adopted in the annual budget resolution. It makes little sense to assess the budget resolution process without examining the means by which Congress gives statutory effect to its policies. A budget resolution that lacks enforcement is like having a car that is out of gas. It might look great, but it will not get you anywhere.

An evaluation conducted at this point in the 1995 session cannot be complete. The capacity of Congress to follow through on far-reaching changes in budget policy is being tested this year, but the full results will not be known until action has been completed on next year's appropriations and on the reconciliation bill. Nevertheless, 20 years of experience with congressional budget procedures provide a sound basis for gauging the workability and effectiveness of the process.

During the two decades that the congressional budget process has been in operation, hardly anything favorable has been said about it. The bill of particulars against congressional budget procedures may not be consistent, but it adds up to a formidable attack on the framework established by the 1974 Budget Act. It has been charged that the resolution is too detailed and that it is not detailed enough;

it generates legislative congestion and conflict by duplicating other revenue and spending measures; it is too weak because the resolution does not have the force of law, and it is too powerful because it drives other legislative decisions; it biases Congress in favor of higher Federal spending, and it encourages Congress to take a meataxe to Federal programs; it inflames relations between the President and Congress, and it does not give Congress sufficient independence in budgeting.

As one of those present at the creation of the congressional budget process during the final weeks of the Nixon Presidency, I have had my share of disappointments during the past two decades. Changes should be made in congressional budgeting, but—I believe—they should be consistent with the framework established in 1974. That design has stood the test of time. There is no need to uproot it and disregard the true successes in congressional budgeting, including those enfolding during the current session.

The congressional budget process is not broken. It works about as well as Congress wants it to, and it serves whatever objectives are endorsed by a congressional majority. As sentiment in Congress shifts, so too do the uses to which the process is put. Thus the budget process has operated during periods of government contraction as well as during periods of expansion, when the Democrats controlled both Houses of Congress and when control was divided between the two parties. Now, for the first time, it is functioning under Republican control. The budget process has proven to be extraordinarily pliant and elastic; it has adjusted to changing economic and political conditions, and it has been modified in response to perceived problems or opportunities. The process was inaugurated in the mid-1970's with two budget resolutions: one to be adopted in the Spring before House action on appropriations bills, the other in the fall, after action on these bills had been completed. The first resolution was to be a target, the second was to be binding. Congress dropped the second resolution in the 1980's, but it progressively transformed the surviving resolution from a mere statement of intent into an enforceable statement of policy. It also strengthened the budget process by shifting reconciliation from the end of the annual cycle to the start, and by tightening section 302—now section 602—controls on spending by congressional committees and appropriations subcommittees. The Budget Enforcement Act of 1990 also strengthened enforcement by capping discretionary expenditures and imposing PAYGO (pay-as-you-go) rules on direct spending. Congressional budgeting also has been strengthened by lengthening the period covered by budget resolutions. Initially the resolutions were confined to a single fiscal year, but they were extended to 3 years in the early 1980's and to 5 years in the early 1990's. The fiscal 1996 budget resolution covers 7 fiscal years.

The budget resolution has been molded to each year's circumstances and opportunities. In some years, the resolution has included reconciliation instructions; in others, it has not. In some, the resolution has done little more than rubber stamp the status quo; in others, it has sought significant changes in budget policy. In some, the resolution has been adopted on schedule, before House consideration of the annual appropriations bills; in others, its adoption has occurred late in the session, after appropriations and other budget decisions had been made. In some years, the resolution has been strongly influenced by the President's economic assumptions and budget recommendations; in others, it has strayed far from them.

The malleability of the congressional budget process has been made possible by the 1974 Budget Act. Early drafts of that legislation would have restricted budgetmaking power, but these restrictions were discarded on the way to enactment. Despite what often has been claimed about it, the Congressional Budget Act does not prescribe any particular policy or outcome. It does not ordain more or less spending, higher or lower taxes, balanced budgets or deficits. The 1974 Act enables Congress to adopt any budget policy that is supported by majority vote in the House and Senate. As anticipated by the act, congressional budget policy reflects rather than restricts majority rule.

The free-wheeling adaptability of the process has been amply demonstrated during the current session of Congress. In the aftermath of the 1994 elections, the political lineup in Congress has been changed and there has been a profound shift in majority sentiment. The Republicans who took charge of the House for the first time in 40 years have molded the fiscal 1996 budget resolution to pursue very different policies and priorities than those adopted in previous years. They have been able to do so because the Congressional Budget Act created a pliable, responsive process that does not lock Congress into any preset outcome. Without the budget resolution process, the new congressional majority would not have been able to revamp program and spending priorities, nor would it have been able to set the Government on a path toward a balanced budget in 2002. Without the comprehensive, integrating scope of the budget resolution, Congress would have had to reshape policies program by program, account by account through highly fragmented authorizations and appropriations processes. The odds are that the drive would have run out of steam long before the task was completed.

But the same budget resolution that has redirected government policy may, at some time in the future, enable Congress to take a different course. If and when there is another change in majority preferences, Congress will redirect its budget process to alter program and spending outcomes.

It is not always easy to convincingly explain why the Congressional Budget Act established a permissive process. Why not tie Congress' hands and lock a preordained policy into place? Why not, for example, decide in advance that the budget should be balanced year in and year out and cement that conclusion into law, and possibly into the Constitution? Permit me to offer two reasons why a permissive process is superior, even if it does not always produce the outcome you might prefer. First, the congressional budget process subscribes to democratic norms that allow a majority to rule. Second, efforts to frustrate majority rule by dictating certain policy outcomes and precluding others are likely to fail. In the long run, the majority will win out, even if its hands are tied by law or by the Constitution, especially on a matter as vital as the budget.

This is not the forum for discussing the pros and cons of a balanced budget amendment to the Constitution. But the importance of enabling the majority to express its will through the budget pertains to this question. The balanced budget amendment is predicated on the notion that the majority cannot be trusted to do the right thing. It follows from this premise that a majority that might act against the public interest should be constrained from acting. Yet a determined majority can break any constraint imposed on it by the Constitution. The evidence from State governments is that strict balanced budget rules invite evasion.

The logic of the congressional budget process is that a willful majority should also be informed and responsible. It should be above board about the budget consequences of its actions, and it should be accountable for budget outcomes. Rather than legislating on the budget in a piecemeal fashion—as is done in individual tax and spending measures—Congress should vote on a comprehensive budget policy covering all the revenues and expenditures of the Government. In my view, this logic is as it was 21 years ago.

IMPROVING THE CONGRESSIONAL BUDGET PROCESS

Congress made the right decision in 1974, but it was not a perfect decision. In fact, as has already been noted, the congressional budget process has gone through significant change in the past two decades. Additional repairs may be appropriate to ensure that the process is suited for the next century. I would like to discuss several proposals for altering the rules of congressional budgeting. One pertains to the relationship of Congress and the President; a second to the reconciliation process that will play a large role in determining whether Congress' budget objectives are realized; a third relates to the rules of rescission; and the fourth to the baseline used in scoring congressional actions.

SHOULD THE PRESIDENT BE INVOLVED IN CONGRESSIONAL BUDGETING?

Congress established its own budget process in 1974 to give it independence from the President's budget. In specifying that the congressional budget should be in the form of a concurrent—rather than a joint—resolution, Congress forged a measure that can be adopted without the consent or involvement of the President. Some have proposed that the budget resolution be adopted in the form of a statute—either a bill or joint resolution—that would require either the President's signature or override of a veto to be enacted. The argument in support of this proposal is that sooner or later the President and Congress must agree on budget policy, and that sooner would be better than later. If the President and Congress were required to negotiate on the terms of a budget resolution, the two branches of government would not go down to the wire on appropriations bills—as they are this year—with the threatened shutdown of many government agencies.

While I would like to mitigate budgetary conflict, I doubt that having a statutory resolution would be of much help. Faced with broad differences in their budget views, the President and a congressional majority might decide that an impasse is better than agreement, especially if nothing has to stop if they fail to adopt the budget resolution. There is a strong possibility, therefore, that the budget resolution process would collapse under the weight of legislative-executive friction. If this were to occur, the result would be no resolution rather than a statutory one.

Although there is no virtue in waiting until the last minute to resolve disagreements, often it is only under the threat of deadlines that the warring sides feel sufficiently motivated to compromise their differences. I do not like the end of the fiscal year anxiety as to whether the Federal Government will be able to open its door on October 1, but the solution—which will be discussed below—is to change appropriations rules, not to transform the budget resolution from a statement of congressional policy into negotiated agreements with the President.

Giving the President a formal role in the budget resolution might affect the internal operations of Congress. There is some possibility that a statutory resolution would trespass on appropriations bills and other budget-related legislation. At present, the non-legal status of the resolution precludes it from making appropriations, changing tax laws, or taking other legislative actions. But if the resolution were given statutory effect, the Budget Committees would have ample opportunity and some incentive to use it as a vehicle for implementing revenue and spending decisions. Even if House and Senate rules barred inclusion of appropriations or other specific decisions in the budget resolution, a determined majority would be able to get its way.

Having separate budget, authorizations, appropriations, and taxation processes opens the door to inconsistent actions. Nevertheless, swallowing all budget-related measures in a budget resolution would be a bad idea. Imagine what would happen if an omnibus measure covering revenues and expenditures were to encounter intense conflict within Congress or between it and the President. The risk of deadlock and breakdown would be enormous.

SHOULD RECONCILIATION BILLS BE LIMITED TO PROVISIONS THAT REDUCE THE DEFICIT?

Reconciliation is a gawky process. The instructions are in one measure and the legislation in another. The legislation comes out of many committees and must be welded into a single bill before the House and Senate vote on it. The complications of reconciliation are rooted in the nonlegal character of the budget resolution.

Yet the process works, not perfectly and not without pain, but it does produce the lion's share of the deficit reduction targeted in the budget resolution. Some additional deficit reduction might accrue from tightening up the process to ensure that House and Senate committees respond more fully to the savings targets assigned them in the reconciliation instructions, but not enough to make it worthwhile.

In the 15 years that reconciliation has been used, the biggest gripe has been over the inclusion of nongermane legislation. The circumstances under which reconciliation unfolds—short deadlines, pressure to reduce the deficit, and very large, complicated bills—and the special rules under which these measures are considered in the House and Senate have spurred some committees and Members to use it as a vehicle for the enactment of substantive legislation that has nothing to do with the budget. The Senate's Byrd rule is intended to guard against the inclusion of nongermane matter in reconciliation bills, but the House does not have a comparable rule. As a result, the House has been disadvantaged in conference, for it has been compelled to accept the Senate's interpretation of what is germane to deficit reduction. In 1993, for example, a procedure for controlling entitlement spending was ruled out of order, ostensibly because it had nothing to do with reducing the deficit.

In my view, the House should establish its own guidelines for what may be included in reconciliation bills. These guidelines should recognize that deficit reduction may be achieved either through specific changes in spending or revenue laws, or through general provisions that change the rules of budgeting.

Reconciliation usually is a compressed process, with Members knowing relatively little about the omnibus measure on which they are expected to vote. I understand the pressures that have led the House, in past sessions, to permit only a few designated floor amendments on reconciliation bills. It would not surprise me if the House were to adopt a highly restrictive rule on the reconciliation bill later in this session. Yet the scope of these bills is sometimes so broad that restrictive rules force the House to pass many provisions that would not be approved on their own.

I would urge that the House be barred from voting on any reconciliation measure unless the printed bill and accompanying report have been available for the minimum period provided in the layover rule. Were it not for the tight timetable on some reconciliation bills, I would recommend a lengthier layover period, perhaps 1 week or more before voting may commence.

SHOULD BASELINES BE REPLACED BY OTHER MEASURES FOR SCORING CONGRESSIONAL BUDGET DECISIONS?

In recent years, baselines have become the measuring rod for congressional action on the budget. Technically, baselines are nothing more than projections of future revenue and spending if current policies were continued without change. The baseline is adjusted for projected price changes and—in the case of mandatory programs—assumed changes in workload. These adjustments produce baseline projections of future revenue and spending that are significantly higher than current levels. When Congress passes revenue or spending legislation, the measure is scored against the elevated baseline, not against the current spending level. Under baseline computations, a program change is scored as a spending cut even if future spending is projected to be above current levels. This practice has upset some Members of Congress who argue that it distorts public perceptions of congressional budget actions by mislabeling spending increases as cutbacks. The budget resolution adopted by the House earlier this year contained a sense of the Congress provision that called for baseline budgeting to be replaced with a form of budgeting that requires full justification and analysis of budget proposals and maximizes congressional accountability for public spending.

There is no easy solution for the distorting effects of baselines. Neither the current spending level nor the current policy baseline is a perfect measure of congressional budget decisions. The former ignores the obvious fact that future spending has to be paid for in future dollars and that mandatory workloads do rise. It makes no sense to compute future Social Security budgets by ignoring the approximately 500,000 people added to the pension rolls each year, nor does it make much sense to budget for future defense programs by ignoring the impact of inflation on force structure and weapons systems. But scoring in terms of baselines also is deficient, for it often veils the assumptions that undergird the projections. In discussing baselines, one should always bear in mind that the projections are only as reliable as the assumptions on which they are based.

I sense that the baseline for fiscal years 1996–2002 has overestimated the future rise in Medicare and Medicaid spending under current policy. I do not believe that the cost of these programs will rise 9 to 10 percent for each of the next 7 years. In fact, recent spending increases for these programs have been below CBO forecasts. Erroneous assumptions are not harmless error. They make it appear that spending cuts are deeper than they really are and that Congress is producing more deficit reduction than it really is.

I would recommend a cautious approach. Rather than throwing baselines overboard, Congress should make them more transparent. CBO reports should disclose the assumptions on which the scores are based, and they should explain why the particular assumptions were selected. The baselines should be disaggregated, so that the various factors driving the estimates are separately identified. Where practicable, CBO should provide a range of estimates rather than a point estimate. CBO should also modify its scoring practices to exclude the effects of temporary changes in law on the baseline. Finally, to the extent feasible, CBO should display both changes from the baseline and changes from current spending levels.

SHOULD RESCISSION RULES BE CHANGED TO STRENGTHEN THE PRESIDENT'S POWER TO WITHHOLD FUNDS?

Most of the impoundment rules currently in effect were enacted as part of the 1974 Budget Act. These rules distinguish between rescission and deferral and establish procedures for Congress to review the impoundment of appropriated funds. The President's power to defer spending was severely curtailed in 1987; nowadays, the President may delay expenditures only for the routine reasons permitted by the Anti–Deficiency Act. He may not defer funds for policy reasons.

In the case of rescission, the President may propose the cancellation of appropriations, but current rules provide for funds to be rescinded only by act of Congress. If Congress fails to pass a rescission bill, the President must release the funds. Thus, if Congress does nothing, it has the upper hand. However, line-item veto legislation passed by the House earlier this year would reverse the rescission rules. This legislation provides that funds proposed for rescission would be cancelled unless Congress disapproved the action within a fixed period of time. This version of line-item veto authority differs significantly from legislation passed by the Senate, and the matter is now in conference.

My preference would be for a version that expedites congressional action on rescissions, but does not unilaterally enable the President to rescind funds without congressional approval. I regard it as untoward that, having signed an appropriations bill, the President would be able to nullify some of the funds without express legislative approval.

THE BUDGET ENFORCEMENT ACT

The 1990 Budget Enforcement Act (BEA) introduced a number of substantive constraints on congressional budgeting. It capped discretionary—appropriations-controlled—expenditures and imposed PAYGO (pay-as-you-go) rules on direct spending and Federal revenues. The new rules have improved congressional control of expenditures, but the control is much tighter over discretionary spending.

Discretionary spending is capped, direct spending is not. The fact that discretionary spending is capped years in advance and without reference to program demands makes it highly probable that at some time in the future the caps will be too low to finance the basket of programs preferred by an overwhelming majority in Congress. I do not believe we have reached that point yet—or will in the next few years—but there is a danger that if the caps are frozen for an extended period of time, Congress will face unwanted program side effects.

The House recently inserted a lockbox provision into the Labor–HHS appropriations bill. The lockbox rule provides that floor cuts in discretionary spending should go for deficit reduction, and should not free up an equivalent amount to be spent on other programs. In effect, the lockbox lowers the cap—for a particular fiscal year—by $1 for each discretionary dollar cut by floor amendment. Thus far, experience under lockbox has been limited, but this arrangement should be closely monitored to ensure that it does not further erode the capacity of the Federal Government to finance operations.

PAYGO rules do not effectively control direct spending. All such spending under existing law is permitted no matter how much it exceeds the budget levels set by Congress. I believe the House should explore means of capping entitlements under existing law or at least ensuring that spending overruns in these programs are controlled by budget decisions. PAYGO does effectively control increases in entitlement spending due to new legislation. This part of PAYGO works well and should not be altered. However, the manner in which baselines are computed and new legislation is scored directly affects the PAYGO process.

When BEA was enacted, it established a firewall between PAYGO and discretionary spending. This year, however, proposals have been made in both the executive and legislative branches to breach the firewall by applying reductions in the caps to tax reduction. I believe that the separation of discretionary spending and PAYGO should be enforced. If it is not, there will be further pressure to raid discretionary accounts to finance either entitlement increases or tax cuts. It is precisely because the discretionary budget is so defenseless against these raids that the walls should be restored.

AUTHORIZATIONS AND APPROPRIATIONS

Mr. Chairman, I would like to conclude my statement by suggesting a few incremental changes in the authorizations and appropriations processes. In my judgment, having separate congressional processes for substantive legislation and appropriations remains as valid today as it did more than 200 years ago when the First Congress met. I would not merge the two processes but would urge that each operate in its own orbit. To establish distinct zones for authorizations and appropriations, I recommend that:

> It be out of order in the House and Senate to consider an authorization of an ongoing program with a duration of less than 2 years. Congress should ban annual authorizations. These duplicate the annual appropriations process, generate conflict between authorizations and appropriations committees, and congest the legislative calendar. Defense spending is the worst case of duplication. This year, Congress is proceeding on the defense appropriations bill before it has completed action on the annual defense authorization bill.
>
> The House should more strictly enforce the rule against legislation on appropriations bills. These spending measures should not provide a free ride for the wholesale enactment of ill-considered legislation.
>
> The House and Senate should clarify their rules as to the requirement of prior authorization. What has to be authorized under the rules—the entire program or specific projects? And what happens if an appropriation is made for an ongoing program that has not been reauthorized—may the agency use these funds even though the program has not been reauthorized?
>
> Congress should establish fallback procedures for stopgap spending at the start of the fiscal year for programs and agencies that have not yet received their regular appropriation. It is foolhardy to go up against the September 30 deadline speculating whether there will be a train wreck and whether the Federal Government will be able to operate in the next fiscal year. Whatever short-term advantages may accrue from political jockeying, it is outweighed by the obligation of Congress to serve the American people. Congress should establish an automatic procedure for interim funding that permits agencies to continue while providing a strong incentive for enactment of the regular appropriations bills.

Mr. GOSS. Thank you very much, Professor.

That was even better than your written testimony. I truly mean that. I found it very refreshing in reading it, and I am finding it more so on hearing it. You have got, I think, very good, logical ideas. I am not sure I agree with every one of them. You certainly hit on some of the trouble areas that we talked about.

I am not convinced that we will ever resolve the problem between authorizers and appropriators, and if we authorized every 2 years and appropriated every year then we will have authorizers in the off year wondering why they are there and getting into mischief in some way I am sure and vice-versa.

The one area that I wanted to talk just a little bit further, you say that we have got this wonderful flexible budget structure that can do the bidding of the majority, and the value of that is obvious. And you further say that the accountability can be there. That is where I think we begin to part company a little bit. One of the problems has been the accountability question, and I am not sure whether it is the fault of the process or the fact that politics have overwhelmed the process in part.

Do you have any suggestions on how we improve the accountability question, realizing that we are talking in a very political atmosphere?

Mr. SCHICK. A suggestion was made early in the operation of budget process by the then minority that the congressional budget resolution be voted on in two stages: First the totals, then the parts, I think that two-stop procedure would sharpen accountability. The way the process has worked, is Congress ping-pongs between the parts of the budget resolution, the functional allocations and other spending items and then the totals. Ultimately, the total issued by responding to the pressure of the parts. There would be some advantage, I believe, in requiring a separate vote on the totals in the budget resolution, then, following that vote, requiring that the various pieces of the budget resolution be consistent with the total. That would generate a bit more accountability.

Mr. GOSS. One of the thoughts that has been tossed out there is sort of lookback, particularly on entitlements and direct spending. It says that if we do that and we look back and we really add it all up and see where we are and was it justified and do we, therefore, adjust and create some kind of a new enforcement stick, that gets it back down to where it is supposed to be if it is over the top when you look back. Do you think that helps in the accountability?

Mr. SCHICK. Yes, but not somebody to look back in an analytic sense. It has to be a lookback in a legislative sense. For example, a proposal that was adopted by the House 2 years ago, would have required that, pursuant to the adoption of a budget resolution, if entitlement spending exceeds the budgeted level, Congress would have to take corrective action.

The spending increase would not simply occur, there would have to be a legislative response to it. But just looking back at what happened the last fiscal year and annalysing why total spending was different than what we expected is not going to generate any legislative response and will not improve accountability.

Accountability must go hand in hand with legislative action; such action would be pursuant to a finding that the entitlement spending has varied significantly from the budgeted level during the period in progress, not for a past period but for the current period or the next fiscal year.

Mr. GOSS. Thank you.

Mr. Dreier.

Mr. DREIER. Thank you very much, Mr. Chairman. I join Mr. Goss in thanking you for your very helpful testimony.

I would like to touch on two areas briefly because we want to charge ahead. First one that you mentioned was the fact that the reconciliation rule in the past, when we were in the minority, they were very restricted. How would you view a fair and balanced rule as we look at the reconciliation process now? You said some opportunity for the minority.

Mr. SCHICK. The typical opportunity which is given to the minority is an amendment in the nature of a substitute. That would be one vote, and I would expect that to be the case this year.

I am reluctant to go beyond that for the following reason: As much as we would want to open up the rule a bit more, the minority, if it were permitted to offer any amendments that it wanted, would simply engage in sniper fire. It would target the most vulnerable provisions of the reconciliation bill or the one that would most embarrass the majority and unravel the package. For that reason I think that the House can't give the minority a free hand on a reconciliation bill in deciding what amendments it may offer.

Mr. DREIER. Let me put on one of my other hats. Jerry serves on the special task force to review the committee process. I had the opportunity to offer the opening day reforms we have in the 104th Congress, working on that during November and December of last year, and the Speaker has asked that I continue with that.

As I said, Mr. Solomon is a part of that effort; and we are going to be looking at several proposals, one of which is to completely abolish the Appropriations Committee, which was discussed back in 1993. I know that that is a bit of a challenge, but since you raised the prospect of reducing the 13 subcommittees, I wonder if you could expand a little bit on that as to what proposals—I know you couldn't deal with the political problems which we face now. Now that we have got 13 Republican subcommittees—Cardinals, you know—it is a very tough issue for us, but if you could look at it analytically I would appreciate it.

Mr. SCHICK. Let me begin with a story out of school. In 1973, Alice Rivlin and Charles Schulte coauthored an article which proposed that the appropriations and authorization committees be combined into program committees. That is the label they gave them.

A little more than a year later, Dr. Rivlin was the leading candidate to be the first director of the Congressional Budget Office. At a closed-off hearing—this was 20 years ago—she was asked, what do you think about the proposal to abolish the Appropriations Committee? She said, oh, that was just an academic idea. So here is an academic speaking.

Mr. DREIER. We are ready for it.

Mr. SCHICK. The First Congress in 1789 passed one law establishing the War Department and a second law funding the War Department. That was long before the House had a rule on the subject. Why did it pass separate legislation and appropriation? The reason is, that if Congress combines without limit, legislation and money in the same bill, you have a prescription for annual train wrecks and for multiple train wrecks.

We often think that fighting over money is the most intense conflict in Congress. In fact, it is the easiest to compromise. Fighting over legislation and the maneuvering, the political difficulty of combining authorization and appropriations would be so enormous. There is no democratic country in the world, which combines legislation and authorizations. Many have different parliamentary systems—because to do so would run the enormous risk of derailing the legislative process.

Let me make one other comment. The authorizers who have been pointing the finger of blame at the appropriators ought to look at their own operations. How many times do members of authorization committees go to members of appropriations and say, put that provision in the bill?

Mr. DREIER. That has never happened.

Mr. BEILENSON. That we know of.

Mr. SCHICK. I know it has never happened; that is why the authorizing person who asks for the favor sometimes attacks the appropriators for encroaching on their territory. I believe that the solution is to more clearly define the differences between authorization and appropriations—rather than to abolish the Appropriations Committees.

Mr. DREIER. How many subcommittees would you envision then for appropriations?

Mr. SCHICK. Perhaps half a dozen. We have 13 now. With the caps in place—and, believe me, they are effective—I don't see any reason for the House to have to vote on 13 separate appropriations bills—13 rules on 13 appropriations bills, 13 conferences, 13 vetoes, and so forth.

Mr. DREIER. Let me ask just one final question, if I might, Mr. Chairman, that has to do with the issue of the 1974 Budget Act.

Our friend, Mr. Beilenson, has put forward thoughtful arguments in the past about the fact that deficits would likely to be much worse today if it weren't for the 1974 Act. And again, going back to the 1993 Joint Committee on the Organization of Congress, I would like to just read one quote that came from Mr. Fisher of the CRS when he testified before us on this issue.

He said,

> Although defenders of the current process warn that elimination of budget resolutions would return Congress to a decentralized, irresponsible budgeting system, the facts do not support this concern. The process in place since 1974 may appear to be more coherent and responsible, but it regularly produces results that no one describes as responsible. The previous system, informal and decentralized, produced better numbers.

Mr. SCHICK. I am quite familiar with Dr. Fisher's argument. He was a colleague of mine for many years, and I subscribe to one-half of his argument, and I strongly disagree with the other half.

One-half of the argument is that the budget process has a spending bias; he has written an article with that in the title. He is flatout wrong. It has whatever bias the majority wants to give it.

Can anybody say in the light of developments in 1995 that this process has a spending bias? Congress has cut Federal spending, and it will continue to cut—when all the dust clears it will take hundreds of billions of dollars of cuts which would not have been possible without a budget process.

The second part of Dr. Fisher's argument is one I strongly subscribe to. It is not mentioned in the quote, but it is part of the line of reasoning that leads to that quote. The congressional budget process has greatly weakened the President's role in budgeting and the President's taking responsibility for the budget.

In the past, when there was a decentralized congressional environment, the President provided much of the glue for Congress. There were no baselines in those days so every step of the way Congress scored its actions against the President's. How much more or less are we giving than the President? And there was a determined effort in Congress to ensure that the total of all appropriation actions were within the President's budget, preferably below the President's request.

I share the view that we have to strengthen the President's role in budgeting, which is why I favor reform of the rescission process, but so many things have changed since 1974. The President is weaker principally not because of budget resolution but because of Watergate and Vietnam and withdrawal of trust from the White House.

In 1974, entitlements comprised about one quarter of the Federal budget. Today, they comprise more than one-half. That makes an enormous difference.

Prior to the budget process, for reasons unrelated, the U.S. economy was growing 5 percent a year in real terms. Since then, it has grown much more weakly.

So the problem with Dr. Fisher's argument is there is no status quo to return to. The status quo simply doesn't exist because the world of American politics has changed greatly in the 20–25 years since we had that.

Mr. DREIER. Thank you, Mr. Chairman.

Mr. GOSS. Mr. Beilenson.

Mr. BEILENSON. Thank you, Mr. Chairman.

Perhaps because I find myself in agreement with virtually everything the Professor said I thought that his testimony was really excellent. But forgetting the fact that I may agree with it, don't let that give you a bias, I thought——

Mr. SCHICK. You also had said the same comment when you were sitting in the Chair. Thank you.

Mr. BEILENSON. I do believe and I personally think it is self-evident that despite all of its faults and all of the things that can be done to improve it, I can't begin to imagine where we would be if we didn't have a budget process. I am glad that we have got it. I think it has worked quite well, and I think the Professor has spelled out why that is quite well.

I do think that we don't take enough pride in what we have done over the last few years. I think we have been quite responsible, all of us together.

The fact is that over the last 20 years or so, with almost no exceptions, we have appropriated each year less money than even conservative Republican Presidents have asked us to appropriate. I think we have been fairly responsible, especially in the past 5 or 6 years, since 1990, since we have had the PAYGO rules. We have really been quite careful about spending.

You folks don't give yourselves enough credit. What has always lacked is the majority will and courage to get a majority vote to do some things. I know there could be better procedures, but what we really need is the political will to grab the bull by the horns and do what is necessary to be done. And you all should take some credit. As Professor Schick pointed out, you have done that finally this year.

Some of us disagree with the way you have done it. We would have liked to be of help, if you would have made a few modifications—not increase defense spending and not cut an additional $245 billion to pay for tax cuts—but otherwise you have done exactly the right thing.

You are picking on Medicare and Medicaid, whose rates of growth have to be slowed. And you are doing it because, as the Professor pointed out, we have a process in place which allows you to do it if you have the will to do it and the necessary leadership, which we never had, unfortunately.

I have just a couple of questions, if I might.

I couldn't agree with you more with respect to biennial or even more than biennial authorizations. The answer to the question as to what authorizing committees would do in the other years is they should do what they don't do nearly enough of now, and that is oversight.

In the State legislature, we had hearings all the time looking not at the budgetary problems but the programmatic problems—whether this agency is doing its job, or whether these personnel are doing their job properly. There is an immense amount of oversight to be done by the authorizing committees, most of which don't do nearly enough of it; and they should be free every other year, or 2 years out of 3, to take a look at the programs and see how they are working and report back so when they reauthorize after 2 or 3 years they make some needed changes. They don't do nearly enough of that.

My question to you, Allen, when you said perhaps we should have biennial appropriations, how about biennial budgets? I personally think that would be difficult to do. I think it is probably useful to have a budget resolution every year. I think the numbers change so much even in the course of a single budget year that you can't predict too far out. But some people propose that we have a biennial budget resolution instead of an annual one. How do you feel about that?

Mr. SCHICK. I think we should look at experience under this year's budget resolution before we reach closure on that.

Let's assume that you set in motion a 7-year process to reach a balanced budget. And let's assume, as I am sure the majority does, that things don't destabilize that path. That you are on track in 1996, in 1997 and 1998.

The results will answer your question. The results will then lead Members of Congress to move to a multiyear process, because we already have a multiyear process de facto.

I think that is the way I would prefer. Let's not get ahead of experience. Let experience dictate the changes that you suggest.

Mr. BEILENSON. Finally, if I may, Mr. Chairman, our witness neglected to mention on page 18 of his prepared testimony—and for those of you who have not read his testimony I just want to bring it to your attention, in all seriousness—in which he suggested Congress should establish fallback procedures for stopgap spending at the start of the fiscal years for programs and agencies that have not yet received their regular appropriation, pointing out that it is foolhardy to go up against this deadline. [See p. 163.] We should have some automatic procedures in place.

I would commend that to the attention of our chairman, both chairmen, and others as well. I think that makes a lot of sense, and I hope we consider that as well.

Mr. SCHICK. I apologize for not calling your attention to that, because I think it is one of the more important things that require attention.

Mr. BEILENSON. I do, too. There is no reason why you can't continue funding at some lower level while you work out the problems.

Mr. SCHICK. Continue at a level that both sides have a consensus to come to the table and reach agreement.

Mr. GOSS. Mr. Beilenson may recall I think Chris Cox has got a proposal that has that ingredient. It is a subject that we have seen before.

Mr. BEILENSON. I think we should seriously consider it.

Mr. GOSS. He may have gotten it from Professor Schick, as far as I know. He has a very good understanding, as we all know.

Thank you, Mr. Beilenson.

Mr. SOLOMON. I might point out that George Gekas also has a proposal along that same line. I want to compliment you on your extemporaneous remarks. I wish every Member could be here to hear your testimony today.

I want to concentrate on one thing at the end. Just a couple of comments. In your earlier part of your testimony I think you made a profound statement in the fact you said without the rules providing for a budget process, we would not be on a balanced budget track.

That is interesting, because I think it is true that without it there is no way that we would have gotten where we are now. You mentioned the value of legally binding budget resolutions signed by the President and you oppose that.

I have some mixed emotions about it because I don't think the system is working properly now, yet I don't know if that would improve it.

You mentioned the Byrd rule in the Senate. We ought to explore that further.

You mentioned 2-year authorizations. I strongly support that.

Any government or any private sector needs to have that kind of foresight. Baseline budgeting requiring CBO to give us two sets of figures, that is extremely and perhaps would be helpful. I might want to explore later with you, not today, the line-item veto.

I didn't quite understand all you were saying there. I want to get to the fact that we have now authorizers, we have appropriators, we have budgeteers, we have the majority leadership and we have the President of the United States, all involved in this business of the budget and spending. Then we have the other body and a whole other layer. I just, for one, don't understand how this government really functions efficiently because of all this.

You mentioned something in the beginning, back in 1789 I guess when they established the Department of War and you know, the appropriators really were wanting to give power to individuals, because in the old seniority system that is where the power was and when you look at how we have not been able to get a handle on these huge deficits. You have so many people in the act now, and all of us are guilty of it, but we have the authorizers fighting for individual projects or programs, you have the appropriators doing the same thing, estimates at odds with overall general policy.

Then you have the budgeteers. They are really doing the same thing, whether they are fighting for a national cemetery in their district or some good program. But when you get all said and done there is just no way because you have to compromise in so many different ways. I discussed this with Ronald Reagan one time many years ago because he was hamstrung by it and really didn't understand the whole system and could never get a handle on this thing.

When David Dreier mentioned the possibility of abolishing the Appropriations Committee, it isn't necessarily leaving it up to the authorizers but other tiers in there. We need the authorizers, you have to have them because you have to have the policymakers.

Then you get into the next tier and that is the appropriators and budgeteers. Do we really need both. In other words, could not the Budget Committee perform the same functions that the appropriators do but have control of that money or vice versa?

Could we not abolish the Budget Committee but still have the budget process and give that to a redefined Appropriations Committee with less subcommittees and have them be responsible. Somewhere along the line we need to improve the system.

G.E., IBM do not have this kind of cumbersome system, and I know you can't compare government to the private sector, but if you have a division of one section of G.E., in other words, they are going to be responsible for developing their budget and they are going to give it to headquarters and headquarters will eventually make a decision. Somehow we have to improve this thing so we don't have so many people in the act that we never get the kind of efficient control that we need.

Those are my concerns but your remarks were extremely on the mark. I agree with almost all of what you said. Again, I wish every Member could hear it.

Thank you.

Mr. GOSS. My final comment would be that you spoke well on the point of the entitlements and direct spending. I have always thought that entitlements were a very big part of the problem and a very big part of the process. You have been very helpful to us and I appreciate your candor. I know Mr. Dreier would say that, too.

On behalf of both committees, thank you. We reserve the right to come back with further questions.

We will call our second panel. I hope we could use about 30 minutes of the second panel for presentations and 30 minutes for questions. That would give each presenter about 10 minutes to present his or her testimony.

Our presenters are Richard Kogan, Senior Fellow, Center for Budget and Policy Priorities, Professor Tim Muris, George Mason School of Law and Ms. Carol Cox Wait, President, Committee for a Responsible Federal Budget.

Mr. SOLOMON. I have to go to a meeting. I apologize to the folks about to testify, but I have read your testimony and appreciate your coming before us. I will return as quickly as I can, Mr. Chairman.

Mr. KOGAN. I will summarize my testimony.

Mr. GOSS. I don't want to put artificial constraints. If 10 minutes is not enough, we will accept for the record your prepared statement, and we are pleased to have you.

STATEMENT OF RICHARD KOGAN, SENIOR FELLOW, CENTER FOR BUDGET AND POLICY PRIORITIES

Mr. KOGAN. Thank you very much. If I seem to be going over 10 minutes, cut me off.

There are two main points I would like to make.

First is that our Government, in worrying about the serious deficit problem that we do have, should avoid overreacting by placing fixed, immutable, multiyear caps on any part of the system. Particularly there shouldn't be fixed, immutable, deficit targets—as a balanced budget, constitutional amendment would have—or fixed, immutable, nonflexible entitlement caps on the aggregate of entitlements or the aggregate of spending, or even necessarily on individual entitlement programs within them. Rather, we should take other means to control spending and control the deficits that are less arbitrary and more well-designed.

The second point that I want to make is that the rules and also the policy decisions that this committee makes and that our Government makes should do all in its power to support majority rather than minority rule, and specifically support and enhance the power of majorities to actually get things done.

Moving backwards, my general opinion is that fixed caps are unwise. This applies to a balanced budget constitutional amendment, to fixed spending caps, to fixed entitlement caps, to fixed program caps as, for example, on Medicaid, Medicare, AFDC, or food stamps. There is some tendency in this Congress to move towards fixed caps in those areas and I hope that one can find other ways to make the appropriate amount of budget savings in the programs other than by attaching caps.

Let me digress for a moment to discuss the nature of the deficit because it is easiest to illustrate the point while thinking about the deficit as a whole and the concept of a fixed cap on the deficit. First, the essential issue of the Federal budget deficit is that the level of the Federal deficit or surplus is a question about future consumption versus current consumption.

The point of reducing the deficit, something that I strongly agree with, is that reducing the deficit will increase net national savings, and reduce current consumption. By putting more money into savings, there will be more investment; the investment will lead to increases in productivity. There will be a positive real rate of return for the Nation's economy, more than if we have the deficits that we currently have, and the future will therefore be wealthier and more productive than it otherwise would be.

Given that economic background, which is, I think, the standard viewpoint that the broad range of economists of whatever party agree with, it follows that there isn't any particular right deficit or right surplus. If we reduce the deficit $50 billion, that is good because it is $50 billion lower.

If we reduce it $100 billion, that is better. If we knock $200 billion or $400 billion or $600 billion off the projected 2002 deficit, each would give us that much more future consumption at the price of current consumption, a policy tradeoff. When I talk about $600 billion, I am talking about surpluses in the year 2002 rather than balanced budgets.

Any number along that spectrum is purely an arbitrary target. The right answer is—in general—the more, the better and the more the better is a value tradeoff.

However, even here this issue depends in large part on what the private savings rate is. When the private savings rate was much higher than it is now, back in the good old days of the 1960's and the 1950's, the Government could run a deficit and the net national saving rate would still be plenty high, there would be plenty of money for investment, and future productivity growth would be large.

When the private savings rate is as abysmally low as it is now, I think a strong case could be made that the Government should be running surpluses right now, not balanced budgets. If you have a balanced budget target, people say we have hit our target; fine.

The target is inherently arbitrary and does not take into account the real fundamental economic question, which is, is the Nation saving enough, too much, or too little. This is a way of getting back to saying that any arbitrary target, any target fixed in some past time and applying to the present, is bound to be wrong because conditions change.

And it is bound to be a value tradeoff of current consumption versus future consumption where different people have legitimate reasons to favor one more than another. I favor future consumption, but it is easy for me to say because I am part of a successful two-earner family and can afford to sacrifice more, and I have kids that I care deeply about. I can see others in another position for whom it is not so easy to say, "Sure, I will sacrifice now for someone's future benefit later."

So as I said, deficit targets, and by analogy caps in general, are bound to be too high or too low in some future time, maybe by a very substantial amount. Also they are bad macroeconomics.

They don't take account of the business cycle, and no Congress, unfortunately, can repeal the business cycle.

Graph 3 at the very end of my testimony shows the effects of the business cycle on the deficit, and it shows that one can have a cyclical deficit or a cyclical surplus that is very substantial as a share of GDP. [See p. 193.] For example, in 1983 we had a cyclical deficit that was 2.5 percent of GDP.

Trying to wipe that out in a $10 trillion economy, as it is projected to be in 2002, means $250 billion of deficit reduction in that year alone. You can't do that in a single year.

If you try to do it, you could turn a recession into a depression. Not only is this a bad idea, it is also unnecessary because the business cycles fluctuate around an underlying trend and it is really the underlying trend that is important, not the day-to-day or year-to-year fluctuations, but where the structural deficit is underneath that.

The problem is that fixed deficit targets, and fixed targets generally, ignore the business cycle. That is equally true of fixed entitlement caps that, for example, don't reflect the effect of the business cycle on caseload. Unemployment insurance is the obvious point.

Unemployment insurance doubles in essence during recessions and moves back down during normal times. A fixed deficit target that didn't account for that could do something like create a waiting list for unemployment insurance that was 6 months long. It would eviscerate the program. It is both not necessary and not useful.

The experience of Gramm–Rudman II, which set fixed deficit targets by statute, was not a good experience. Congress did two things.

First of all, it and the executive branch engaged in institutional lying to say, "Everything is fine," using rosy scenarios to say the targets would be met until they weren't met in actuality. But then it was too late because we had moved on. That institutional lying gave reporters an awful lot to talk about.

They talked about blue smoke and mirrors rather than real budget subjects, and I think helped breed general cynicism about our Government, I think a pretty unfortunate reaction. And of course the Gramm-Rudman didn't really achieve their purpose.

Second, when Congress and the President decided in 1990 that they were not going to lie to such an extent, that they would say that the targets could not be met, then they were amended. They were changed.

They were in fact repealed. I think trying to make something like Gramm–Rudman stronger would just make the evasions greater and the ultimate disaster when it can't be met that much greater. Instead of doing something like the fixed targets in Gramm-Rudman II, I think that the Budget Enforcement Act was more rational in this respect.

The pay-as-you-go rule, for example, says Congress cannot liberalize entitlements without paying for it, and Congress cannot enact tax cuts without paying for it, but if things fluctuate because of the business cycle, fine, so be it.

I might add that the business cycle is not the only economic reality that affects the budget, but so is inflation. Inflation is largely deficit-neutral, as CBO has pointed out.

That is to say, if inflation is noticeably above CBO's projections for ever and ever, we will spend more money. Many of the entitlement programs are indexed to inflation directly and many respond to it indirectly, such as Medicare.

But we will also take in more revenue by the same token, and the two will balance out. So inflation is not a deficit problem.

If, however, one sets fixed entitlement caps that were not responsive to inflation or fixed programmatic caps on individual entitlements, such as a Medicaid cap, that was not responsive to changes in inflation, one would end up cutting the program by, for example, not the 30 percent in real terms that was intended but 50 percent in real terms or perhaps only 10 percent in real terms.

If this Congress judges that it is right to cut benefits per capita by 30 percent in real terms, so be it. Legislate that result, but don't legislate a cap that would mean that it might turn out that you only got 10 or that you got 50. Get what you intended, not some unexpected result.

In this respect, I would point out that entitlement cap bills that do set targets on entitlements and enforce them through sequestration and that have been introduced in this and previous sessions are made in such a way that they are automatically adjustable for changes in caseloads vis-a-vis the projection or changes in inflation vis-a-vis the projection.

Mr. Armey has a bill that does that. Mr. Gramm has a bill that does that, Mr. Stenholm, Mr. Dole, Mr. Domenici. I don't like caps as a matter of principle, but I do think if one is going to have them, the key point is they should not be fixed caps but rather caps that respond to changes in caseload and changes in inflation.

That doesn't mean you have to build in all that and then do a plus. You can build in all of that and do a substantial minus. Just so that minus keeps going up and down as factors change.

There is another argument against aggregate entitlement caps and that is that entitlements are not out of control. If you look at the last page, graph 4, you can see that as a percentage of GDP Medicaid and Medicare are destroying us, but that all the other entitlements are basically unchanged over the period from 1994 through 2005, which CBO is projecting. [See p. 194.]

This includes Social Security and civil service and military retirement and welfare and food stamps and the earned income tax credit. There is not a problem with that group of entitlements. There is a heck of a problem with Medicaid and Medicare.

In this respect, I think it is very wise that the current budget plan has 72 percent of its entitlement savings from Medicaid and Medicare and that the President's alternative plan has 83 percent of his entitlement savings from Medicaid and Medicare. Of course, he only wants to do about a third in total of what Congress wants to do, but the priorities within that I think are well designed.

From my point of view, if you took all savings out of Medicaid and Medicare and left the others alone that might be even better.

Mr. GOSS. Please wind down your thoughts.

Mr. KOGAN. Then let me go straight to the other point I would like to make, which is that you should also as a matter of process look towards strengthening the majority's ability to govern and strengthen the leadership and avoid things that weaken the majority's ability to govern, that break deals, that allow fragmentation of the process.

Therefore, you should avoid such things as lockboxes, which actually make it harder to get the appropriations bills to conform with the budget resolution, or the *A* to *Z* plan, which allows individual groups which may be composed primarily of people who didn't agree with the budget resolution to change the entitlements that were moving on track with the budget resolution, or the line-item veto, which again takes away from the consensus that put together appropriations consistent with the budget resolution.

Don't give the President a line-item veto because that takes away Congress' main power. The President has the veto; you have the power to package.

If he has the power to unbundle your packages then he can get everything he wants and not what you want.

Don't do an automatic continuing resolution. Any continuing resolution is a package document where you have something, that is to say, what he has. If you have an automatic continuing resolution, he can win the game when he doesn't want cuts by just vetoing the regular appropriations bill from now until the end of the fiscal year and get what he wants.

Do three things that might strengthen the majority. No. 1, take the process of rotating membership that applies to the Budget Committee and apply it to all committees. This will make all committees more responsive to the leadership and to the will of the caucus as a whole. It will keep committees from going off track and representing a little coalition of their individual members.

Second, if there is any particular flaw in which the Congress does not really represent majority will, it is because of the influence of money. I suggest campaign finance reform as the best single budget process change, preferably public financing.

Third, see if you can prevail upon our friends in the Senate to make the Byrd rule apply only to Senate consideration of legislation and not stop the House from doing budget related things that seem relevant to the overall package.

Thank you.

[Mr. Kogan's prepared statement follows:]

Prepared Statement of Richard Kogan, Senior Fellow, Center on Budget and Policy Priorities

The budget process is a subset of the legislative process. While the Federal budget is important, it is not necessarily more important than other issues the Congress considers. Stated differently, a budget process that functions well may be a reflection of a legislative process that functions well and vice versa. So the basic question before this committee is whether the legislative process, of which the budget process is merely a part, functions well.

I think it does, especially in the House of Representatives. I therefore conclude that this committee should not suggest fundamental changes either to the legislative process as a whole or to the budget process. Perhaps I prefer the House of Representatives to the Senate because I had the honor of serving this body for 17 years on the staff of the House Budget Committee. Whatever the reason, it seems to me that more good can be accomplished by reforming Senate procedure than by reforming House procedure.

And yet a legislative and budget process that has largely worked as intended, and demonstrates daily that it can continue to function well, is now under attack in two fundamental ways. First, a large number of Members are suggesting that budget making be done by establishing multiyear, fixed, unbending, automatically enforced, numerical ceilings. These ceilings may be applied to individual spending programs such as Medicaid, Medicare, and Aid to Families with Dependent Children. They may be applied to broad categories of spending, such as all entitlement programs or all discretionary programs. They may be applied to annual spending totals, or even to the deficit. Such fixed ceilings are bad economics, unwise public policy, and unnecessary toward achieving prudent budgets, 9 times out of 10.

Second, a large number of Members seem eager to abandon majority rule, which is the underpinning of our democratic republic and goes hand in hand with a free citizenry. Specifically, many Members and outsiders are unabashed about suggesting different ways to institute minority rule in the House of Representatives. So-called supermajority waivers are now being proposed with depressing regularity. Their effect is to give one side in a public policy debate a procedural advantage over the other. This concept means, very simply, that one side of a debate can prevail with less than half the votes while the other side needs more. It means partially or completely disenfranchising some of your fellow citizens—potentially a majority of them.

It is ironic that any Member, owing his election to the voice of the majority, would contemplate subverting majority rule. It is doubly ironic that Members who profess a deep respect for the workings of a free marketplace of goods, services, capital, and labor would attack the free marketplace of ideas.

And in some cases, Members and others propose budget process reforms that combine the worst of these two sins: Fixed multiyear spending or deficit ceilings, combined with rules that would prevent a majority from increasing them. What would justify such a restrictive approach?

I have heard an answer—that the deficit is too big, that it is Congress' fault; that Congress is incapable of solving the deficit problem by majority rule; therefore, let's impose fixed ceilings on the deficit—such as zero—and create rules to hamstring a majority that may think 1 is a better number than 0.

Let's examine these propositions one at a time.

Big Deficits?

Adjectives such as big don't tell us much about the deficit. In fact, the best way to measure any economic factor—and the deficit is an important one—is relative to the size of the Nation's economy. By analogy, when I was fresh out of college and earning a salary of $2,400 per year, it would have been highly imprudent for me to borrow $1,000, even though I had no debts at the time. Twenty-three years later I find myself part of a successful two-income family; as a result, credit card companies are falling all over themselves to extend me $10,000 or $15,000 lines of credit, notwithstanding that I am now in debt—I own a mortgage. A $1,000 debt would have been big then, but a $10,000 debt is small now.

Graph 1, attached to the end of this testimony, includes a thick line depicting the deficit as a percent of the economy for the last 40 years. One striking aspect of this graph is that, as a share of the economy—gross domestic product, or GDP—the deficit is lower today than it has been in almost 14 years.

But is the current deficit, about 2.3 percent of GDP, big? One way to address this question is by comparing the deficit as a percent of GDP to the real growth of GDP, shown by the thinner dotted line. Two important facts are revealed by this Comparison.

First, particularly in the 1960's, the deficit was often lower than the economy's real growth. This means that the debt grew more slowly than the economy.

Of course, the deficit in any given year is the amount our Government's debt grows in that year. When the thick line—the deficit—is below the thin line—the economy's growth—the debt is growing more slowly than the economy. This means the burden of our debt is shrinking. Stated differently, the debt as a percent of GDP is shrinking. And it generally means that the share of our budget devoted to interest payments is shrinking as well.

True in this situation we still have deficits and the debt still grows, but if the economy grows faster, the debt hurts less. This allows us to attach a possible meaning to the concept of a big deficit: A deficit is big if it causes our Government's debt burden to rise.

This definition of big leads to the second important facto except during the 1980's, our Government has run big deficits only during times of war or recessions. In fact, this generalization appears to be true back to the beginning of this century, and probably back to the beginning of the Republics.

Graph 2 shows that our Government's debt as a share of the economy shrank significantly from 1946 through the 1970's—notwithstanding regular deficits—rose significantly during the 1980's, and has now leveled off. One member of the House Budget Committee told me his rule about holes; he said, "If you're stuck in a hole, first stop digging."

So what is the conclusion? It can be stated in different ways, depending on one's slant. A possibly neutral formulation is that in the early 1980's our Government made the mistake of cutting taxes significantly more than it cut spending. Starting in the mid-1980's we took a number of steps to reverse that mistake and now—another decade older and deeper in debt—we have finally stopped digging.

From my point of view, these two graphs refute the propositions discussed earlier:

The deficit is too big.—Not now.

It is Congress' fault.—Not for at least 10 years, and even when it was, Congress' sin was agreeing with the popularly elected President to a budget plan that itself seemed popular.

Congress is incapable of solving the problem by majority rule.—Demonstrated to be false by the evidence of the last 10 years, with actions so far this year adding weight to the demonstration.

The right deficit

So much for the good news. After all, Graph 1 doesn't stop at 1996, this fiscal year, but continues for another decade. It shows the estimate made by the Congressional Budget Office (CBO) of the likely course of the deficit if the laws and policies of the previous Congress were to remain in place. It shows a deficit that slowly rises as a share of the economy. True, the deficit does not reach the levels of the mid-1980's, but it is clear that those deficits, occurring in times of peace and prosperity, were an aberration and unjustifiably high. Not the worst, is an uninspiring slogan, ranking right up there with, "Never been indicted."

But there are two additional reasons to substantially reduce the deficit below CBO's path. The first is that, within the decade after the graph ends, I and my demographic cohort will retire and break the bank. It would be well for the Nation to save up some capital for the baby boomers' retirement; we squirrels are going to need a lot of acorns to last through the winter.

The second reason is related to the first, and gets to the fundamental economic reason for deficit reduction. Earlier I referred to the debit burden. But why is it a burden? What is wrong with a national debt, anyway? After all, the bulk of treasury securities are owned by Americans; paying off the debt—or even reducing its rate of growth—means paying money from some Americans to other Americans. Leaving aside distributional questions, how would that make the Nation as a whole richer? In addition, treasury securities provide Americans with a completely ironclad, risk-free location for their savings; why should that opportunity be limited?

Most simply, why do both you and I want lower deficits? For myself, the reason is that I am persuaded by the following:

> The principal reason to reduce or eliminate the deficit is to increase the net national savings rate. The personal and corporate savings rate is lower now than it was in the 1950's, 1960's, and 1970's. At the same time, Federal deficits have grown as a share of the economy, further reducing national savings. The resulting very low net national savings rate means slower long term growth in both the Nation's capital stock and the economy.
>
> Thus, the purpose of deficit reduction is to increase net national savings and private capital formation, which should in turn increase productivity and real economic growth over the long run. The issue of who benefits from increased economic growth is extremely significant, but nonetheless separate from the overall rate of growth. The idea is for the Nation to consume somewhat less now so it can consume more later.
>
> And this isn't a simple tradeoff of now vs. later; economic history and an overwhelmingly large number of economists agree with the axiom that savings equals investment, and agree that history shows a real rate of return on investment of about 3 percent per year. Thus, Ben Franklin understated the value of thrift, over a decade, $1 saved is $1.30 earned.

The foregoing economic discussion, which is a somewhat simplistic distillation of mainstream macroeconomic thought, has two ramifications. The first is that, in choosing a higher or lower deficit, our Government is making a tradeoff between present consumption and future consumption. Naturally people will differ about the relative values of present and future consumption.

It is easy to understand that some people will not be thrilled by a tradeoff of lower consumption now in return for higher consumption—with a bonus—later.

To begin with, some people doubt all economists, and are skeptical that there will be a positive rate of return. To them, deficit reduction is less compelling—why tighten your belt now if there isn't much reward later?

Some might worry that they won't live to see the fruits of current scrimping. Those who do not intend to have children may not be mollified that future generations, at least, will benefit.

And some will focus on distributional issues; conceding that future decades will be wealthier as a whole if we reduce the deficit now, they may expect that none of those benefits will go to them, their children, anyone they know, or any of their friends' children. The last two decades have been pretty dispiriting for the bottom half of our population, since virtually all the Nation's real economic growth has accrued to the top half.

Notwithstanding these arguments, I am firmly in the nest with other deficit hawks. I deeply hope that some future Congress will help distribute the economic pie more evenly. Still, I am pretty sure that the pie is not in the sky but rather ours for the taking. And I believe it is easier to redistribute a larger pie than a smaller one.

So what is the right deficit? The foregoing discussion suggests three answers to that question, all correct. First, it is reasonable to say: The lower, the better. Since the question is simply one of saving for the future and since a positive rate of return on savings and investment is extremely likely, the more savings now, the richer we will be later. From this macroeconomic perspective, reducing the expected deficit in 2002 by $200 billion is good, by $400 billion is better, and by $600 billion is better still. Of course, by now I am positing a fairly hefty surplus. But that is what saving for the future is all about. From this economic perspective, a balanced budget is simply a number somewhere along that spectrum; it has no magic to it, and is better than a deficit only because it is lower, it is worse than a surplus. From an economic perspective, it is a purely arbitrary target.

Second, I just said that the bigger the surplus, the better. In essence, the higher the net national savings rate, the better. Of course, this result cannot be taken to an absurd limit. That is, we cannot reduce current consumption—with a goal of increasing future consumption—to the point that we don't eat, or that we starve our kids, or fail to educate them, and so on. It is at least theoretically possible to save too much. And it is also possible to starve necessary public investment in an attempt to reduce the deficit; for reasons discussed more below, this would not be a wise approach.

But the point of this analysis is more fundamental, it is the net national savings rate, not the deficit or surplus, that matters. A net national savings rate of 8 percent has generally been considered decent. We could achieve that by a private savings rate of 6 percent and a government surplus equal to 2 percent of GDP. Or we could achieve it by a private savings rate of 11 percent and a deficit equal to 3 percent of GDP. It doesn't matter how, and the results will be equally good for the futures. Because the deficit or surplus does not operate in a vacuum, a reasonable economic target for a deficit or surplus depends entirely on circumstances. It follows that a constitutional fixed deficit target—such as a balanced budget—is unwise; it sets in place a figure that could be far too high or far too low in future decades.

Third, the answer to the optimal level of the deficit or surplus depends on a national value judgment that weighs current consumption against future consumption. Since the personal savings rate has been falling steadily, I infer that most Americans place a higher value on current consumption than did their predecessors. Thus, it appears consistent that they should also tolerate higher deficits. I also posited a number of reasons that some Americans may not value deficit reduction terribly highly. I personally save more than most and want lower deficits, but in a democratic republic, the tradeoffs between present and future consumption should be made by the representatives of the electorate. I accept the fact that democracy is more important than my personal preferences about current vs. future consumption. Most simply, the fact that a balanced budget is just one possible answer to a judgment call about public policy tradeoffs is an additional reason to oppose a balanced budget constitutional amendment.

In conclusion, there is no theoretically correct level for the deficit or surplus. First, it depends on the private savings rate, which can vary markedly from decade to decade. Second, even when the current private savings rate is known and is expected to remain stable for a few years, one can always make an excellent macroeconomic case for running a lower deficit or a higher surplus. Finally, since the issue of the deficit or surplus and the net national savings rate boils down to a judgment call between current and future consumption, there is every reason to let the majority make that call and no reason to let the minority make it.

PUBLIC INVESTMENT AND CAPITAL BUDGETING

The economic rationale for deficit reduction, as discussed, is to increase net national savings and therefore total investment, leading to a greater capital stock, greater productivity, and greater real economic growth.

However, national investment actually has two components, private and public. Public investment is necessary where the private sector will not or cannot undertake investments important to future productivity. Examples of necessary public investment are education, infrastructure for transportation and distribution, and basic scientific research. There are also areas where private markets fail—areas for which there is no theoretical impediment to private sector investment but nonetheless private sector investment is inadequate. Examples of market failures include credit crunches, in which small businesses cannot get correctly priced credit, the general nonexistence of a market for small business equity capital; and the inadequate markets for disaster insurance.

The point of this discussion is that when our Government makes public investment, it can have the same salutary effect as private investment. Therefore, in theory, increasing government spending for public investment will increase total national saving directly but indirectly decrease net national savings by increasing the Federal deficit. The increase and decrease in national savings will net to zero. This is the theoretical argument in favor of capital budget accounting, in which investment spending is not counted as an outlay at the time it is made.

There are four corollaries to this theory. First, since investment spending would not be counted as an outlay when made, it must be counted as an outlay later, as the investment depreciates. Thus, over a long period, capital budget accounting will not reduce the measured budget so much as change the rules at the margin to favor investment spending over consumption spending.

Second, we don't have any acceptable method to depreciate such investments as education, scientific research, or Federal disaster insurance. Thus, capital accounting for these items would probably be done wrong; we just don't know whether costs would be stated too early or too late. Deficit figures in any given year could tend to become meaningless. And limiting capital budget accounting to physical infrastructure—for which reasonable depreciation schedules exist—would bias the rules in favor of one type of investment and against other types that may have higher rates of return.

Third, if investment outlays were measured on a depreciation rather than cash basis, changes in the Federal budget deficit would no longer measure fiscal stimulus or contraction. This would impede an intelligent discussion of Federal fiscal policy. However, see the discussion of automatic stabilizers, below. Our Government might decide to leave fiscal policy to automatic stabilizers, in which case Federal fiscal policy would not be a subject of policy debate in Congress.

Finally, the entire theory of capital budget accounting rests upon the assumption that the typical public investment is about as wise as the typical private investment. A road from nowhere to nowhere is not a wise investment; neither is teaching that the world is flat; and neither is investing so much in one particular field of scientific research that the Nation's stock of scientists is diverted from more productive fields of enquiry.

Thus, in debating capital budget accounting, Congress should consider whether either the accounting or the investments will be done correctly. Simply keeping our spending priorities focussed on wise public investment may be the best approach to this issue.

CONCLUSION

Fixed deficit targets, such as a balanced budget requirement, are inappropriate because there is no right amount of deficit or surplus; we can always save more if we want an even more prosperous future. They are inappropriate because the net national savings rate—which is the real issue—is a combination of our Government's deficit or surplus and the private savings rate, and the private savings rate may vary considerably over time. What is an adequate deficit or surplus given one private savings rate may be totally inadequate given another. Finally, a fixed deficit target is inappropriate because the level of deficit or surplus is just a judgment call about present consumption vs. future consumption, and like all judgment calls should be made each year by majority rule.

How fast?

Returning to the issue of deficit reduction, I take for granted that you and I want lower deficits and—in the abstract—perhaps surpluses. One question is how quickly we should reduce the deficit. According to standard theory, if economic conditions remain unchanged from year to year, then the increase or decrease in the deficit from year to year represents the degree of economic stimulus or drag—respectively—that Federal fiscal policy imposes on the economy. Too much fiscal drag—too rapid deficit reduction—could cause a recession. The evidence of the past few decades seems to indicate that reducing the deficit by an amount equal to ½ percent of GDP per year—or even a bit more—would not place too much drag on an otherwise healthy economy. Specifically, that amount of fiscal drag could be offset relatively straightforwardly by monetary stimulus, the Federal Reserve could lower interest rates.

Thus, all other things being equal, reducing the deficit by $35 billlon per year, and by more as the economy grows, should not pose an economic problem. Given the current deficit of about $160 billlon, one should be able to balance the budget in 5 years without causing a recession. However, if an economic slowdown occurs for other reasons during that period as it well might, we should accept the fact that the budgetary effects of the slowdown might postpone numerical balance by a year or more.

The issue of 7 vs. 10 years for balancing the budget is not one of macroeconomics at all. The problem is that with so much off the table—Social Security, defense, revenue increases—the resulting spending cuts are focussed much too narrowly. Some programs, and the people who rely on them, are hit too hard. This is particularly unseemly since those are the people who are least likely to benefit from deficit reduction. I have a hard time asking somebody already worse off than I am to reduce his current consumption so that my future will the better.

The fallacy of fixed targets: Part I

In this part, I conclude that fixed deficit targets are unwise for reasons that go beyond the fact that there is no right deficit or surplus, either in an economic sense or a public policy sense.

I conclude that fixed deficit targets are unwise economics because, if followed, they would increase the likelihood of more frequent, deeper recessions, and perhaps depressions as well. I conclude that they are unwise because they are likely to be evaded—for good reason—but the evasions involve substantial deceit and therefore foster public cynicism.

THE BUSINESS CYCLE

The previous section concluded that, all other things being equal, reducing the nominal deficit $35 billion per year would not be a macroeconomic problem. Of course, all other things are never equal. Specifically, the economy goes through cycles of growth and contraction, oscillating somewhat irregularly around a line that represents underlying real growth. In other words, we have recessions from time to time, and also periods of overstimulation that may threaten to create an inflationary spiral. During periods of recessions the deficit increases, as Graph 1 illustrated. The major reason is that revenues automatically fall but an important secondary reason is that spending on such programs as unemployment compensation and food stamps automatically increases.

Note that I described the business cycle as an oscillation around an underlying trend. If one ignores the oscillations and concentrates on the underlying trend, one can see what economists call the structural deficit. That is, one can estimate what the deficit would be in any year if the economy were following its normal path, rather than being temporarily affected by a period of recession or overstimulation. Clearly, it makes good economic sense for our Government to reduce the structural deficit—the underlying trend line—while ignoring the cyclical deficit or surplus.

Almost all economists agree that the so-called automatic stabilizers are very useful to the economy. Graph 3 shows the portion of the deficit that is attributable to the automatic stabilizers. That is, it shows the effect that economic deviations from the underlying economic trend have had on revenues and some spending programs. As can be seen, this cyclical deficit or surplus can be quite large; the cyclical deficit in 1983 was 2.5 percent of the economy. In contrast, this year's budget resolution calls for spending cuts in 1996 of about .55 percent of GDP, that is, about the standard amount that is considered safe. What this means is that the policy action needed to counteract cyclical deficits can be so large that they are beyond even the most dedicated and ambitious Congress.

If we insisted on hitting a fixed deficit or surplus target, then during a recession we would have to raise taxes or cut spending; in 1983, the amount would have been 2.5 percent of GDP even if the underlying budget would have been balanced absent the recession. Note that 2.5 percent of GDP is 5 times as much as the ½ percent of GDP that is considered a safe amount of deficit reduction. Further, it is safe only in non-recessionary periods, because the Federal Reserve can create economic stimulus by reducing interest rates. During a recession, interest rates sometimes fall so low that they cannot be further reduced. The fiscal drag of cutting spending or raising taxes during a recession amounts to stomping on the economy when it is down, and is a good way to turn a recession into a depression. From 1929 to 1932 our Government struggled mightily to balance the budget, enacting heroic spending cuts and tax increases. That policy was an economic disaster. This is yet another reason that a constitutional balanced budget requirement is a bad idea.

GRAMM-RUDMAN-HOLLINGS

The Balanced Budget and Emergency Deficit Control Act of 1985, better known as Gramm-Rudman-Hollings I and II (GRH), was a statutory version of a balanced budget constitutional amendment. GRH set fixed deficit targets, declining to zero. It enforced those targets through sequestration, automatic across-the-board cuts in many spending programs, though some key ones were exempt.

GRH I was unconstitutional because the wrong person—the Comptroller General—was ultimately responsible for the budget estimates that drove sequestration. The Supreme Court, in *Synar* v. *Bowsher,* ruled that only the President or an executive branch official responsible to him could be delegated the authority to make the estimates. This is important because it helps explain what was wrong with GRH II and with other bills modeled on it.

GRH II collapsed under the weight of the savings and loan crisis, which produced a sudden, large increase in Federal outlays. Of course, that is what insurance is all about, and illustrates still another flaw with the balanced budget constitutional amendment; it means that potentially expensive commitments of our Government, such as deposit insurance or the Price-Anderson Act—which insures the nuclear power industry against liability suits in the case of a nuclear meltdown—may not be legally binding on those few occasions when they might really be needed.

In any case, what this means is that GRH II has the macroeconomic flaws discussed above. Specifically, if followed faithfully, it would force our Government to raise taxes or cut spending by huge amounts in the event of a deep recession, very possibly triggering a depression.

It was largely because of the unpalatable economic and budgetary consequences of meeting fixed deficit targets that the executive and legislative branches conspired to evade GRH II for as long; as they could, and ditch it when they could no longer evade it. Here's how the evasion worked.

GRH II involved prospective enforcement. That is, the official estimator, the Director of OMB, would make an estimate of the deficit for the coming fiscal year in September, and again in October, based on laws in place and OMB's economic and technical estimating assumptions. Here is the key: OMB could choose sufficiently rosy economic assumptions, and sufficiently unrealistic technical spending assumptions, that the fixed deficit target would appear to be met. One year in the late 1980's, for example, the administration estimated that net deposit insurance outlays would be zero. Congress, in its budget resolution, did not want to give itself an impossible burden that the administration was unwilling to share in, so Congress regularly voted to accept the administration's estimating assumptions, though often after considerable public angst. Thus, the amount of deficit reduction actually needed in a budget plan was set at an achievable level simply by OMB's manipulation of the estimating assumptions. There was no look-back to force sequestration based on after-the-fact actual deficits; if there had been, GRH II would have self-destructed sooner.

In 1993, CBO reviewed GRH and the BEA and came to the following conclusions about the budget process: [1]

> First, budget enforcement procedures are much better at enforcing agreements than at forcing such agreements to be reached.
>
> Second, Participants in the budget process should be held accountable for results that are under their *direct* control. [Emphasis added
>
> Third, the enforcement process must the credible.
>
> Fourth, the process must include a certain amount of flexibility to allow reasonable responses to unexpected events.

It seems to me that GRH failed all four of these tests, though arguably it achieved flexibility through the use of creative evasions.

One can see the sad effects of GRH II. Rather than produce bad macroeconomic results, GRH II institutionalized the art of smoke and mirrors, timing shifts, and the rosy scenario. It created a situation in which institutional lying was the norm. Reporters spent more time exposing the little and big deceits than they did talking about the actual contents of and policy issues related to our Government's budget. My belief is that GRH II added to the ongoing erosion in public trust of our Government and its elected officials, and that it will take many years of candor for that trust to be reestablished. It is noteworthy that CBO's annual review of budget resolution assumptions vs. actual deficits shows that, from 1980 to 1994, the actual deficit was higher than the budget resolution's deficit in every year except 1992, 1993, and 1994. Note that these are the 3 years after GRH II collapsed. It can reasonably be expected that any attempt to reimpose fixed deficit targets will also thrust our

[1] *The Economic and Budget Outlook: Fiscal Years 1994–1998,* p. 86.

Government back into the dark days of institutional lying. It is possible that fixed spending caps or fixed entitlement caps will produce the same result.

The fixed deficit targets produced other reactions that were not conducive to honest budgetary debate. To begin with, when the rosy scenarios proved chimerical as they regularly did, recriminations flowed in both directions. Second, hitting budget-year targets became the alpha and omega of budgeting. Instead of looking down the road with an unbiased forecast to see where the long-term structural deficit was headed, our Government focussed obsessively on the next year's deficit ceiling. It took actions that were unwise in the long run in order to meet short-run targets; it avoided short-run costs even if they were likely to produce significant, permanent, long-run gain, and it patted itself on the back for escaping the artificial short-run crisis, producing unwarranted complacency.

In fact, our Government spent its time reacting to short-term changes in spending and revenue flows, even though they may have had no long-term meaning.

In contrast to budgetary debates during the GRH era, the budget debate this year has been of a noticeably higher quality. Of course, that is a pretty poor standard of comparison, and objective observers might argue that even this year's debate is too focussed on numerical questions such as nominal growth rates and too oblivious to questions about the underlying policy and economic tradeoffs. Still, this year's debate deserves decent grades. Both the Congress and the President are using estimating assumptions that are in the ballpark. Both the Congress and the President are debating whether the spending cuts are too harsh or are not. Both the Congress and the President are focussed on the long-term figures; they are not distracted by little, short-term ups and downs. And to a reasonable extent, where specific programmatic priorities are at issue or specific design features of the cuts are at issue, these are mentioned in public debate and the public, if it wants to know where each side stands, can do so.

Most important, both the Congress and the President have wasted only a little time on badly designed, inherently wrong-headed budget process proposals, they are debating the substance of the budget, and seem satisfied to use the existing process to implement whatever agreement can be reached.

AUTOMATIC STABILIZERS AND TAX POLICY

It is instructive to note that advocates of fixed deficit or spending ceilings do not advocate fixed revenue floors. That is, they do not propose to reform the budget process so that, if revenues fall as a natural response to a business slowdown, taxes are automatically raised. Apparently there is a consensus that, on the revenue side at least, the automatic stabilizers should be allowed to work.

This raises two issues. First, should our Government rely exclusively on automatic stabilizers to respond to the business cycle? Or should it supplement the automatic stabilizers by enacting, say, temporary tax cuts and spending increases during a recession? Among economists the debate is inconclusive. The standard argument against congressional supplementation is that it usually comes too late to counteract the recession, and may provide stimulus during the economic boom that often follows a recession; it may risk overstimulation, doing more harm than good.

Assume you accept this reasonable argument. Note here that the pay-as-you-go rules in the Budget Enforcement Act of 1990 (BEA) are consistent with this economic theory. Nothing automatically happens if taxes fall or entitlements rise under current law, but Congress may not cut taxes or liberalize entitlements by statute, even temporarily, without enacting a corresponding offset. Thus, the pay-as-you-go rules allow the automatic stabilizers to work, but prohibit congressional supplementation. The rules tend to enforce the structural deficit path agreed to in a prior budget plan, and allow cyclical deficits or surpluses to fluctuate as they may.

If you endorse budget process rules, such as the pay-as-you-go rule; that rely exclusively on automatic stabilizers to counteract the business cycle, then it becomes doubly important for the automatic stabilizers to be robust enough to work. Currently, automatic stabilizers are fairly robust, as Graph 3 indicates. Specifically, under existing law, Federal revenues are highly sensitive to changes in national income. Measured in percentages, if national income drops, Federal revenues will drop by almost twice as much. The economic results seem favorable; comparing the last 50 years to the prior 150, recessions have become noticeably milder and somewhat less frequent.

However, recent tax proposals threaten to weaken the automatic sltabilizers. Specifically, proposals for a flat tax would make Federal revenues less sensitive to the economy. Under a flat tax, as individuals lose real income, they would tend to be subject to the same tax rate—though they would pay a lower amount—rather than be subject to the lower tax rates that would apply under the current progressive income tax structure. Even more worrisome are proposals to shift from an income tax to a consumption tax; under some consumption tax plans, the highly sensitive corporate profits tax would be repealed. In a recession, as national income fell, Federal revenues would fall by about the same percentage, rather than by twice as much. As a result, automatic stabilizers would be only half as effective as they are now. A case can be made to strengthen the existing automatic stabilizers; certainly they should not be weakened.

SPENDING CAPS

As noted, automatic stabilizers exist on the spending side of the budget, as well. Unemployment insurance is the most significant of these, but Food Stamps, the Earned Income Tax Credit, Medicaid, and Aid to Families with Dependent Children (AFDC) each respond to the business cycle. The reason is that each responds to caseload and caseload is partially a function of the economy. In this respect, it is bad macroeconomic policy to put a fixed cap, unresponsive to changes in caseload, on entitlements as a whole or any individual means-tested entitlement.

Further, as shown by Graph 3, the business cycle and the attendant deficit increases are in fact temporary. They have little or no effect on the long-term deficit. Therefore, there is no special need for entitlement caps to be immutable. In summary, fixed entitlement caps are no better than flexible caps in addressing the long-term, underlying causes of rising deficits; they are bad macroeconomics; as noted; and they are especially harmful for the persons served by the programs. It makes no sense to cut unemployment benefits, food stamps, or any similar program just when it is most needed. Yet that is exactly what an immutable entitlement cap would do.

Recognizing this logic, earlier bills to cap entitlements have always provided that the cap shall automatically increase or decrease to reflect changes in caseload. For example, in the last few years, the Bush administration and a number of leading Republican Members of Congress have proposed to cap the total cost of all entitlement programs except Social Security. If the cost of entitlements under existing law would breach the cap for the coming fiscal year, Congress would have to reduce entitlement costs. If Congress failed to take such action, the President would have to order sequestration—across-the-board cuts in entitlements—to meet the cap.

In every one of these bills, the formula used to establish the entitlement cap included an adjustment in the cap to reflect changes in the number of beneficiaries receiving benefits. Examples of these bills include:

President Bush's proposed cap in 1992 and the Dole/Domenici bill of 1992 to implement the President's proposal;

The Domenici/Nunn entitlement cap amendment to last year's budget resolution, based on the report of the Strengthening of America Commission;

The Armey flat tax/entitlement cap bill of last summer;

The Gramm entitlement cap bill of this January; and

The Stenholm entitlement cap amendment of last fall.

This does not mean that I am endorsing entitlement cap bills with caseload adjusted cap. I don't like even the best-designed entitlement cap because it seriously diminishes accountability. Our Government should decide to cut, increase, or leave unchanged a given entitlement law based on a number of factors—of which price is quite important—rather than forcing automatic cuts if an inherently arbitrary cap is breached. And if automatic cuts occur, no one has to claim responsibility and defend why they happened, even if the defense would have been sound. Members and the President can say, "It was out of my hands." A more subtle problem with arbitrary caps is that the cap takes on a life of its own; if the cap is not breached, that fact becomes an excuse to avoid examining either the merits or the costs of the programs it covers.

So I am not enamored of any arbitrary caps—including discretionary caps. The purpose of the foregoing economic discussion was to show that a cap that does not adjust for the effects of the business cycle on caseload is significantly worse than a cap that does.

The budget process bill that Mr. Cox introduced last year is an example of the most unwise form of an entitlement cap. In effect, it would turn all entitlement programs except Social Security into discretionary programs. Each would be subject to its own fixed-dollar, immutable cap, established annually through the appropriations process. If economic conditions produced a higher caseload than contemplated at the time of the appropriation, the administration would be required and empowered to make program changes as needed to keep within the fixed dollar cap on each program. These could include across-the-board or selective benefit cuts or waiting lists. What good is unemployment insurance if a recession requires the administration to set up long waiting lists? A laid off worker needs unemployment insurance starting when he is laid off, not starting 6 months later, when someone else leaves the rolls.

The fallacy of fixed caps has also started to appear on individual means-tested entitlement programs. That is, fixed dollar block grants in programs that are inherently subject to caseload, such as the Medicaid and AFDC programs, are bad economic policy. It is one thing to cut Medicaid 30 percent below what it would otherwise cost under existing law, as this year's budget resolution calls for. It is quite another thing to cap the program so that it no longer fluctuates with the business cycle. The issue of the size of the cuts is independent of the question of programmatic responsiveness to economic-driven caseload changes.

Although the Food Stamp bill that passed the House earlier this year is not a block grant, it also incorporates the fallacy of fixed caps. A formulaic cap is established by the bill that is based on CBO's current, multiyear, steady-state economic forecast. The economy will inevitably oscillate around that steady-state forecast, but the Food Stamp cap will not. Thus, Food Stamp benefits will be automatically cut whenever the economy is in a recession.

INFLATION AND THE BUDGET

Future inflation is even less predictable than future caseload. There are two key points with respect to inflation. The first is that inflation has very little effect on the level of the deficit. The second is that inflation can vary markedly, and for a long period of time, from forecasts. Therefore, the issue of inflation is especially relevant to questions of overall entitlement caps or fixed caps on individual entitlement programs.

And it was noteworthy that the entitlement cap bills listed above all included automatic adjustments to the caps if inflation deviated from expected paths.

To begin with, many years of CBO analysis show that general inflation has almost no effect on the Federal budget deficit. If inflation is higher than expected, Federal outlays increase but so do Federal revenues, and by almost the same amount.[2] This analysis is based on existing law, in which almost every entitlement is directly indexed or indirectly responsive to changes in prices. Therefore, the conclusion is that there is no budgetary need to set fixed caps on entitlements, or on Medicare and Medicaid. Yes, there is a great need to cut them relative to existing law. But after that cut is made, the new, slimmer health programs should continue to provide benefits that respond to changes in inflation. The deficit targets will likely still be achieved.

Second, if a fixed rather than an inflation-adjusted cap is placed on entitlements as a whole or on health entitlements, that cap may have very unexpected programmatic results if inflation turns out to be very different from forecast. Specifically, the inflation-adjusted level of benefits may be much higher or much lower than this Congress intends.

Inflationary effects tend to be cumulative. For example, assume prices jump 2 percentage points above expectations next year, growing 5 percent instead of the expected 3 percent. In this case, prices in all future years will be 2 percentage points above current projections even if the inflation rate returns to 3 percent per year thereafter. Although any entitlement, Medicare, or Medicaid cap would presumably be designed to accommodate projected inflation, the projection is certain to be wrong, and perhaps by a substantial degree. For example, if Medicare were capped but then inflation turned out to be 1 percent per year higher than expected, the amount of extra spending needed to keep Medicare whole would total $76 billion over 1996–2002.

The possibility that inflation will surpass current expectations should not be ignored. CBO is currently projecting that general inflation will average 2.7 percent per year for the foreseeable future. Yet in the 1980's general inflation averaged 5.2 percent per year, and in the 1970's, 7 percent per year.[3] Further, CBO's record on economic forecasting, though as good or better than others', is hardly perfect. For example, in early 1988, CBO overestimated inflation for the year already in progress by 1.0 percentage points; in 1990, CBO underestimated inflation for the year in progress by 0.5 percentage points.

---

[2] See *The Economic and Budget Outlook: Fiscal Years 1996–2000,* Congressional Budget Office, January 1995, pages 78–79.

[3] These figures and the subsequent inflation and price figures in this paper reflect the average annual percent change in the GDP implicit price deflator on a calendar-year basis. Note, however, that low inflation is not unprecedented. For example, in the 1960's general inflation averaged 2.7 percent per year.

Over a longer period of time, the projections are even more speculative, by necessity. For example, CBO's baseline economic assumptions published in January 1995 imply prices in 2002 that are 4.3 percent higher than implied by CBO's January 1993 assumptions. In contrasts CBO's economic assumptions of January 1985 implied prices that, 7 years later, actually turned out to be 4.5 percent lower. The conclusion is that high-quality, unbiased 7-year price assumptions can be off as much as 5 percent in either direction during an era of relative economic stability. For Medicare, for example, this means that total program costs in 2002 might be $16 billion higher or lower than CBO expects solely because of uncertainty about inflation.

I might add that the same argument applies to aggregate discretionary caps. In 1990, when the Budget Enforcement Act established caps on discretionary appropriations, those caps were set at a level that produced the level of real—inflation-adjusted—spending that the negotiators agreed to. The caps were made adjustable, so that if actual inflation differed from the forecast made in 1990, the caps would increase or decrease accordingly. Because inflation has generally been lower than forecast in 1990, those caps have automatically been adjusted downward in each subsequent year but one.

The fallacy of fixed targets: Part II

The previous discussion has attacked fixed deficit targets and fixed entitlement caps, in aggregate or program-by-program, as being bad macroeconomic policy. Why have they become such a fad? As far as I can tell, the underlying reason is expressed by those who point to the fairly rapid increase in entitlement spending over the past few decades, in nominal terms, in real terms, and as a percent of the budget. It is sometimes said that, entitlement spending is out of control.

From my point of view, it is both necessary and proper to worry about the growth of entitlement programs, and to enact legislation to restrain that growth. However, it is both unnecessary and unwise to do so by means of fixed caps. To explain why, I need to back up a bit.

Graph 4 puts the entitlement question into perspective. Admittedly, as noted earlier, the Federal budget will change dramatically when my friends and I retire en masse. However, for the period 1994 through 2005, the picture is much more straightforward. Assuming that current laws and policies are left in place—

As a percentage of GDP, total Federal spending is projected to rise by 1 percentage point, from 22 to 23 percent. This, of course, largely explains why the deficit is projected to increase as a share of GDP, as shown in Graph 1.

More than 100 percent of that growth is caused by Medicare and Medicaid. Discretionary programs are projected to shrink as a share of GDP, and the sum of all the remaining entitlements, including Social Security and means-tested entitlements such as AFDC, Food Stamps, and EITC, is projected to remain unchanged.

Net interest continues to increase as a share of GDP, but only because the deficit does.

As can be seen, the entire budgetary problem hinges around Medicare and Medicaid. If they remained flat as a percent of GDP—if they grew in real terms only as fast as Social Security—then total spending would be shrinking, interest on the debt would be declining, and the deficit would be shrinking.

Thus, a statement such as, entitlements are out of control, is much too imprecise. It would be far more accurate to say that Medicare and Medicaid are out of control.

Given this reality, three conclusions seem to follow. First, overall entitlement caps are inappropriate because they subject programs with relatively better cost control features to sanction based on Medicare and Medicaid growth. Likewise, fixed caps on other programs, such as Food Stamps and AFDC, are unnecessary as budget control mechanisms. The design, the costs, and the effects of such programs can certainly be debated and, if desirable, altered, but there is no budgetary reason to impose fixed caps on them.

Second, it is perfectly reasonable that the congressional budget targets 72 percent of its 7-year entitlement cuts to Medicare and Medicaid. The President's summer budget targets 83 percent of his 7-year entitlement cuts to those two programs, and that may be even more appropriate. Basically, the President and Congress agree on the shape of the entitlement package but disagree on its total size; the congressional entitlement package is about 3½ times as large.

Third, it is desirable that the Medicare and Medicaid cuts our Government ultimately agrees upon be made permanent. Too often in the past, a portion or all of the cost-saving measures in entitlement bills are designed to expire immediately outside the budget window. This may be a possible area for budget process reform;

perhaps the reconciliation process can be designed to give a clean amendment to those who want to make all entitlement savings in a reconciliation bill permanent.

THREE TYPES OF PROGRAM DESIGN

Broadly speaking, entitlement programs can be designed in three fundamental ways. First, they can have rigidly controlled costs, as with capped entitlements such as Title XX social service grants. Second, they can have tightly designed eligibility and benefit features, but be open-ended with regard to enrollment and nominal per capita costs. Social Security, Food Stamps, and veterans benefits are examples of this type of program. Finally, they can be open-ended with regard to real benefits, program eligibility criteria, or both. Medicare and Medicaid fall in this category.

Let me use an analogy to illustrate the three types. Imagine that the budgetmaker in your family sends you out for the groceries: There are three different types of instructions you might receive—

Capped.—Here is $95. Go buy enough food to last a week.

Tightly designed.—Here is a detailed shopping list for this week. Go buy the items on it, but nothing more.

Blank Check.—Here's my credit card. Go buy food.

Medicare and Medicaid fall into the latter category. Those programs pay for whatever procedures and tests the doctor orders, without limit. In the case of Medicaid, States can choose to cover considerably more services than the basic Federal package, and can raise the income threshold for eligibility for children, AFDC adults, and the medically needy to very high levels. The Federal Government pays the majority of the costs. Given a blank check, I'm surprised that costs don't rise even faster than CBO projects.

One key conclusion follows from this analysis. Graph 4 showed beyond doubt that tightly designed entitlement programs are not out of control even though they are open-ended. And it showed that the two blank-check programs, Medicare and Medicaid, are. I've read that it is likely this Congress will attempt to turn Medicare and Medicaid into capped entitlements as a way of making savings. This may be a serious over-reaction. The drawbacks of capped entitlements go beyond the fact that they are unresponsive to the business cycle, and therefore weaken the automatic stabilizers, as previously discussed. In addition, capped entitlements are unresponsive to changes in prices; that is, the caps do not adjust if inflation turns out to be different from CBO's forecast.

It follows that a better approach would be to make Medicare and Medicaid more like those entitlement programs that are not out of control. In Medicare, for example, the essential reform could be to turn the entire program into a voucher system. The insurance market would have to be reformed to guarantee community rating and prohibit exclusion based on medical conditions; access to competing health insurance plans would have to be organized; and risk-pooling mechanisms for insurance companies would be needed. While this task requires a lot of careful thought and some time to implement, but it would also succeed in creating a system in which every elderly person would be guaranteed a voucher adequate to buy health insurance and the annual inflation-adjusted rate of increase in vouchers would be controlled by statute. Such a system would no longer be a blank check, and Medicare would no longer be out of control.

A related approach could be taken for Medicaid. The key point here is that the entitlement to Medicaid benefits and the scope and nature of services covered by those benefits would become clearly spelled out by Federal statute. States could not choose the great expansions of eligibility and services that they have in the past. Notice that this approach is the exact opposite of a block grant; instead of giving States a fixed amount of money and letting them do whatever they want, for good or ill, the Federal Government would tighten eligibility and benefits and define them more clearly as a way of cutting costs and cost growth.

CONCLUSION

In principle, I do not think it is necessary or appropriate to establish multiyear ceilings on the deficit, on spending as a whole, on categories of spending such as entitlements or discretionary programs, or on individual programs such as Medicare and Medicaid. Rather, Congress should—and in fact does—use the annual budget resolution to set dollar limits on discretionary appropriations for the budget year, and should—and often does—use the reconciliation process to make significant budgetary reforms in entitlements and taxes. Likewise, one does not need the pay-as-you-go rule to prevent entitlement liberalizations or tax cuts; budget resolution multiyear allocations are adequate to achieve that result.

Having said that I don't think the BEA is necessary, I would hasten to add that the BEA works as intended, and avoids the major sins of fixed ceilings. That is, the pay-as-you-go rule does prohibit our Government from deliberately passing legislation that would increase the structural deficit, while allowing the temporary effects of business cycles to run their course. It allows the automatic stabilizers to work. It does not require institutional lying in the form of a rosy scenario; it allows both the President and Congress to use reasonable estimates about the effect of their budgetary policies. And the discretionary caps, being adjustable, mean that the real level of resources agreed to in 1990 has been a ceiling on discretionary appropriations.

In contrast, fixed ceilings for the deficit would, if actually followed, be very poor economic policy. Fixed ceilings on entitlements as a whole or individually would have very bad programmatic effects during a downturn in the business cycle, even though the business cycle has little effect on the underlying structural deficit. Fixed ceilings could lead to a significant unintended erosion of entitlement benefits or to a significant unintended liberalization of real benefits; depending on the unpredictable course of inflation. The same is true of a fixed, rather than an inflation-adjusted, discretionary cap.

In short, avoid fixed targets in any form. Use the budgetmaking tools our Government already has; they work. If you decide to set multiyear targets, however, follow the model in the BEA inflation-adjusted discretionary targets, and pay-as-you-go rules that allow automatic stabilizers to work and accommodate changes in caseload and inflation.

The real challenge for our Government is not the budget process at all. Rather, it is to end the blank check features of Medicaid and Medicare. This will involve resolving a set of knotty programmatic issues, but it is possible to make those two health programs much more like the other entitlements, which are not out of control, and in fact are growing no faster than our economy as a whole.

Majority rule in a democratic republic

So far, I have focussed on the unfortunate economic, policy, and institutional effects of fixed deficit or spending ceilings. I would like to turn now to issues of majority rule. I have already said that majority rule is more important than any particular public policy outcome. I think that this principle is part of the glue that holds our country together. The vast majority of Americans can accept, perhaps gudgingly, that they will sometimes lose a fair fight. Many can accept that their public policy views will never be shared by a majority of their fellow citizens. But very few Americans can accept losing an unfair fight, and at least some have the decency to feel that if they can't win fairly, then they shouldn't win unfairly.

Most simply, it is unfair for public policy issues to be decided by super majority rules.

I contend that it is also unconstitutional for public policy issues to be decided by super majority rules. Admittedly, the existence of the U.S. Senate, which does not represent people but rather certain arbitrary jurisdictions of primarily historical interest, means that our Government as a whole is not fully majoritarian. Still, the existence of the Senate is no excuse to make the situation less fair than it currently is. If it is not unconstitutional, it certainly should be.

I am convinced that the constitutional convention had it right when it voted against supermajority requirements. Supermajority rules applied in the Continental Congress; the framers of the Constitution had experience with them and understood exactly what they were rejecting.

Both James Madison and Alexander Hamilton, the key figures in drafting the Constitution and the authors of the Federalist papers—along with John Jay—explained why the Constitution rejected supermajority rule:

> [Madison] It has been said that more than a majority ought to have been required for a quorum, and in particular cases, if not in all, more than a majority of a quorum for a decsion. * * * [But that would mean] * * * [i]n all cases where justice or the general good might require new laws to be passed, or active measures to the pursued, the fundamental principle of free government would be reversed. It would be no longer the majority that would rule, the power would be transferred to the minority. Were the defense privilege limited to particular cases, an interested minority might take advantage of it to screen themselves from equitable sacrifices to the general weal, or in particular emergencies to extort unreasonable indulgences.
>
> [Hamilton] [M]uch ill may be produced by the power of hindering that which is necessary from being done, and of keeping affairs in the same unfavorable posture in which they happen to stand at a particular period.

It is equally telling that, in key areas of public policy, the Constitution does not tell future Congresses what must be done; rather, it relies on majority rule to enact such legislation as may be necessary. The framers of the Constitution were willing to accept the idea that future Congresses were free to make very poor public policy decisions by majority vote. Specifically, the Constitution grants the authority to, but does not mandate that, future Congresses may, "lay and collect taxes, * * * borrow money * * * coin money * * * fix the standards of weights and measures * * * declare war * * * raise and support armies * * * provide and maintain a Navy * * * ." Clearly, the constitutional convention was giving the majority the right to unilaterally disarm by choosing not to raise armies or maintain a Navy. Clearly, Alexander Hamilton—later the first Secretary of the Treasury—felt that principles of majority rule were so important that Congress could decide to destroy both government and commerce by choosing not to raise taxes, coin money, or borrow money.

Finally, it is significant that Madison equated majority rule with free government. I think he was right. Freedom consists not just in the Bill of Rights, which protect individuals from the powers of government, but also in the right to have an equal voice in our Nation's government. A person who cannot vote, or whose vote is diluted by super majority rules, is not an equal citizen and so is not fully free.

In this context, various budget process bills, such as Representative Cox's bill last year and Representative Walker's tax checkoff, diminish our freedom by placing particular public policy outcomes above majority rule.

Role of the Rules Committee in strengthening the power of majorities: first of all, do no harm

In this context, I would argue that the most effective features of the congressional budget process and the legislative process generally are those that allow a majority to find itself, make a plan, and execute that plan. The Congressional Budget Act has a number of features that strengthen majority rule.

The first is the existence of a budget resolution itself. While budget resolutions have often proven difficult to pass, this simply reflects the difficulty of putting together any overall legislative plan that a majority can commit to. The problem is that most public policy issues, and particularly budgets, do not have two sides but three or more. Therefore, it is often the case that no single budget plan is affirmatively supported by a majority. Yet the process of passing a budget resolution focusses a majority of each house—usually but not always on a strictly partisan basis—on creating a plan that its members can live with. Absent a budget resolution, it seems very clear that the President's budget would be the only standard against which appropriations were measured, and that either the status quo or the special interests of the narrowly based committees would govern entitlement questions.

Most simply, budget resolutions strengthen the power of the majority party to govern, and that is a virtue; parties should be strong enough to govern.

Second, the reconciliation process is a wonderful tool for enacting a comprehensive budget plan. Without reconciliation, individual narrowly based committees could stop the reform of their entitlements simply by not reporting any legislation. This is exactly what happened to the first four budget resolutions—fiscal years 1977–80—which called for specific entitlement savings and got almost none. When the reconciliation process was first used in 1981, that type of stonewalling ceased. Probably the most significant vote in the history of the budget process occurred in 1981, when 20 committee chairmen signed a letter calling for the House to strip the reconciliation directive from the 1982 budget resolution. On a close vote the Budget Committee prevailed and the reconciliation directive was retained.

The fact that a reconciliation bill is a single bill that must ultimately be voted up or down allows the majority to stay together in implementing its plan. If it were, say, 13 separate bills rather than 1 bill with 13 titles, one or more of the bills might not survive, as the minority and some members of the majority who disliked that particular policy prevailed. Yet if some key aspect of a deal is defeated in this way, then the entire coalition might break apart.

The point is that the budget resolution and the reconciliation process allow a majority to make a plan and see that it is implemented, even over the objections of more narrowly based interests.

And the broader point is that this committee should resist any budget process changes that impede a majority from forming a plan to begin with, or allow it to be nibbled to death later. Perhaps the best way to put this is that, in Congress, a deal is a deal. An honest politician is one who keeps the agreements he makes, no matter how reluctantly he joined the coalition.

Among budget process changes that would weaken a governing coalition and facilitate deal-breaking are the lockbox proposal and the *A* to *Z* concept. The lockbox proposal allows a temporary majority, voting on one specific item in an appropriations bill, to automatically reduce the appropriations allocation and discretionary caps. This is wrong; people who voted for the budget resolution should not turn around and vote to lower the allocation they just agreed to. Yet, under the lockbox procedure, they have very little choice if they oppose a particular funding item in an appropriations bill. Also, the lockbox proposal has the unfortunate effect of making it impossible for a majority coalition, agreeing to a budget resolution and the assumptions upon which it was based, to amend the products of the Appropriations Committee to make them conform more closely with the budget plan. For example, if the Appropriations Committee chooses to shift money from one subcommittee to another, relative to the budget plan, the majority coalition cannot shift it back. When a floor vote cuts unwanted funds from the bill that was increased by the Appropriations Committee, those funds are locked up; they cannot be put back where the majority wanted them to begin with. Most generally, the lockbox concept violates the fundamental precept that a deal is a deal.

The *A* to *Z* concept has the same flaw. It allows a temporary majority that may consist primarily of opponents of the previously agreed-to budget plan to make entitlement cuts that may have been rejected by the majority coalition. It could do this either before or after completion of reconciliation. It can effect these entitlement cuts on a committee that follows its reconciliation directive, both in spirit and letter, to the last detail. And if it does so, this can then tear apart the governing coalition. Again, the *A* to *Z* concept violates the precept that a deal is a deal.

The line-item veto has similar flaws. It can allow a temporary majority—consisting primarily of opponents to the previously agreed-to budget plan—to side with the President and knock items out of an appropriation bill after the fact, even if those items were entirely consistent with budget resolution assumptions and of critical importance to a subset of the majority coalition.

Let's put this in a different context in a dispute with Congress, a President has as his major weapon the veto. Congress has as its major weapon the ability to package items together, giving the President an all-or-nothing choice. By giving the President a line-item veto, the Congress unilaterally disarms itself in the contest between the branches, fundamentally upsetting the balance of powers carefully arranged in the Constitution. A simple example will illustrate the point about packaging. The current House majority would like to increase its likelihood of getting reconciliation signed by including the necessary debt limit increase into the reconciliation bill. This is an intelligent use of Congress' main weapon, the power to package. But suppose the President had a broadly written line-item veto: he could then sign the reconciliation bill, line-item veto every item in it except the debt limit increase, and win the day. Unless you think, as some do, that the problem with the legislative process is that Congress is too powerful and the President is too weak, don't hand away Congress' single best weapon.

Taking this logic one step farther, many Members of both parties have argued over the years for an automatic continuing resolution as a way of curbing perceived congressional abuses. The automatic continuing resolution would continue programs at some formula level, such as last year's level or 95 percent of last year's level. But, again, this proposal would hand over Congress' best weapon, the power to package. Suppose Congress is intent on eliminating some item that the President wants very much to keep. I am thinking of the military assistance program, which Congress eliminated in 1973 over strenuous objections from President Nixon. Or suppose Congress is intent on reducing an agency by some larger figure, say 20 percent. Under an automatic continuing resolution, the President can get his way by vetoing the regular appropriation, with the unwanted cut, as often as he is sustained. But if Congress keeps control of the text of a continuing resolution, the sides are more evenly matched.

Possible reforms to the legislative process

As you can see, I think the most important role of this committee is to safeguard the ability of a majority to govern. Minority rights are important, too, but primarily because we can never be quite sure who the majority is. Thus, the right of the minority to offer a motion to recommit with instructions should be jealously preserved, and the rules of the House should not get so cluttered with impossible, contradictory provisions that every plausible instruction would trigger some point of order.

I do, however, have three suggestions that I think would be entirely consistent with the principles of a democratic republic, would help the majority govern, and might even improve budget products at the margin.

First, I suggest that each committee of the House be constituted on the same basic lines as the Budget Committee, with one-third—or one-quarter—of the membership rotating off each Congress, and with chairmanship vacancies, caused by rotation or otherwise, filled by vote of the caucus without regard to seniority. This has produced a string of highly qualified Budget Committee chairmen and ranking minority members, and has kept the committee membership in very close policy alignment with each party caucus as a whole. If it seems to tilt a bit too much one way or the other, the party leadership and the caucus will be able to correct the tilt within 2 years. Further, this procedure will directly or indirectly strengthen the role of the party leadership, which is important in creating parties strong enough to govern.

Second, I suggest that this Congress enact campaign finance reform, preferably public financing of campaigns. If there is any single factor that makes legislation reflect something other than the honest convictions of the Members and the policy preferences of the voters, it is the influence of money. Campaign finance reform may well be more effective than the line-item veto in reducing what is commonly known as pork. And it won't turn over political leverage to the President, as the line-item veto would.

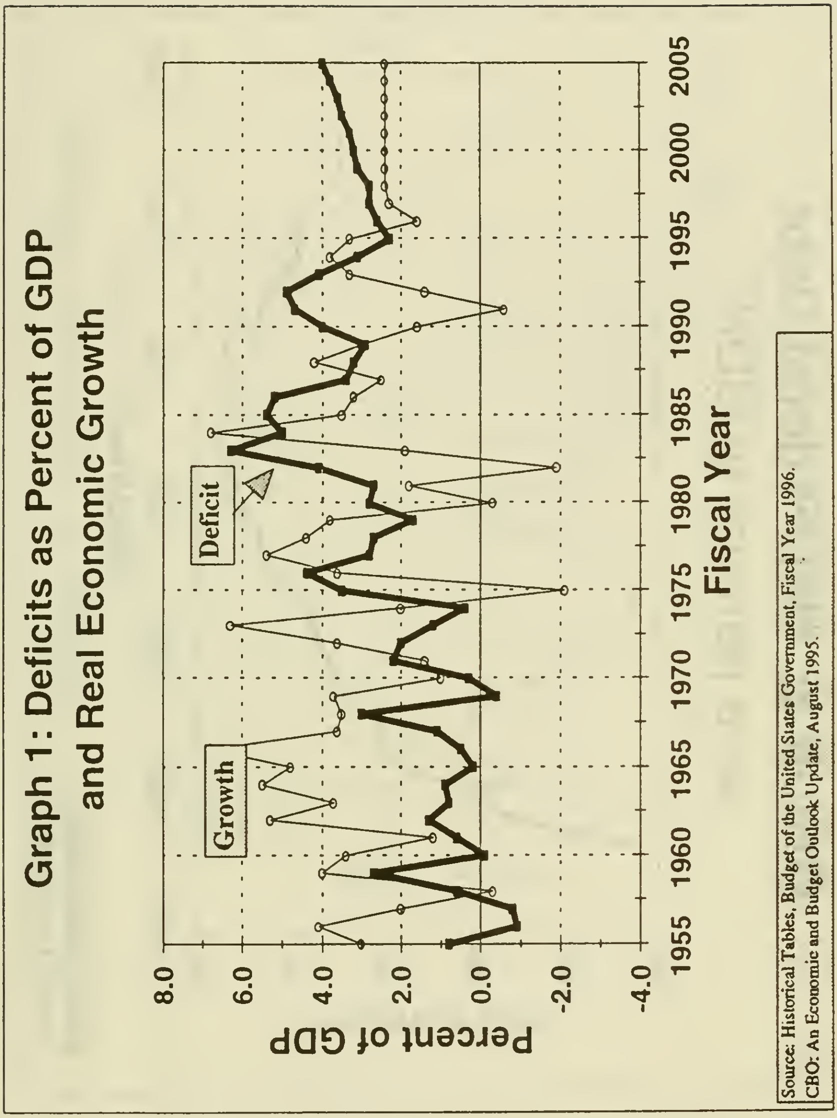
Finally, in the spirit of dizzy optimism, I suggest you negotiate with the Senate on limiting the Byrd rule, so that it applies only to Senate consideration, not conference reports. The Byrd rule was undoubtedly well-intentioned, but it has the effect of making it harder to maintain governing coalitions on reconciliation bills in both the House and the Senate, it knocks out of reconciliation bills various provisions that are surely relevant to budgeting in a general sense—such as civil service pay restraint—and it eliminates nonbudgetary provisions that would allow the policy in various entitlement reforms to be implemented more effectively. For example, the Byrd rule would prevent the inclusion in reconciliation of an authorization for a temporary study commission to compare the effects of the Medicaid changes made by various States under flexibility newly granted in the reconciliation bill. Why?

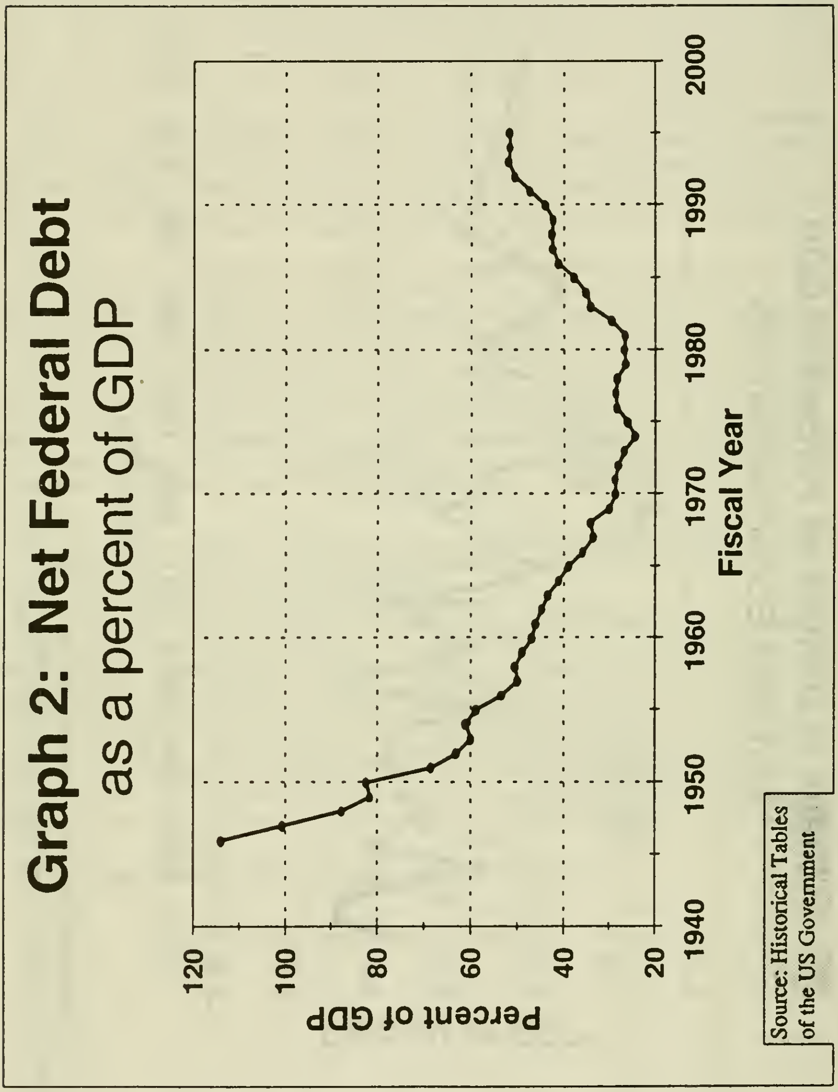
A modest proposal

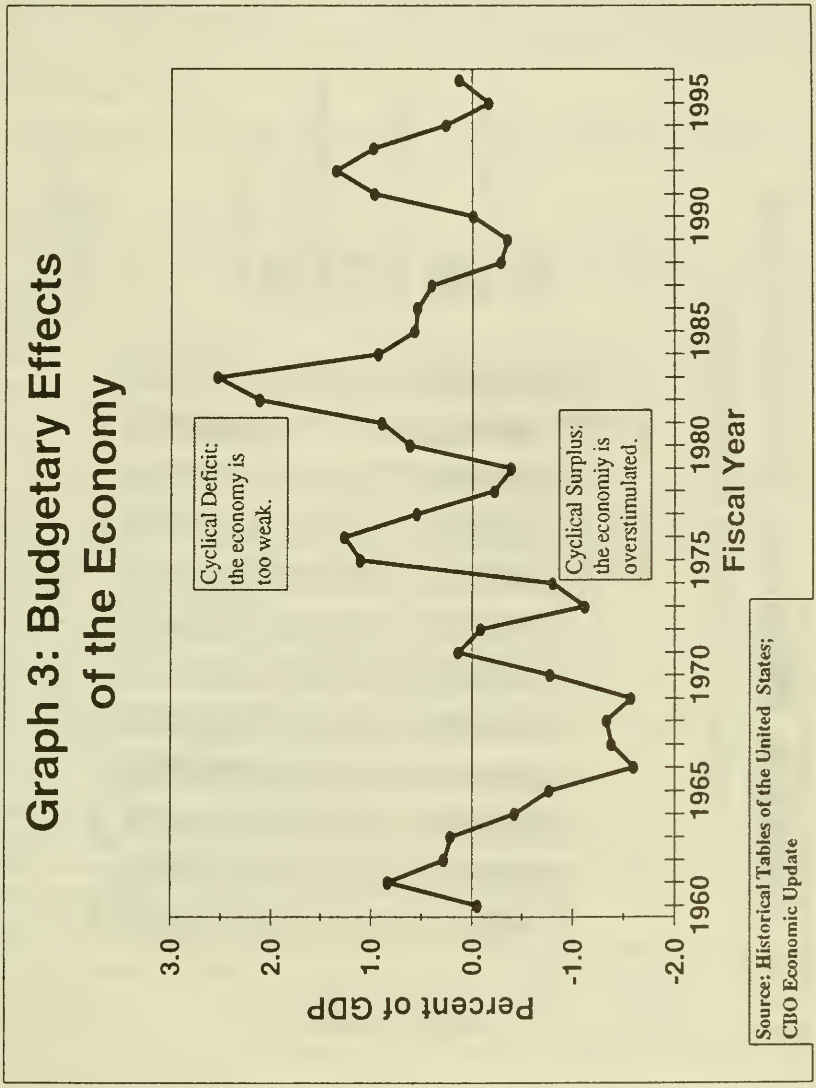
Much of the first half of this paper made arguments against a balanced budget constitutional amendment, notwithstanding the many economic advantages that a large deficit reduction package would bring.

Both the economic arguments and the rhetorical arguments for a balanced budget proposal revolve around sacrificing to some degree now so that the future will be better for our children. An argument can be made that the interests of children are not adequately represented in Congress. I have a modest proposal to address that concern, which is nonetheless consistent with the principles of majority rule and democratic republicanism that underlie our Constitution and this paper: I suggest that the Constitution be amended to lower the voting age to zero, and that parents or legal guardians have the right to vote on behalf of their children. One citizen, one vote. This proposal is designed to increase the weight of future-looking interests, and may have the salutary effect of counteracting somewhat the potential baby boomer voting bloc that may dominate politics—even more than it now does—in 2010.

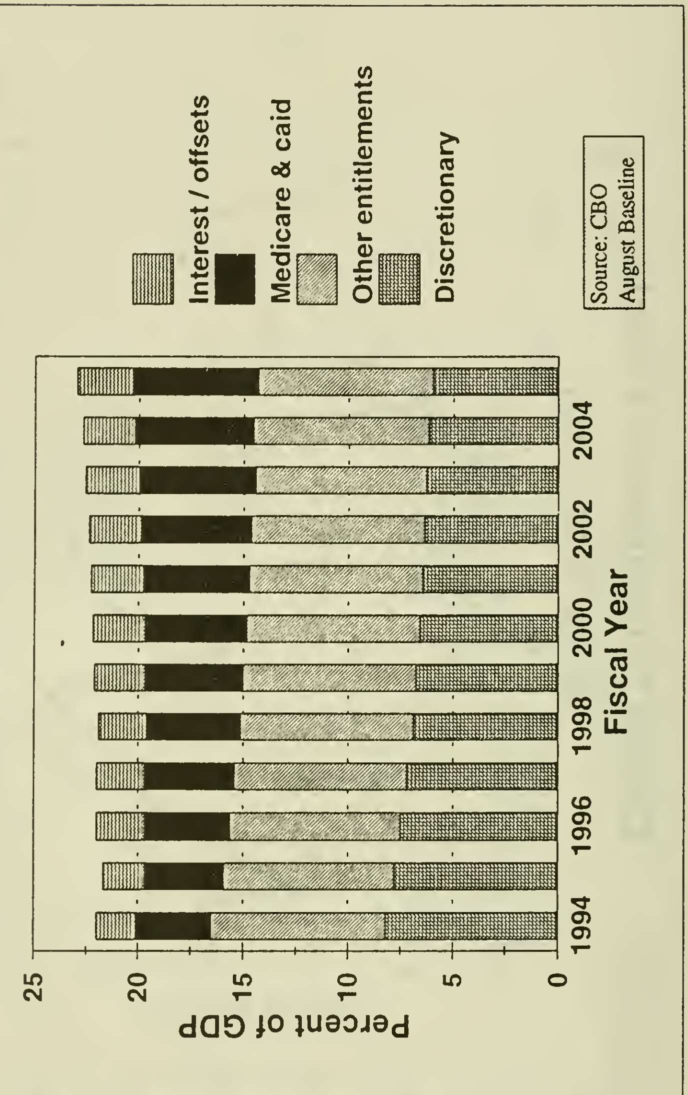
[The graphs referred to by Mr. Kogan follows:]


Graph 1: Deficits as Percent of GDP
and Real Economic Growth
Percent of GDP
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
Fiscal Year
Growth
Deficit
Source: Historical Tables, Budget of the United States Government, Fiscal Year 1996.
CBO: An Economic and Budget Outlook Update, August 1995.


Graph 2: Net Federal Debt
as a percent of GDP
Percent of GDP
120
100
80
60
40
20
1940
1950
1960
1970
1980
1990
2000
Fiscal Year
Source: Historical Tables
of the US Government


Graph 3: Budgetary Effects
of the Economy
Cyclical Deficit:
the economy is
too weak.
Cyclical Surplus:
the economiy is
overstimulated.
Percent of GDP
3.0
2.0
1.0
0.0
-1.0
-2.0
1960
1965
1970
1975
1980
1985
1990
1995
Fiscal Year
Source: Historical Tables of the United States;
CBO Economic Update

Graph 4: Medicare, Medicaid, and other Federal Spending



Mr. GOSS. Thank you very much.

Mr. KOGAN. Thank you for indulging my statement.

Mr. GOSS. Not at all.

We are flexible on time and we have witnesses here because we want to hear what they have to say.

Professor Muris.

STATEMENT OF PROFESSOR TIMOTHY J. MURIS, GEORGE MASON SCHOOL OF LAW

Mr. MURIS. Let me summarize.

Thank you, Mr. Chairman. It is a pleasure to be here.

Let me talk about the source of the problem in our history. For about the first hundred years one committee controlled spending, what we now call the appropriators.

What happened first in the House in 1877 and about 20 years later in the Senate is that the authorizers got power not just to authorize but to directly spend. Deficits exploded. Then right after World War I the power over all the spending returned to the appropriators.

What happened? We ran surpluses. But beginning in the 1930's with the Reconstruction Finance Corp., the appropriators lost control again. Particularly in the 1960's and then early in the Nixon administration when more expansions occurred, the appropriators lost even more control. Now, less and less of total spending comes from the appropriators.

This balkanization problem is what economists call a common pool. For example, if you have a lake and no one owns the fish and everybody can fish in it, then people will overfish. If one person owns the resource—has the property rights over the resource—he has incentive to manage that resource efficiently. This is a way to prevent the overfishing.

This balkanization problem has led to more spending. Mark Crane and I have recently evaluated with econometric testing this thesis at the State level. We looked at the State legislatures. Some have balkanization where they have lots of committees with control over spending, while some have one committee with control over spending.

States with balkanization spend more money per capita. We used one of these complicated regression formulas controlling for all sorts of factors. Thus balkanization is the central problem.

There are some other problems. Let me get to the current process and talk about why, although it has some strengths, that it has even more weaknesses.

Congress recognized in the late 1960's, early 1970's, that they were losing control over the process. The step of giving one committee control was politically impossible. So what happened was there was a creation of this new process.

That new process has some strengths. It clearly facilitates the kind of package that is moving through now. Lest we all praise ourselves too much, the 1990 package was said to produce zero as well.

The process has led to some real flaws. Let me talk about a few, first about baseline budgeting and then about the vastly overpraised Budget Enforcement Act.

With baseline budgeting, we have this Orwellian world in which I think people are coming more to recognize about the misuse of the word cut. This is an important point. If you are an advocate for spending more on Medicare, do you want to go out and say I want to defend 10 percent a year versus 6.5 a year or do you want to defend the word cut. The polls indicate that people are confused.

If you ask the American people do you favor balancing the budget if it means cutting medicare, they say no. Yet, if you ask them do you favor balancing the budget if it means slowing the rate of growth of Medicare, the large majority say yes. In fact the only poll I have ever seen that asks people how much should Medicare and Social Security grow, there are levels that no one in the Congress would support; very small low percentages of growth.

Another problem with the baseline is that many believe it is current services. That is sometimes what it is called. Current services means what it costs tomorrow to fund today's government. The people who put together the baseline quickly realized that they can not calculate that. It is an impossibility. In the book that Allen Schick, John Cogan, and I wrote, we have a chapter discussing this issue.

Take Medicare. CBO deconstructs the baseline, explaining why the projections for Medicare are growing. They have three reasons. One reason is increased caseload. This is not a very significant reason, but if you are measuring current services, that is part of that.

Second is inflation. That is not a very significant reason either. The most important reason, causing over 60 percent of the projected growth, is increased services. That is not current services in anybody's view.

We can argue what we should do about Medicare, but it is wildly misleading to characterize an attempt to reduce the rate of growth in something that is growing because of more services as a cut.

There is another problem with the baseline. As a former budgeteer I can admire the elegance and the ability to produce large packages of cuts without doing anything, but this is another problem with what has developed.

Medicare is a good example. One of the things that has happened in Medicare is Congress passes a cut, then sets it to expire and then passes it again to claim the same savings. In this year's budget resolution, with the so-called $270 billion in Medicare off the baseline, Congress can get one-third by simply continuing current policies. There are lots of other manipulations of the baseline.

Let me turn to the BEA. Divide discretionaries from mandatories. One little understood fact is that since the last year of the Reagan administration and throughout the period of the BEA, the appropriators have had a party. Spending increased 63 percent before the recent rescissions—that is 63 percent from the last year of the Reagan administration. That growth is about double the rate of inflation.

There are multiple reasons for the growth. One is that the appropriate measure for spending is the total of resources that go to the agency, not budget authority, although that is the most important form of resources; certainly outlays are an inaccurate measure.

There are some types of resources that too many ignore. One type, which is increasingly used to fund the regulatory State, are filing fees. Under the 1967 budget concepts commission, which is the bible for the budget world, those filing fees should be called taxes but instead they are called offsetting receipts or user fees.

This classification means that they are free because they are netted in official outlays and budget authority figures. Most people do not realize that these are net not gross, numbers. Budget authority and outlays are net of are these offsetting receipts.

A second reason for growth in domestic discretionary spending under the BEA is that the caps are adjustable. The most important adjustments are for emergencies, for inflation, and to add additional amounts of outlays and budget authority.

The net result has been that every year under the BEA the appropriators have complained. The caps are tight, tight, tight. To the extent commentators can get the truth about the past, they realize that the appropriators did pretty well in the past, but that this year still appears tight. Every year we hear the same refrain. Yet, when the final numbers come out and they are published with about a 2-year lag—we realize the appropriators actually increased spending.

Even in the Clinton administration when the appropriators have not done nearly as well in annual percentage increases as in the Bush administration, domestic discretionary spending has still increased.

Let me turn to entitlements under the BEA and PAYGO. The problem with PAYGO is that it has a very limited impact. It only applies to so-called policy changes. It does not apply to economics and technical changes. Consider the 1990 budget deal. There were, depending on how you defined it, somewhere around $40 billion of cuts off the baseline in Medicare and Medicaid.

Many of those were just baseline manipulations. But what is worse is that the technical revisions to the baseline were many, many, many times the size of the cuts, thus, the actuary's pen eliminated all the benefits.

These technical revisions were simply corrections of mistakes that the estimators made. For example, they thought a program would save money but it did not. Or the courts or HHS made changes in the program. But because technical revisions are free under PAYGO, an inventive toward having positive technical revisions exists.

Medicare reveals the problem. There are thousands of people in this country who are well paid to figure out how to get dollars from the Federal Government. Here in the District of Columbia, firms sell State governments and local governments what they call revenue packages, which are designed to maximize the funds received from the Federal Government.

There are many smart people in CBO and on the budget committees, but they can not possibly match the cumulated efforts of all these people who are trying to get money out of the Federal Government.

If the process has problems, then what can we do? If we understand the source of the problems, then we ought to eliminate or at least reduce the balkanization. Of course, it is very hard politically to centralize power within a single committee. If this is impossible, there are other stops we might take.

For example, if Congress does not want to eliminate the entitlement status of all programs, it could keep only the status of so-called earned entitlements. There is some movement in this direction in the CBO. Moreover, Congress could reauthorize programs periodically and not spend money on them without an authorization.

I also think, and this separates me from many of my colleagues in the budget world, that Gramm-Rudman-Hollings was better than what replaced it. It clearly had some flaws. One was that the House's price in 1985 for accepting Gramm-Rudman-Hollings was to eliminate too many programs from the sequester. Thus, the hope that all political sides having hostages and being forced to negotiate was not realized.

Another problem is that the first Gramm-Rudman-Hollings was never automatic. We in the administration were very cynical about that because we believed that the Supreme Court would throw out the automatic sequester.

Finally, especially if we are not going to make these major changes, we should change the BEA. We need to use the concept of budgetary resources, thus including user fees, under the caps.

In fact, we are moving in this direction. Some resources that in 1990 were not called budget authority are now called budget authority. Moreover, there is an effort to call the obligation limitation on highway programs budget authority. That would be useful.

Regarding entitlements, we ought to modify PAYGO to at least account for technical adjustments. Economic adjustments are not as big of a problem in the mandatory programs as they are for receipts.

In short, we can take several steps to fix the budget process. Obviously, I'm not here in praise of the current budget system.

Thank you.

[Mr. Muris' prepared statement follows:]

Prepared Statement of Professor Timothy J. Muris, George Mason University

I. INTRODUCTION

Thank you for inviting me here today to discuss the Federal budget process.

Large deficits have become a characteristic of recent U.S. fiscal policy. Considerable opposition to the size and persistence of these deficits has come from all quarters: economists, politicians, editorial boards, and other opinion leaders. Despite numerous efforts to reduce them, consistently large deficits persist.

Two views are most often advanced for failure to end the deficit. The first is that the problem is one of political gridlock: The Democrat—or Republican—majority in Congress and the Republican—or Democrat—President cannot agree on the mix of spending and tax policies necessary to address the problem.

The second view is that political log rolling among legislators and rent seeking by special interests combine to produce spending higher than would be optimal in a world with lower information costs. For example, transportation projects benefit concentrated interests who care intensely about the project's benefits—reduced congestion and local jobs—while the costs are widely dispersed among taxpayers. Participating in the political process is not free, and opposing inefficient programs is simply not worth the time and effort of most individuals. For many, concerned about maintaining their jobs and supporting their families, collecting enough information to participate effectively in the political process is simply not rational.

Although there is significant truth to these two views, changes in the institutional structure within the Congress, and the budgetary framework in which Congress operates, have combined to create the incentives and the means for the deficit to grow and become difficult to control. Institutionally, the balkanization of legislative control over spending has led to increases in spending, while the consolidation within committees over both the revenue and spending authority for entitlement programs has fueled revenue growth for specific programs. The budgetary framework in which Congress operates further biases policy in the direction of increased spending. Politicians can announce cuts that satisfy the publics general desire for reduced government spending and deficit control, while increasing spending for most programs, thus assuring themselves the support of special interest groups. Moreover, the much praised Budget Enforcement Act (BEA), first enacted in 1990, is seriously flawed. I discuss each point in turn. I conclude with a brief discussion of possible solutions.

II. THE BALKANIZATION OF LEGISLATIVE CONTROL [1]

Two key institutional changes made during the 1930's were critical in producing the nearly continuous string of postwar deficits. The first and most important was to transform the jurisdiction over expenditures from a highly centralized committee structure to one in which various committees had spending authority.

A. The dispersal of spending authority

For most of the first century of our Nation, almost all spending authority was concentrated in a single committee in each house. This institutional arrangement persisted until 1877; in a series of rule changes over the next 9 years, the House stripped the Appropriations Committee of its authority over 8 of the 14 appropriation bills. In each instance, appropriations authority was transferred to the legislative committee that had authorizing jurisdiction over the programs contained in the appropriations bill. By 1885, the House had transferred almost one-half of all nonmandatory appropriations to various legislative committees. In 1899, the Senate followed suit, dividing appropriations jursidiction.

The dispersal of appropriations jurisdiction in the House was followed by an upward surge in spending. During the 7 years following the House decision, spending grew at a rate unprecedented in the Nation's history. By 1893, program spending was 50 percent larger than it had been in 1886. Expenditures continued their upward path following the Senate's decision to divide appropriation jurisdiction, rising 45 percent between 1900 and 1916.

As a result of the rapid growth in the budget, the issue of budget process reform gained momentum throughout the years preceding World War I. In October 1919, a select committee on the budget was established and recommended that the House consolidate the authority to report all appropriations in one committee. This recommendation was approved in 1920. In 1922, the Senate amended its rules to provide that all appropriations also be considered by one committee. The U.S. budget was in surplus for the 11-year period 1920–30, the longest streak of consecutive budget surpluses since spending authority was dispersed in the House.

The modern process of spreading spending jurisdiction among committees began in 1932 when the Reconstruction Finance Corp. was created and financed outside the normal appropriations procedure. The decentralization process accelerated during the next four decades, particularly between 1965 and 1975. By the mid-1970's, most substantive congressional committees had authority to report legislation to the floor committing funds from the U.S. Treasury. In 1932, the Appropriations Committee controlled 89 percent of outlays through the annual Federal budget process. By 1992, less than 40 percent of Federal outlays was a result of decisions under this committee's control.

This balkanization of spending authority creates a common pool problem. When no one owns a common resource, such as the fish in a lake, there is an incentive for too much fishing, depleting the population. With the budget, the common resource is general-fund revenue. As the Appropriations Committee controls less and less spending, and, correspondingly, other congressional committees control more and more, no one committee has the incentive to restrain its spending commitments because the total level of spending is no longer the responsibility of any one committee. To the contrary, the resulting competition among committees to spend results in more spending than would otherwise occur, increasing reliance on deficit spending.

B. The movement towards tax financed trust funds

The creation of tax financed trust funds, most predominately Social Security and, later, Medicare Hospital Insurance, and the placement of jurisdiction over them in

---

[1] This discussion draws heavily on the work of John F. Cogan, "The Dispersion of Spending Authority and Federal Budget Deficits," in *The Budget Puzzle: Understanding Federal Spending*, eds. Cogan, J.F., Muris, T.J. & Allen Schick (Palo Alto: Stanford University Press, 1994).

the tax-writing committees was the second institutional change contributing to the increase in general fund deficits.

Unlike general fund taxes, trust fund revenues are dedicated to specific programs. Moreover, general fund takes are generally raised under the jurisdiction of a committee that does not control how the money is spent, unlike trust funds which are raised by the committee responsible for the specific fund. Since World II, general fund revenues have decreased as a percentage of gross domestic product (GDP) with a corresponding increase in trust fund receipts. In the early 1950's, trust fund receipts amounted to little more than 1 percent of GDP, and general fund receipts equaled 16 percent of GDP. By the mid-1990's, trust fund receipts had increased to over 6 percent of GDP, while those of the general fund decreased to about 12 percent.

Significantly, trust fund programs have not run deficits. Although spending for such programs has increased dramatically, trust fund taxes have increased to pay for that spending. The increased Federal deficits have thus occurred in areas in which the committee in charge of raising the taxes does not control the spending. Historical data indicate that as trust fund taxes have grown, general fund revenue has fallen. The rise in trust fund revenues seems to be crowding out general revenues.

Important implications arise from the merging of the tax and spending authority. In particular, if one committee controls all taxes and benefits, we might expect that both will increase at a relatively higher rate. This conclusion follows because raising taxes, a politically painful step, is made less painful when those who raise the taxes directly obtain the benefit of the increase, through increased political support from the beneficiaries of the spending. Members of the legislature ultimately vote on taxes and spending, and thus share in the credit and blame. But because committee members exert more influence over the full legislature's results than do noncommittee members, they can more easily tailor spending to increase the credit they receive.

C. Econometric testing

Dr. Clark Crain of George Mason University and I studied the 50 State legislatures to test the thesis that the dispersal of spending authority among various committees resulted in significantly greater spending than when one committee controlled spending. We also attempted to assess the significance of rules that combine or separate the committees overseeing revenue and spending decisions. Our results will be published in the next issue of the Journal of Law and Economics.

States that have a single committee with centralized appropriations authority should have more control over spending than States with appropriations authority dispersed among several committees. Consolidating control within one committee is an institutional means to overcome the common pool problem; it establishes a mechanism to contain spending pressures. By contrast, States that have balkanized spending committees should experience relatively higher spending levels, resulting from overuse of the common resource, the State's total budget. Spending pressures are less controllable, absent an institutional mechanism to internalize spending accountability.

The results support the hypothesis that States with centralized appropriations authority have more control over spending than States with appropriations authority dispersed among several committees. As predicted, States that centralize spend less, on average, than States that decentralize spending authority. The difference is about 6 percent, holding other factors equal.[2]

The second aspect of our analysis tested the effect of combined versus separate spending and taxing committees on State revenues. When revenue and spending committees are combined, the legislators who initiate revenue decisions have the most control over how those funds are spent; the taxers are the spenders. When the legislators controlling revenues are not the appropriators, the revenue committee members cannot capture as fully the political benefits of their labors, because spending programs are more likely to be designed to benefit the constituents of the appropriators. Thus, the tax committee is less likely to take the politically costly step of raising tax rates if there is no offsetting benefit. We would expect that where taxing and spending authority are merged, taxes would be higher.

As predicted, States that merge spending and taxing authority into a single committee have higher revenues than those that separate these responsibilities among

[2] We used regression analysis, a statistical technique designed to sort out the relative impact that several independent variables (such as centralized or decentralized committee structure) have on the dependent variable (here State expenditures per capita). Our results are significant at the .01 percent level.

multiple committees. On average, States with merged committees have higher revenues, per capita, by 28 percent—again all other things equal.

III. OTHER FLAWS IN THE BUDGET PROCESS

Recognizing that it had lost control over the budget, Congress created a new budget process in 1974. Rather than directly address the central problem of the balkanization of spending authority. Congress instead created a new process with only a weak capability to control budget totals or various budget programs. Of course, returning more power to one committee was, and is, a politically difficult step.

The new process does have some advantages over the period prior to 1974. In particular, the current process facilitates the development of large deficit reduction plans, such as the one currently in progress. Nevertheless, there have been numerous such efforts, yet the problem persists. Besides the failure to rest real control in one committee, the new process has several flaws that exacerbate the deficit problem. I first discuss the use, or more appropriately misuse, of baseline budgeting. Then, I consider two failures of the much praised, most recent effort to strengthen the budget process, the Budget Enforcement Act (BEA) of 1990.

A. Baseline budgeting[3]

Over the last 20 years, politicians and budget professionals—Democrats and Republicans, liberals and conservatives—have transformed budget terminology into Orwellian doublespeak. Increases in spending are labeled cuts, taxes paid the Government reduce spending, and laws that continue a policy about to expire are said to cut spending. Worse, all these claims seem legitimate to many policy analysts and are too often accepted uncritically in the press.

Origins of the baseline.—Throughout most of U.S. history, the base used to compare alternative budget proposals was either the levels in the previous year's budget or those proposed by the President. Beginning with the Congressional Budget Act of 1974, more elaborate bases, called baselines, came into play. The act required a baseline that continued current programs at the same level as the current year without a change in policy. This baseline was intended to provide a policy-neutral method to project accurately what it would cost in the future to continue government as it exists today. Such a baseline, it was felt, would be better for assessing the fiscal impact of new proposals than the cruder measures previously used.

How to define the baseline was unclear, however, and the legislative history gave no precise guidance. Alternative definitions developed. One possibility is to measure a constant level of government services to determine if a proposed change would increase or decrease government. This view uses as a baseline current services, meaning a measure of what it would cost in the future to provide the services the Government provides today. Other definitions focus on the words, "Without a change in policy." Under this approach, the baseline puts the Government on automatic pilot, determining how much it would cost to fund it in the future if no new legislation were passed. This view is called current policy. A third alternative is called current law. It differs from current policy in not including adjustments for inflation of discretionary spending. The current policy baseline has been the most frequently used measure for evaluating and reporting on budget proposals.

The baseline used does not, and could not, measure current services.—Any baseline that projects the cost of the current level of all government activities into the future is an illusion. There are two major problems. First, events outside the congressional spending process can change the funding level needed to hold government services constant. In other words, because of events outside its control, tomorrow's government can require more or less money than today's to provide the same services.

The second problem is that, even discounting for such exogenous events, determining what amount will be necessary to fund government at a constant level is a complex matter. Simple formulas such as adjusting all discretionary programs for inflation can fail to measure accurately a constant level of government. Many variables can influence the calculus, and even when current services for a particular program are carefully calculated, experts may reasonably disagree over the correct estimate, thus undermining the supposed policy neutrality and objectivity of the current services baseline. An example of an event exogenous to congressional spending decisions is the accomplishment of a program's objectives. To hold government activity constant, sensitivity to the purposes of programs is required. If the original purpose of a program is achieved, yet spending continues for a new purpose, then government involvement in the economy has increased, not remained constant. For

[3] I discuss these issues at greater length in Timothy J. Muris, "The Uses and Abuses of Budget Baselines," in *The Budget Puzzle; Understanding Federal Spending,* eds. Cogan, J.F., Muris, T.J. & Allen Schick (Palo Alto: Stanford University Press, 1994).

example, early in the Carter administration, Congress increased job training funding in response to a recession. Once the recession ended, continuing the program meant a change in its purpose, not a mere continuation of past efforts.

In any event, it is clear that the baseline used does not measure current services. Consider Medicare. CBO recently divided projected growth into three parts—increased caseload, price inflation, and greater use of services. The first two should be part of any effort to define true current services, that is, how much it will cost tomorrow to fund today's program. But the last category—greater use of services—obviously represents more, not current, services. It is this last category that accounts for the bulk of the projected increase in Medicare spending—over 60 percent. Despite the fact that most of Medicare growth has been in excess of true current services, in the last decade public debate of the program has been dominated by discussion of cuts.

3. *Impact of the baseline.*—Proponents of the baseline approach both argue its necessity and maintain that objections—to the baseline system—have more to do with form than substance * * * . In the end, the budget totals are the same whichever approach is used.[4] Yet any system that fundamentally alters how the public understands political action influences outcomes. Indeed, this pattern continued in the budget negotiations of 1990 and 1993. The rhetoric that dominated the process was of extreme pain, yet in 1990 Congress expanded Medicare and Medicaid significantly and continued the large increases in domestic discretionary spending that began in the last year of the Reagan administration. The reality of substantial new spending hardly matched the harsh rhetoric of severe restraint.

The rhetoric of the budget is biased toward increased spending. This claim can be reduced to a simple proposition: In dealing with the press and public, would an advocate for a program prefer that built-in increase above the previous year's level be characterized as current, so that a restraint in growth leaving expenditures well above last year's would be presented as a cut? Or, would he prefer to have the debate be over the 10 percent increase assumed in the baseline, or a mere 8 percent increase over last year's spending levels? Particularly given the short time one often has to make a point—in many cases a 20–30 second sound byte—it would be a rare program advocate indeed who did not prefer the current policy language of cut to the alternative of defending an annual increase.

The defenders of the current Medicare and Medicaid programs provide many excellent examples. On January 5, 1987, for instance, then President Reagan's budget for 1988 was released, and proposed to restrain the growth in Medicare from 63 percent—10 percent annually—in the administration's 5 year, current policy baseline to 46 percent—8 percent annually. The next day, the American Association of Retired Persons, the American Hospital Association, the American Medical Association, the American Nurses Association, and the Federation of American Health Systems ran the following full-page advertisement in the Washington Post.

The ad featured a large picture of an elderly woman and a young soldier embracing. The following appeared above the picture:

> During the past 5 years, more than $30 billion has been cut from Medicare and Medicaid.
>
> Now the administration wants to cut $50 billion more.

Below the picture, the ad asked:

> Isn't it time we started defending the home front?

The body of the ad appears to compare yearly increases in defense spending with cuts in medical programs. Against the current policy baseline, Medicare and Medicaid had been cut. Yet, in absolute numbers, national defense outlays grew by 110 percent from 1980–87 ($134 billion to $282 billion), while Medicare and Medicaid increased by 123 percent, from $48 billion to $107 billion. Thus, the medical programs actually grew by a greater percentage than defense. By claiming that defense was increasing whiie Medicare and Medicaid were being cut, however, the ad effectively used the current policy baseline to protect large growth in the medical programs.

The manipulation of the baseline exacerbates this bias in favor of spending. When, as in the 1990 budget summit, $17 billion can be claimed as cuts simply by extending current law—and even allow for paying hospitals a higher percentage for capital than previously—when $9 billion can be claimed as savings over 3 years by limiting pay increases to 4 percent, when paying hospitals a higher update than they previously received is the largest cut in the 1987 budget summit category of entitlement savings, and when money can simply be shifted to the next fiscal year

[4] U.S. Congress, Congressional Budget Office, *A Profile of the Congressional Budget Office*, at p. 32–33 (Sept. 1990).

to claim savings, a large package of reductions can be enacted with little or no impact on actual spending or the deficit. Even in this year's budget resolution, which clearly is more ambitious than past efforts, almost one-third of the savings needed for Medicare can be obtained simply by extending expiring provisions and continuing current policies.

The budget process has focused too much on producing a respectable number of cuts; if the cuts merely manipulate the baseline, the political pain, which is greater when programs are actually cut than when they are increased, is lessened. More important, some of these cuts are then used to offset real spending increases or to protect other programs from real spending restraint. Congress frequently pays for new initiatives, which can dramatically increase outlays, by cuts from the baseline. In this way, soft savings offset hard increases.

Created to give policymakers a better handle on budgetary decisions, in practice the current policy baseline has given rise to a charade divorced from fiscal realities. It should be scrapped.

B. The Budget Enforcement Act of 1990

1. *The Discretionary Caps*[5].—Proponents of the BEA have claimed that the limits on discretionary spending have been a resounding success in achieving their goal of restraining budgetary growth. The BEA placed ceilings, or caps, on the levels of annually appropriated spending, providing separate limits for domestic, defense, and international spending through fiscal 1993 and one limit for all discretionary spending for years since. When the BEA was enacted, these ceilings were proclaimed as restraining domestic discretionary spending to the level of inflation, and were said to be particularly tight after the agreement's first year. So successful are they perceived to be that Congress has continued them.

Reality, however, is far different. Properly measured, spending growth has exploded since 1988, 2 years prior to the enactment of the BEA. Domestic discretionary appropriations, properly measured, grew 63 percent, or 7.25 percent annually.[6] Although spending growth in recent years was less than in the first few years of the Bush administration, until this Congress growth has exceeded inflation for the domestic spending category. Of course, defense spending has fallen since the end of the cold war, an event that can hardly be attributed to the BEA. Indeed, the effect of the 1990 budget deal was to increase short term defense spending above the level Congress was otherwise planning to appropriate.

a. *The Sources of Confusion.*—There are two major reasons why reality and perceptions are so at odds. The first is that officially-reported budget authority and outlay figures do not measure the monetary size of programs accurately. The availability of means of financing programs other than direct appropriations, such as receipts from offsetting collections, obligation limitations, transfers from entitlement programs, and recoveries of prior year spending authority can all increase program size without being fully reflected in annual budget authority and outlay figures. A truer picture emerges if budgetary resources are used to gauge the monetary size of programs. Budgetary resources for a program are the total amount of funds made available for obligation by that program in a given year. This measure includes all the available means of financing: receipts from offsetting collections, obligation limitations, transfers from entitlement programs, and recoveries of prior year spending authority. Once this measure is developed, a true picture of changes in domestic discretionary spending can be seen.

The second reason for the mismatch between reality and perception involves the caps themselves. Although the caps are a constraint, their impact on spending growth depends upon the level of the caps. In fact, for many reasons, particularly the level at which the caps were first set and adjustments that the 1990 law requires to be made to them, the caps have not restrained the growth of domestic spending. They have been binding only in the sense that an addict will spend every available penny over which he has control, regardless of whether that amount is small or large.

The failure to measure spending accurately and to understand the nature of the caps themselves helps explain the rhetoric and commentary that has occurred each year about the level of domestic discretionary spending. Throughout the year, from

---

[5] For more details on how to measure domestic discretionary spending, see John F. Cogan and Timothy J. Muris, "Changes in Discretionary Spending During the Reagan Years," in *The Budget Puzzle; Understanding Federal Spending*, eds. Cogan, J.F., Muris, T.J. & Allen Schick (Palo Alto: Stanford University Press. 1994).

[6] Because of the difficulty in calculating the growth in offsetting receipts used for domestic discretionary spending, we omit such receipts in these numbers. These receipts have grown rapidly because they are free under the caps. Including them would increase the growth rate in the last 7 years. See footnote 7 below.

release of the President's budget through enactment of the appropriation bills, the dominant theme is how tight the caps are. Some of these comments, pointing to measures of spending such as budget authority and outlays which, although incomplete, can capture the direction of spending changes, note that while the caps may have been generous in the past, they are now tight. Yet, when that past was the present, that is, when the Congress was working on the appropriations now recognized as allowing generous growth, the dominant theme—severe restraint—prevailed. Because the caps are both adjustable and are incomplete measures of spending, the seemingly tight caps are revealed, long after the fact, to be not so tight after all. By this time, however, Congress is working on new appropriations, again bemoaning how severely it is restricted.

b. *Accurately Measuring Program Size.*—In measuring the size of discretionary programs, reported outlays are frequently equated with total spending. This is incorrect. Outlays are recorded net of certain payments made to the Government from the public. Moreover, outlays are recorded only when a check is issued, not when the Government assumes an obligation. Outlays for many programs, therefore, occur years after the programs have been funded.

Using appropriated budget authority, to measure program size avoids the timing issue, but for some programs, this measure is irrelevant or only one method of financing. Particularly in the last 15 years, other methods have been used with increasing frequency to enable Congress to produce the appearance of budget cutting while the total amount available for spending has been maintained or increased.

One such method is requiring the public to pay a fee for a particular service. Such fees, called offsetting collections, are excluded from reported outlay and budget authority figures, but the agency providing the service is frequently allowed to use the fees to cover some or all of its costs. By increasing the fee and reducing the amount of appropriated budget authority. Congress can increase the amount of money the agency has to spend while reducing the agency's budget on the Government's books. The use of such fees has become increasingly common, and are funding more and more of the regulatory state.[7]

Another type of budgetary resource that has not been included in calculations of budget authority are obligation limitations. Obligation limitations are used to control programs with trust or revolving funds. Highway programs, for example, are financed through a trust fund that receives money each year, mostly from taxes earmarked for that purpose. A limit on the amount in the fund that can be obligated for new spending, called an obligation limitation, controls program size. Obligation limitations thus serve the same purpose as appropriations do in other accounts, and are functionally equivalent to budget authority. Obligation limitations should be equated with budget authority to compute program size, and it appears that government accounts may finally make this change, at least prospectively.

There are other methods Congress can use to conceal the true level of spending on discretionary programs. For example, Congress has transferred money from entitlement programs to discretionary programs. Congress can also recover expiring funds to spend on new programs. This is money, usually budget authority, that was previously appropriated and obligated. Unless it is recovered, it will not be spent because it is no longer needed.

c. *Adjustments to the Caps.*—As mentioned above, several adjustments to the caps make them more generous than they originally appeared.

i. *Emergencies.*—Under the budget rules, both as negotiated in the BEA and as reaffirmed in August 1993, emergencies do not count against the caps. This loophole has added billions of dollars to discretionary spending.

There has been much self-congratulatory praise in past Congresses and the executive branch about how this provision has been limited to true emergencies, such as hurricanes and earthquakes. This praise is misplaced. The emergency exception is designed for unforeseen events, on the theory that no rational budget process could account for them. It is true that the particular emergencies that occur are unforeseen. In a nation as large as ours, however, the fact that there will be emergencies—almost— annually is foreseeable. Whether it is a major hurricane, as in 1990 and in 1992, an earthquake as in 1991 and 1994, riots as in 1992, or major floods as in 1993, it is predictable that somewhere, in some fashion, nature or other forces will produce the need for emergency spending.[8] Rather than treat emergencies as acts of God for which the budget process should be held unaccountable,

---

[7] Indeed, as recently documented by CBO, offsetting collections have grown rapidly as deficits have grown. Between 1980 and 1991, user charges classified as offsetting collections increased 2½ times. User charges to find regulatory agencies have increased even faster, by more than 5 times. See CBO, *The Growth of Federal User Charges* (August 1993).

[8] All years in this sentence are calendar years.

these events are, in the aggregate, predictable. An amount, based on past experience, should be set aside within the caps as a contingency to fund them.

ii. *The Outlay Cushion.*—The drafters of the BEA recognized that a budget authority cap does not control all forms of spending. Although it retained the traditional treatment of offsetting collections, and thus allowed increases in such fees to fund programs without counting against the ceilings, the BEA attempts to control obligation limitations through an outlay cap. The cap was apparently calculated to provide outlays sufficient to fund the programs at the modest levels of growth implied by the budget authority cap. The Budget Enforcement Act allows for an additional $2.5 billion in outlays, however, ostensibly as a cushion to provide for differences in estimating outlays between OMB and CBO.[9]

Although some estimating differences still exist for discretionary programs, they have largely been eliminated as, beginning with the Gramm-Rudman-Hollings sequester report in 1986, the career staffs of both agencies have sought to narrow their differences.

The outlay cushion also serves another purpose, namely providing for additional growth in budgetary resources. The cushion provides some additional ability to increase obligation limitations and hence increase the total of budgetary resources. To the extent that the cushion is not needed for estimating differences or other reasons, every additional dollar of outlays available allows for the creation of greater than a dollar in budgetary resources if the programs funded produces outlays beyond the first year. In fact, the largest program funded via an obligation limitation, highways, produces only 17 cents in first-year outlays for every dollar of new budgetary resource.

iii. *The Budget Authority Cushion.*—Like outlays, the BEA provides for a BA cushion. Two cap adjustments were allowed. The first adjusted the domestic cap for 1992 and 1993 by ".1 percent of the sum of the adjusted discretionary spending limits on new budget authority for all categories for fiscal years 1991, 1992, 1993—cumulatively— * * * ."[10] The second adjustment is, "the amount of new budget authority * * * [that] exceeds the discretionary spending limit * * * due to technical estimates made by the director of the Office of Management and Budget."[11] Several billion dollars have been added to the caps through these allowance adjustments. Outlays from the BA cushion count against the outlay cushion as they accrue. Like the outlay cushion, these adjustments allow for some increase in budgetary measures above the level implied in the original caps.

iv. *Inflation Updates.*—The BEA originally provided for very modest growth in the domestic discretionary caps beyond 1991. The caps themselves were to be adjusted for a variety of factors, including inflation. If actual inflation was higher than the BEA anticipated, then the caps would increase; if inflation was lower, then the caps would decrease. In fact, actual inflation was below the BEA's projections, causing the caps to be lowered.

For two reasons, however, these adjustments did not fully remove the impact of the mistaken projections; thus, to the extent the caps were set to grow with inflation, the adjustments allowed the caps to exceed this goal. First, neither the caps for the year in which the mistake occurred nor those for the year following were adjusted. For example, actual inflation for 1991 was not known until after fiscal 1991 ended and most appropriations for fiscal 1992 had already occurred. Thus, only the caps for 1993 and beyond were lowered. Second, OMB read the BEA to force adjustments only for the nonpersonal accounts of discretionary spending. CBO and GAO believe that the adjustment should have applied to all accounts.[12] OMB's position thus caused smaller decreases than a full adjustment would have. Thus, OMB's reading of the statute, although lowering the caps, actually increased spending relative to the levels implied originally.

2. *PAYGO.*—As part of the 1990 BEA, pay-as-you-go (PAYGO) rules were adopted to insure that congressional action on revenue and entitlement spending did not in-

[9] Although not a stated reason, the cushion also allow for some change toward a mix of programs that produce outlays faster than the mix allowed in the original BEA numbers. Budgetary resources produce outlays at different rates. If Congress changes the mix of appropriated budgetary resources toward programs that produce outlays quickly, then more outlays will be produced in the first year from the same amount of budgetary resources.

[10] The quote is from Sec. 251(b)(2)(E)(i) of Gramm-Rudman-Hollings, as amended by the BEA.

[11] Sec. 251(b)(2)(E)(iv). The quoted language covers 1994 and beyond, when there is only one discretionary cap. Para. 251(b)(2)(E)(iii) contains an identical provision for 1992 and 1993, except that it provides for a separate adjustment for each of the three individual caps. Both sections limit the total BA cap adjustment allowed. For example, for 1994 and beyond, the limit is .1 percent of the adjusted discretionary limit on new budget authority for that fiscal year. Sec. 251(b)(2)(E)(iv).

[12] GAO, *Budget Issues: Compliance With the Budget Enforcement Act of 1990* (Nov. 1992).

crease the deficit. PAYGO requires that new legislation increasing outlays or reducing revenues be deficit neutral. Thus, such legislation must include offsetting revenue increases or expenditure decreases. If Congress does not act, a sequestration of certain entitlement programs will occur.

Although much praised, PAYGO has had a limited impact. PAYGO only applies to policy changes to existing laws. It does not reach mistakes because of inaccurate economic or technical estimates. Simply, PAYGO does not require cost overruns to be paid for if the excesses resulted from optimistic or mistaken projections.

Consider the problems government and private forecasters had in estimating the effects of President Reagan's first budget on the deficit. The estimates of the administration, CBO, and private forecasters all greatly understated the deficits that would arise from the first Reagan budget.[13] Similarly, the economic forecast accompanying the 1990 budget deal was highly inaccurate.

Regarding technical reestimates, one of the best and most recent examples of this recurring problem can be found in the 1990 budget agreement. Congress and then President Bush claimed that they were cutting health programs by $35 billion over 5 years and saving $7.5 billion by extending the current policy regarding patient payment of premiums for part B of Medicare. Since the 1990 agreement, the Congressional Budget Office (CBO) has reestimated the cost of these programs numerous times. Although the number or size of the mistakes should be random, with as many overestimates as underestimates, the CBO has reported positive technical adjustments for Medicare and Medicaid that are many times the size of the claimed cuts. In other words, the progress made in restraining growth was eliminated by an actuary's pen—yet no one required additional restraint because of mistakes in the previous estimates.

The fastest growing area of Medicare—post-acute care—provides specific examples of the problem. Consider home health care. In 1988, the estimate for total home health outlays in 1993 was $3.8 billion; the actual amount was $9.5 billion—two-and-a-half times the original estimate. Outlays for home health continue to grow more than 30 percent annually, and the benefit will cost nearly $20 billion by 1997. What happened? The primary reason behind the growth was an out-of-court settlement HCFA negotiated with provider and consumer groups after losing a court decision concerning limits on the amount of home health services Medicare allows. The settlement effectively eliminated the limits. HCFA's new policy was enacted independent of congressional oversight and OMB review. Again, no penalty resulted.

Similar rapid growth has occurred in the skilled nursing facility benefit, expenditures for which are growing even faster than for home health: 38 percent annually, now costing over $6 billion. A key event that helped trigger the unexpected increase was the passage of the Catastrophic Coverage Act in 1988. That law repealed the previous requirement for a 3-day hospital stay before Medicare would pay for skilled nursing care in a nursing facility. In the short period before the act was repealed, the program's costs nearly tripled. Despite the repeal, expenditures did not return to previous levels and have continued to rise rapidly.

The reasons for underestimation of the cost of certain government programs is not obvious. One major reason appears to be a consistent inability to foresee all of the myriad ways in which providers will use changes in the law to their advantage. Such lack of foresight is hardly surprising, given that there are thousands of highly intelligent people who specialize in obtaining additional money from the Government, and that government estimators are largely unwilling to increase their estimate of specific program costs in the absence of hard evidence.

IV. POSSIBLE SOLUTLONS

A. Eliminate, or at Least Reduce, Balkanization

As in the 1920's, we should centralize spending control within one committee. The historical record and our research indicate that reestablishing single committee control over spending authority would have significant effects on decreasing both the level of spending and the deficit. This proposal may be difficult for the Congress to implement because it greatly concentrates power over pocketbook issues. However, recent voter disenchantment and the electoral upheaval in the last two elections should have put Congress on notice that control of key committees and the ability

[13] Incidentally, the record does not support the view that the Reagan administration used a rosy scenario to hide the effects of its first budget. A comparison of the forecasts and assumptions used by the administration finds that in the aggregate, they did not differ dramatically from those of CBO or the private sector. What does stand out is the degree to which the administration, CBO, and private economists understated the chance and degree of a major recession. See Muris, T.J., *The Rise of Large Deficits: What Really Happened in 1981* (unpublished paper on file with the author).

to direct favors to interest groups is no longer enough to protect incumbents from the voter's increasing desire to see progress on national problems.

If full consolidation is impossible, several steps in that direction are easier to adopt. Entitlement status should be ended for all programs except earned entitlements, such as Social Security. A new appropriations subcommittee could be created, with jurisdiction over the former entitlements and membership consisting of the committees with previous jurisdiction. At a minimum, all the programs should be reviewed periodically, with future spending ended without reauthorization.

Control could also be strengthened through a default rule that penalizes Congress when it fails to achieve its goals. Although much maligned. Gramm-Rudman-Hollings (GRH) was better than what has replaced it. GRH was flawed, in particular because the House in 1985 successfully removed numerous programs from its reach. But it did exert pressure to reduce the deficit, producing significant restraint, particularly in domestic discretionary programs in fiscal 1986 and 1988. GRH died because of the unique S&L crises, which exploded deficit projections, and because it was mistakenly ended as part of the 1990 budget deal. It should be renewed, with its coverage expanded to remedy the problems discussed above.[14]

B. Scrap the Baseline System

By assuming a continually growing level of spending, baseline budgeting makes it hard to consider killing a program. Further, it fundamentally alters how the public understands the budget process. Allowing continuous and large increases in programs to be classified as cuts, it creates the impression of action when nothing significant has occurred. The greatest check on governmental power can occur only when the public respects and can fathom what the Government is doing. Baseline budgeting does not allow either. A device created to promote good government has become instead an exercise in gamesmanship to justify politically expedient results.[15]

Of course, the problems that led to the baseline system cannot be ignored. As now calculated, the current policy baseline does provide useful information for many programs, that is, a knowledge of what spending would be in the absence of congressional action. But for many other programs, notably discretionary ones, and those parts of mandatory programs that require frequent adjustments, there is no automatic pilot to measure. Rather than pretend to solve an insoluble problem, we should acknowledge that no good baseline is possible.

Although all programs should be measured against the base of the previous year's spending, for those programs that automatically increase the underlying reasons should be understood and evaluated. Breaking down the increases in programs into their components would improve congressional and public understanding of the dynamics of government spending. For Medicare, for example, the past year's spending could be presented along with the projected increase in beneficiaries, changes caused by the aging of the population, general inflation, medical inflation. increased volume and intensity of use, and the costs of phasing in expansions and expiring provisions. The technical display should be as neutral as possible.

To be sure, such a procedure would be more complex than using the current policy baseline alone, but it would be a more accurate picture of reality. Medicare and many other government programs are not simple. Understanding and making intelligent decisions about those programs requires knowing why and how the program is growing. If the presentation of these programs oversimplifies a complete reality, it conceals important information and indirectly influences outcomes.

No system of evaluating budget decisions will be entirely immune from distortion and gamesmanship, but abandoning the present system will make it easier to understand the impact of spending and tax decisions on the deficit and decrease the likelihood of claiming victories in the battle against the deficit while steadily losing the war.

C. Modify The BEA

The BEA should be changed, especially if the more significant changes discussed above are not adopted.

1. *Discretionary Programs.*—First, the concept of budgetary resources should be substituted for the BA and outlay caps currently used. At the least, offsetting re-

---

[14] Another useful step would be to follow the BEA and first sequester the individual areas that cause the deficit targets to be breached.

[15] As an adjunct to eliminating the current policy baseline, we should modify the reconciliation process. As discussed above, numerous program expansions were funded in past reconciliations. Indeed, one of the few benefits of the 1990 budget deal was that it eliminated the need for reconciliation, at least for a few years. The expansions stopped for a while. They should be barred from future bills.

ceipts should no longer be free under the caps. Second, the loopholes that allow the caps to be increased should be ended.

2. *Mandatory Programs.*—PAYGO rules should be adjusted to require the inclusion of adjustments for technical and economic errors. Although it is clear that correct forecasting is a difficult mix of science and art, not correcting for mistakes means that they are simply being ignored. Given the degree to which mistaken assumptions are common and effect the deficit, the country cannot afford this. Deficits will only be controllable when responsibility for them is accepted. Requiring that mistakes be addressed does only this.

Thank you for your time. I would be glad to answer any questions you might have.

Mr. GOSS. Thank you very much.

I think your analogy of the balkanization issue is one that we have examined before with members, and there are many different views on that and we keep coming at it from this reorganization point of view as opposed to just the budget side. It is a constant question.

Carol Cox Wait, president of the Committee for a Responsible Federal Budget.

We will accept your prepared statement. In fact, we have two, we have a draft——

STATEMENT OF CAROL COX WAIT, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Ms. WAIT. You have kind of a generic piece we have put together over time that outlines major issues that our committee thinks you need to address and budget process is one, and you have brief testimony prepared for you this morning. I am going to talk a little bit from each of them and other stuff and hope to stay under my 10 minutes.

Even though I worked on the Senate side of the Hill, I won't try to filibuster. I only have two grandchildren. I am envious I hope to have many more. I have things all over my house saying if I had known grandchildren were going to be this much fun I would have had them first.

The reason I have been at this almost as long as Allen Schick is the grandchildren are a very big piece of the reason. You have got to be crazy to keep working in the budget process for over 20 years as I have done otherwise.

I say in fairness when you look at Lou Fischer's comparison of the pre-1974 and post-1974 situation, before the 1974 Budget Act is burdened with the entitlements that were enacted under the previous system, and then he compares the outcomes as if the 1974 Act were responsible for the growth in spending that resulted in those entitlements that were enacted in the 1960's, so I think the comparison breaks down.

Nonetheless, I am less sanguine than Allen Schick or Rich about the current budget process. I would tell you that Mr. Rose and Mr. Boland and Ed Muskie would all tell you that they knew as they wrote the 1974 Budget Act that it wouldn't work, that it was the best they could get at the time and they always assumed it would have to evolve over time.

One of the most important things to recognize as part of that evolution is that we began with what was a wholly iterative process and the 1974 Budget Act wasn't budgeting because it envisioned a process in which Congress essentially put together all the things it wanted to do and added them up at the end of the year and called that a budget.

We have found over time that budgeting is a distributive process, not an iterative process; that you have to start with an idea of what the overall outcome ought to be and weigh priorities within those outcomes. In that context, I would suggest that when you start looking at budget process options, you should ask yourself what happens if we don't do anything at all.

Under the current system, if you don't do anything the biases are that spending goes up and up. I would suggest you are looking for a system in which if you don't do anything at all, expenditures are constrained and I would hasten to say I don't mean by that constraints by some automatic continuing resolution. That is probably the worst idea I have heard this year.

If you want an absolute guarantee that you will never terminate any program that any President wants to continue, all you need is an automatic continuing resolution. I have lost hope that we will ever get rid of Federal programs. I am beginning to think that the closest thing to eternal life on this Earth is a Federal program.

The Federal budget process is decentralized with a vengeance. We have too many executive branch agencies, too many congressional committees and subcommittees. They go through too many steps every year until it seems that no decision on spending or tax policy is ever final.

We have complexity compounded by confusion undermining accountability. We speak about so-called uncontrollable spending as if God wrote those laws.

We argue that the thrust of reform has to be two-fold. The first is accountability. I think the most heartening thing about this Congress is that as I have spent an endless amount of time talking with Members about budget process reform is that you are constantly looking for ways in which to make yourselves and the President more accountable. I must tell you that that is almost unique in my experience.

The second thing that you need to concern yourself with it seems to me is what kind of incentives do you enact to get you to do what it is you want to do. I can tell you that having spent a lot of time talking to the people in my ward with a lot of experience in this, we have concluded that the only really effective enforcement mechanism is political embarrassment.

If we can design a system that will embarrass you politically if you don't do what you are supposed to do, we think it will work. So we would suggest that you should look for a system that instills more accountability and instills that accountability by causing you embarrassment if you don't do what you ought to do.

We think that the way to get that is real binding spending limits. I would hasten to say that we do not mean deficit limits, but spending limits, and we would adjust spending limits automatically for changes in the eligible population defined as individuals, not numbers of doctors or hospitals or corporations or financial institutions.

And we would not adjust them for changes in technical estimates. I think that one of the greatest abominations that has happened in the aftermath of the 1990 budget agreement was the $12 billion a year that we added to Medicaid spending as a result of a change in Federal regulations. We called that a technical adjustment.

I don't think we ought to be spending $12 billion a year more because of some regulatory change that Congress never voted on. I think you have to be accountable for changes in spending such as that.

I would also point out that the growth in appropriations, as Tim pointed out, have been stingier in the present administration and the reason is the 1990 Budget Act nominal dollar expenditure limits on appropriations have worked more effectively to constrain that spending than anything we did heretofore.

We would in designing caps place—this is different from the material I provided last night. It isn't what we really would like to do.

We would prefer to do caps for entitlements by committee and subcommittee of jurisdiction. It won't work. We sat down with folks that have to administer them and unfortunately the differences in jurisdiction between the House and the Senate make that a nightmare to design.

So we would advise you to have separate, discrete caps for large entitlement programs defined as maybe programs that spend over $20 million a year and have an all-other cap for other entitlement spending.

Permit yourselves in law to have fire walls if you want on the discretionary side of the budget between defense and discretionary or any categories you would like as your political priorities change over time, and to have separate entitlement caps for other small programs if you want, but that is the priority. The basic framework would be to separate discretionary and entitlement spending, have aggregate caps for each. You would have whatever this aggregation of fire walls you wanted under a discretionary funding budget.

You would have separate caps for the big entitlement programs and a residual category on the entitlement side. You wouldn't have a sequester unless the aggregate limits on either side were breached, but once the aggregate limits were breached, the cuts would fall proportionately on programs that have caused those overages.

You would take the caps and prorate the overages based on the amount that the programs under each cap contributed and make the folks that made the problem pay for the problem. We think that creates the greatest incentive to change the underlying law so that you are not just running the Government by sequestration but forcing people to go back do what they are forced to do, plus the sequester shouldn't become the policy. They should be mechanisms to make you go back change the underlying legislation if it doesn't conform to the amount that you think you want to spend.

We would keep the caps that are enacted in the budget resolution. We would do multiyear caps and we would say if you don't enact a budget resolution in a timely fashion, those caps would continue in force until you do.

So you never, ever could spend more money than you agreed to spend the last time you voted on caps until you vote to change the caps. That is the political accountability. That is the political embarrassment.

There is no right level for spending, but once Congress and the President established a level for spending, you would have to stand up and vote to spend more money before you could spend more money.

I said Congress and the President, to implement this we would go to a joint budget resolution. I don't know if you all have thought about it, but under current law, the President has a budget, Congress has a budget, but the country doesn't have a budget. The country doesn't have a budget because there is nothing in the current law that requires you all and the administration ever to agree on what spending and taxes ought to be, much less the priorities.

When the press reports you are going to have a train wreck or showdown over the budget they don't mean that at all. You are going to have a showdown over one more appropriation bill or a debt limit bill, but the country is never going to know what you and the President think the total spending and taxes ought to be, what you think the priorities ought to be, and how you work those differences out between you.

That is one of the reasons that we are forever relitigating this, all this tension we have on every piece of legislation. We don't have an agreement on a blueprint and will never have one until we force the two branches of government to reach some kind of an agreement.

We would recommend that you budget and appropriate biannually. As a matter of fact and in a perfect world we would solve some of this confusion, overlap and duplication by consolidating the appropriations and authorizing committees, not having them authorize and appropriate the same bills, but having them authorize in one session of one Congress and appropriate in another session of the same Congress, and thereby eliminate the confusion and tension that exists for instance in the Armed Services Committee, and I am more familiar with the Senate than the House, but I have seen the Armed Services Committee and the Defense Authorization Committee chairmen nearly come to blows, because every year you have two completely different sets of priorities that are brought to the floor and the Senate with respect to one major area of public policy.

At least you would have one group of folks recommending in the House and the Senate both the defense authorization priorities and the defense appropriation priorities and hopefully they would have more to do with one another than under current law.

Beyond that, we would reconstitute the budget committees as committees on national priorities comprised of the chairman and ranking members of the combined authorizing and appropriating committees and the tax committees and other folks that are appointed for regional balance and partisan balance and what have you.

But put in the hands of the people who are going to have to implement the budget the responsibility for formulating the budget and again hopefully you would have some continuity throughout the process. In other words, we think Tim is right, you have an awful lot of balkanization and that you could do more by consolidation.

I must say to you I don't think you can get that done this year. I think you can go to biannual budgeting without doing the kind of committee consolidation we have recommended.

I think you need to recognize that annual budgeting is costly just in terms of the amount of staff time and effort devoted to it downtown and on the Hill, and I think that almost every time we reopen the budget process we tend to spend more money. This year may prove to be the exception to that rule, but I wouldn't count on it happening over time.

We haven't talked a lot about emergencies here. I have thoughts about baselines and will be happy to talk about them, but let me focus on some things we haven't talked about too much.

We believe that you ought to when you budget set aside a contingency fund for emergencies, a so-called rainy day fund. We think that until you do you are kidding yourself about budgeting because we know we will have unanticipated circumstances and they almost always cost us money.

The biggest, best reason for setting aside a pot of money at the beginning of the budget process for contingencies is that at that point you have all the resources of the Government available to you to decide from where you are going to get the money to pay for that stuff. If you wait until later in the year, you have some programs who happen to have not spent their money as the only source of money to pay for emergencies unless you are going to add the cost for emergencies to whatever you have already decided to spend ad infinitum.

Since we happen to think you ought to have limits on how much you spend, you will have to get the money from someplace and we think you ought to make a stab at the beginning of the year to decide from where you take it.

Does that mean you might not spend it all at the beginning of the year? No.

Does it mean if you have some left at the end of the year you might not go on a spending spree? No.

But I can't think of any bad thing that happens as a result of setting aside a rainy day fund. So I think it is worth trying at least to set aside money to take care of things you don't anticipate ahead of time.

I want to wrap up, but I want to take a look quickly, because you have asked about repeal or revising the Budget Act. Repeal has a lot of glitz appeal, I guess. But let me say that having drafted one heck of a lot of legislation, I would rather do major surgery and take out the stuff I don't want in the act and replace it with the things we think will work and maintain the framework, because it helps guide your thinking for all the things that you need to remember to put back in if you repeal the law.

It is just technical drafting. That framework contains an awful lot of nitty-gritty details that you are going to need no matter what your budget process is, and having it in front of you and forcing yourself to think about whether you get rid of that in view of the new things you want to do, I think will guide you better than starting with a clean piece of paper and trying to draft from scratch.

I am going to say a word about baselines, because I do agree with Tim that what we have right now is almost Darwinian—Orwellian, excuse me. It is both, survival of the fittest and it is Orwellian.

The caps will diminish—if you adopt caps, they will diminish the importance of baselines, because the really important question isn't where you start, it is where you end up. The really funny thing—if you look, for instance, at the administration's June proposal for the budget in your budget, the congressional budget this year on Medicare, you are not very far apart in terms of where you say you want to end up. It is less than $10 billion a year, which isn't much money in the Medicare program.

What is different is the administration thinks Medicare is going to spend less, so they say they have to cut less to get to this same place than you all do. But if you are living in a capped environment, it doesn't make much difference how much you say you are going to cut, you have to get to the end product no matter what, and that would diminish the importance of this whole baseline controversy.

Nonetheless, you need baselines to have some idea of how much you have to cut to live within your caps. And our recommended solution to that is that the caps, especially given the lockbox provisions that I think you like and will enact this year, and I think you should and lower them any time you want to, if you cut appropriations, the caps should be your baseline for the discretionary side of the budget. That is what you say you are going to spend. You have gotten them written into law until you change them. That ought to be the base for the discretionary spending.

On the mandatory side, we think you do have to make adjustments for changes in the beneficiary population and changes in expenditure that are required by law. For instance, in the current law you do have COLA's for Social Security, because the law says you are going to pay them unless you change the law.

Interestingly enough, you do not have COLA's in the law for AFDC and a number of other programs for which we put COLA's automatically in the baseline, so we would revert in the mandatory side to what we used to call a current law baseline which gives you only those increases that are specifically required in the law and anything else isn't in the base, and that still may be above the caps, in which case it tells you how much you have to cut to get down to the caps.

But remember, in our world you are going to get down to the caps one way or the other. You are either going to get down through them automatically through sequestration or because you changed the underlying law to get down to them. And I go full circle to where I started, because the really important question is what happens if you don't do anything at all. If you don't do anything at all, is entitlement spending going to continue to grow out of control or is it going to stay at the levels that you told us were appropriate the last time you adopted a budget? We think it ought to be the former, and we think you ought to have to vote before that spending goes any higher.

Mr. GOSS. Thank you very much.

[Ms. Wait's prepared statement follows:]

Prepared Statement of Carol Cox Wait, President, Committee for a Responsible Federal Budget[1]

Mr. Chairman, Mr. Frost, I am very pleased to be here. The Committee for a Responsible Federal Budget was formed initially out of concern for sound budget process. Notwithstanding the amount of time and effort we have devoted to deficit issues, process continues to be a major priority for our group. Budget process reform cannot solve fiscal problems. But budget process reform can be essential to enactment and implementation of significant substantive fiscal policy legislation.

The Federal budget process is decentralized with a vengence. Too many executive branch agencies, too many congressional committees and subcommittees, go through too many steps each year, until it seems that no decision on spending and tax policy ever is final. The process is replete with duplication, overlap and redundancy. Complexity compounded by confusion undermines accountability. We speak of so-called, uncontrollable spending as if those Federal outlays resulted from natural laws rather than statutes enacted right here on Capitol Hill.

The thrust of budget process reform should be two-fold:

Make government and the budget process more accountable; and

Use the threat of political embarrassment to encourage Congress and the President to live up to the promises they make in the budget process every year.

You need to be concerned with government accountability. The polling booth is the market clearing mechanism in a representative government. While government becomes so complex that concerned voters, willing to spend a reasonable amount of time, cannot understand the budget, the system breaks down.

Political embarrassment is the most effective instrument we know to assure government accountability. The really good news is that this Congress may actually be willing to enact legislation to hold Members and the President accountable, and extract maximum political embarrassment if you fail to live up to your commitments.

The Committee for a Responsible Federal Budget believes that real, binding spending limits hold the key to serious budgetary restraint. We can balance the budget by cutting spending and/or raising revenues, but we never will balance the budget unless you and the President agree there is an amount more than which government will not spend—and stay within the limits that you set—until and unless you pass a law to raise those limits.

To keep spending within binding limits, you should adopt automatic reductions similar to sequestration under the Budget Enforcement Act. This means extending the concept of caps to the entitlements and other mandatory spending in the budget. We would have liked to apply those caps at the levels of committee and subcommittee allocations; but we have concluded that will not work, because of the dramatic differences between committee/subcommittee jurisdictions in the House and Senate. Contrary to the material I provided Mr. Goss' staff last evening, therefore, we recommend you mandate in law separate caps for specific large entitlement programs, perhaps those that cost $20 billion per year or more; and place all other entitlement spending under a single residual cap. We further recommend that you include permissive language in budget process reform to allow separate caps—or firewalls—on the discretionary side of the budget—and additional discrete entitlement caps, as priorities may dictate from year to year.

Sequestration would be triggered only if aggregate entitlement spending exceeds the aggregate cap. If sequestration were triggered, entitlements covered by specific caps would be cut in proportion to the amounts each contributed to the overage. Once Congress and the President agree to a budget, we recommend that the caps contained in that budget remain in effect until and unless you change them—by adopting a new budget or other legislation.

This recommendation would turn the biases in the current budget process on end. Under current laws and policies, if Congress and the President fail to act, if you cannot reach agreement, spending continues to grow. Under this system, spending would be constrained at the levels you adopted the last time you passed a budget, until and unless Congress and the President each agree and pass a law.

This system will work because the media and your constituents will understand it. And that is where political embarrassment comes into play. Nothing we recommend would dictate the level of the expenditure caps. Nothing would keep Congress and the President from busting the budget. But, if you do bust the budget, under this system, the media and everyone else will know it. Moreover, they will know which programs or parts of the budget caused the problem.

---

[1] The Committee for a Responsible Federal Budget is a bipartisan, nonprofit, educational organization formed to educate the public about the Federal budget, the budget process and related fiscal policy issues.

To make all this work, we recommend that you convert the budget resolution to a joint resolution. Under current laws, the President has a budget, Congress has a budget, but the country never really does have a budget. There is nothing in current law to force the two branches to agree on aggregates—much less on priorities. When the media report, there will be a showdown between Congress and the President on the budget, they really mean a showdown over appropriations, or reconciliation or some segment of fiscal policy. There never is a showdown on the overall budget, because nothing requires you and the President to agree on a budget, and that is part of the accountability problem.

We recommend that you budget and appropriate biennially. Spending money subsumes far too large a share of Congress' and the administration's time and energy.

Annual budgeting is costly, simply in terms of the time we pay people to prepare, examine, consider, defend and modify budget proposals. It is even more costly, in that budget revisions almost always provide opportunities to increase spending. If this year proves to be a true exception, we would not count on the pattern of using budget cycles to save money continuing over time.

Mr. Chairman, Mr. Frost, budgeting is the quientessential political activity. When we budget we decide what we want government to be and do, who will pay the bills and how. Budgets should be universal and transparent. Those are just fancy words for common sense concepts: everything should be on budget; and voters should be able to understand your budget and your budget process.

The budget debate should highlight for Members of Congress and your constituents fundamental questions about the size of government, and the allocation of rescources among competing public purposes, proposed changes in government's role and/or government priorities.

Unfortunately, in recent years:

The United States piled up record peacetime deficits and debt;

The choices to solve the deficit problem grew ever more difficult;

The budget process became ever more complex and convoluted, more confusing, duplicative and redundant, and much less transparent;

We finally enacted credit reform;

But we took Social Security off budget;

And now there is talk of taking transportation programs off budget as well; and

Dick Darman's, "One Big Book" budgets wiped out years of continuity and turned President's budgets into public relations documents rather than fiscal policy plans.

The country needs better understanding to help solve the deficit and debt problems, reorder national priorities and prepare government to meet future needs, but public documents, budget rules and decisionmaking process actually operate to frustrate those goals.

We believe that changes in the budget process outlined above are absolutely essential this year. If you do pass legislation to balance the budget over a predetermined time period, you will need a process like this to ensure you stay on track until you actually get to the goal. If you fail to pass such legislation, you will need a process such as this to ensure that the deficit and debt problems do not become much worse than they already are.

As I said earlier, Mr. Chairman, one truly heartening fact is that we find Members of this Congress willing if not eager to adopt new rules which will hold you and the President politically accountable. Hold yourselves accountable and you will take giant steps toward restoring voter confidence. If this Congress can restore fiscal sanity and voter confidence, you truly will make history. More important, you will make major contributions toward a strong, growing, confident country as we move toward the 21st century. That is too much to lay at the feet of the budget process alone. But adopting sound budget process reforms would represent a significant step in the right direction.

I thank you for the opportunity to testify today. Needless to say, I have strongly held views on everything from budget baselines to specific formulae for sequestration. I will be happy to answer any questions you may have, but I have used this time—as your staff asked me to do—to focus on what we believe to be the key elements of responsible budget process.

Thank you.

Mr. GOSS. An awful lot has been said, and most have of it is fleshed out in the testimony I know you have provided for us, and we are very thankful. I know it is going to lead to other questions.

I notice that there was not full agreement on every point from the panel, which is good because there certainly isn't in the membership either.

Many, many questions come up, but I think perhaps the thing that I heard most in this particular panel was we have got a problem when we are talking about budget process, that it gets confused with spending. Budget is more than spending, and it is—if spending is going well, it doesn't necessarily mean budgeting is going well and vice versa. And I think we are into that area a little bit.

We all talk so much about the deficit that that seems to be the focus and how to get that under control, but we really are aiming here at the process of the budget and does it serve this institution and the United States well, and if not in some cases, where can you fix it.

The bigger fight—sort of almost the philosophical fight about how much accountability should the President have and how much say in whether we do it at the beginning or the end of process, do we, therefore, change that? Or if we make it statutory versus the concurrent resolution and so forth, those are all ways to achieve what you want to achieve.

One of the problems I have is with the idea that you can embarrass people into doing the right thing. I am not sure how far down the road you have to go to achieve embarrassment sometimes. I am continually astonished at what the threshold of embarrassment is, in some instances.

I don't know if that will work or not, but I suppose if somebody could design an actually accurate, decipherable scorecard on the measure of how a Congress was doing or an individual Member of the Congress was doing, it would be a wonderful service to the Nation. I don't believe anybody has designed that scorecard yet, but everybody has designed their scorecard, and that is part of the problem in dealing with accountability.

As Professor Schick says, "If we put out two sets of numbers, I will go out and use the numbers that are printed right there for everybody to see and say that these are the right numbers." And somebody else will, say Mr. Dreier, will be more conservative than I am and will take the other numbers and say I have the real printed numbers right here. And one more time we have created confusion, and we have created fuzziness.

Mr. DREIER. But we are both being accountable, though.

Mr. GOSS. We are both being accountable, and we are both being right. Neither of us is embarrassed. America is confused and bored and turns to the next channel.

But the real issue here is, are we managing the resources of the Nation properly through our budget process? And you have all given us a lot to think about.

I have a great many questions. We are running close on time. I would like to ask a couple of specifics of each of you if I may.

Is that all right with you?

Mr. DREIER. Sure.

Mr. GOSS. I wanted to go back, Mr. Kogan, to your comment that you didn't like the lockbox or the line-item veto. Is your objection there that it restrains flexibility?

Mr. KOGAN. No. My objection is that it weakens a governing coalition from actually governing. And in the case of line-item veto, it weakens Congress, that is to say, the President.

Let me give you two——

Mr. GOSS. That is two separate issues. I will tell you why it is two separate issues. Because within the House itself, you are right, there is the majority question; and within the House and the Senate there is the majority question.

Then you come to the question of checks and balances and the separations of powers between the constitutionally separated executive branch and legislative branch. So I think that is two separate issues but go ahead and tell me.

Mr. KOGAN. Let's imagine a line-item veto that was fairly broadly drawn so that it could get to many aspects of legislation, not just appropriations bills.

The general point I made is that Congress' power is packaging. Packaging is the counter to the President's power to veto.

There is a lot of discussion of putting a debt limit increase into the reconciliation bill as Congress' attempt to help the President figure out that he wanted to sign the reconciliation bill. If the President had a broad line-item veto, he could take the reconciliation bill, sign it, and then veto every item except for the debt limit increase; by analogy, this could happen to appropriations, as well.

Okay. Let me move to a lockbox; again, just a simple example. Suppose that the budget resolution had as much detail as this chairman likes to put in in terms of background assumptions. And I think those are useful because it lets people know. It adds accountability to what likely outcomes are, and I think it is very commendable that he was not fuzzy.

And a governing coalition says, "Yes, this is our plan." The Appropriations Committee comes along and puts in substantially less, $1 billion less, than that plan in one bill and substantially more, $1 billion more, in the other bill. The second bill comes along, and the governing coalition says, I want to stick with our plan. The coalition sticks together, knocks the billion out of this bill with the intent of putting it back in that one later. Sorry, the lockbox has just prevented the governing coalition from following through on what it originally agreed to in the budget resolution because that money gets locked up. It cannot be put back on the other bill.

Mr. GOSS. That is not exactly the way the lockbox we are talking about works. I think you could make a general statement, but I think that there are—the present provisions for the lockbox that we have got now have a good deal more flexibility for the appropriators if the 602(A) pie shrinks; but 602(B)'s have flexibility.

Mr. KOGAN. Yes, they do, but the shrinking of the 602(A)—and by half the amount of the amendment—by definition means that the total 602(A) that the governing coalition agreed was the right amount is now shrunk. And while people who think that all spending cuts are good may say, "Fine, that is wonderful." The fact of the matter is that the governing coalition agreed on that particular level rather than a higher or lower level by talking among itself and saying, "This is right." The lockbox automatically makes some lower level, some different level, be enforced.

Mr. GOSS. Without getting into all the parameters of another subject about leadership and how that all works here, it does seem to me that in a representative form of government each Member of Congress is more or less equal, even though some of us have been here longer and some of us have not been here very long and some of us are chairman of something and some of us are minority, all those things. The fact of the matter is, I think we speak, many times, particularly in this committee, of allowing the body to work the will, the majority will.

And I think that it is fine for the leadership to make the package, but I think it is just as important in a representative democracy that we allow the membership as a whole to have a crack at that. And it does take 218 votes to redesign that package, and I don't think we want to get away from that. Otherwise, it gets more into the oligarchy, and we have tried that before. And if you go through the patterns of history and other circles it has been more efficient, but I am not sure it has been better.

Mr. KOGAN. I appreciate what you said very much, because I imposed on your statement something you may not have meant, but that supermajority requirements are not a good idea. We are all equal and the will of the majority should determine things. In my specific example, I was suggesting that 230 Members agreed in July with the same thing that they had said in March and are prevented by the lockbox from accomplishing that result.

Mr. GOSS. All right. I understand. I think that we have a difference of opinion about how it works on that. I think we have protected against that, but perhaps we haven't. I will take a closer look. I have used my time.

Mr. Dreier, I yield to you.

Mr. DREIER. Let me just raise one question—I know you want to come to an end here—and that has to do with an issue that, frankly, the only one who touched on it was Carol, that of biennial budgets.

Back in 1993, there was, again, a great deal of talk about this issue; and then, of course, we got the appropriators involved in this; but the most interesting analysis I think is to look at the last half century. And 55 years ago we saw 44 States that utilized a biennial process. Today, there are about 20. And there has been—since that, the biennial process has really not had a great deal of success; and I wondered if you all might expand a little bit on that.

Because I have been a supporter of it for a lot of the reasons that have been outlined in the past, but then I remember going to an editorial board of a very conservative publication in California called, The Orange County Register. I represent Los Angeles, but I happened to have an editorial about this. And they came back and said, "You are talking about twice the amount of money and less potential for control of that." So they—they are a libertarian paper actually, one of largest papers in California, and they were virulently opposed to the biennial process.

I wonder, in light of the study that came from that national council on State legislatures, if you would comment on that.

Ms. WAIT. I would like to say a couple of things about that.

One is that in 1990 and 1993, and I suspect again this year, you are effectively pledging biennially. When we put in place the 1990 budget agreement, the second year of that agreement was very much a pro forma budget process, as was the process in the aftermath of the 1993 agreement. And I think that if you succeed this year in doing what you set out to do this year, you will be very reluctant to reopen most of those decisions next year.

I think there is a reason that works better at the Federal level than it does in many States. The Federal Government is not a program operator like the States. The Federal Government has a defense establishment and a foreign policy establishment and a few other uniquely Federal programs.

Beyond that, essentially, it is one giant check-writing machine. We don't operate domestic programs. We write checks to States and localities. We write checks to people. We don't operate programs.

In that environment, it is true that biennial budgeting raises some very challenging financial control and apportionment issues.

Incidentally, the entitlement caps that we suggest also raise important financial control issues. I think the Government would be well-served by a process that required us to maintain better financial controls than we do today.

But I don't think that if you have lived with the budget process for as long as I have and you have seen how little is at contention in most budget cycles, how marginal are the changes that we consider in most budget cycles, that you can reasonably argue that we need to reopen the entire budget every year in order to maintain control.

And, as a matter of fact, I think we likely would maintain better control and, frankly, better public policy if we stopped trying to fine tune fiscal policy all the time with every changing fad, with emergencies of the week or the month or the year, what have you, not to mention response to economic cycles and put the Government on a sensible public policy path.

I mean, Mr. Goss is absolutely right. When we budget we do far more than just spending. We are looking at what we want our Government to be and do, what is the appropriate size of government, how are we going to pay for it, what are our priorities. I think it is terribly important for us to reach some kind of public agreement on that.

You said, for what are you held accountable? If you had that blueprint that you all and the President had had to agree to, then we wouldn't have any question about which numbers you were accountable for. We hold you accountable for the numbers you had adopted. And it seems to me that, once you do that, you don't really need to redo it as frequently as we do.

You will have things that come along where you have to make adjustments at the margin, but you ought to have to make them within the framework that you have adopted, unless you bring them out constructively to vote to reopen that framework, and anything we wrote would always give you the ability to do that.

Mr. MURIS. If I could make two points.

We do not have biennial, annual, triennial budgeting for much of the budget. We need to have a review process for entitlement programs; as I mentioned I would impose penalty for not reauthorizing them. We need periodic review.

On the discretionaries, there is an interesting difference in spending, depending on what year you use it. John Cogan and I have done some research about whether domestic discretionary spending properly measured is different during election years and nonelection years. There is a pretty stark difference, as you could imagine.

Mr. DREIER. Thank you very much.

Mr. GOSS. Could I poach on that for a minute?

Mr. DREIER. Sure.

Mr. GOSS. I was going to ask you in your Balkanization suggestion, I needed to ask you a question on a look back on mandatory spending and entitlement spending, whatever you call it. Do you think that is a good thing to do, that we are talking about different formulas with look backs?

Mr. MURIS. As I understand it they are talking about two things. One is a fail safe provision to ensure that the Medicare saving comes into existence. Because there is going to be a disagreement with CBO. CBO is going to be quite cautious in scoring the new medichoice plan. That is one issue.

More broadly, some sort of look back or just changing PAYGO to count technicals, which would have the same effect, is appropriate. Congress is considering instituting some new policies, for example, in post acute care, home health and skilled nursing facilities. There is disagreement about how much this will slow down spending increases.

The problem with Medicare is growth in volume, and these look backs would only clamp down on reimbursements. You can only do that so much without causing a major problem. But, as Carol implied and as Senator Gramm has said, if you only give politicians tough choices, they will do the right thing. But it is hard to establish a scenario where all they have are tough choices.

Mr. GOSS. That they will go to any length to try to find less tough choices.

Mr. MURIS. Sure.

Mr. GOSS. Everything we are talking about seems to mean something different. We invent new words for new things here every day. I am not sure what they all exactly mean.

Mr. DREIER. Newsweek now calls Medicare mediscare, so——

Mr. GOSS. That has been around a while. I guess we are going to get more of that, too, I suspect, before we get done.

Mr. DREIER. Yes.

Mr. GOSS. The other thing that I sort of wanted to ask you, Professor Muris. You have given me somewhat of a depressing but I think very accurate picture that the odds are hopelessly stacked, that no matter how you circle the wagons of process here there are going to be more arrows incoming from the cumulative folks around town who make it their business to figure out how to get through the wagons or into the wagons, and that is one of the reasons we are trying to talk about the process.

I don't think that that is inappropriate. I think people do go to the Government. And we created, some say, dependency and have somewhat grown that industry ourselves, as it is. But I think that when you are talking about ways to deal with this and you speak of the balkanization problem of the cumulative effect and then we start getting to the solution, asking what do you do about it. That is where it gets a little harder.

And we all have somewhat different approaches to say, "Yes, we have to deal with it." "We have identified it." "We have to deal with it." But they aren't exactly the same.

And I want to sort out the question as best we can of the work these committees are trying to do and that is to get away from the concern about the spending of the dollars, the deficit and so forth, and start talking about the process that will allow us to get to whatever you point out the majority wants to do or what the people of this country tell us what we ought to do, and we always blur right back into the issue of the day. It is going to be impossible to talk about budget process without talking about whatever health care reform is being called this year. You are not going to be able to do it.

Mr. MURIS. The process matters.

Mr. GOSS. We all agree with that.

Mr. MURIS. Yes, but there is the famous Rudy Penner quote, "The problem is the problem, not the process." And there are many budget professionals at CBO and in the Budget Committees who agree with that. I think that you are right that the process matters. We do not have a budget—Carol is absolutely right about that—and we need to have some controls.

Of course, there is obviously a bigger issue in the country, which is that Republicans think that the country wants less government, and many people in Washington are saying, that when the country knows what less government means they will demand the Government they have got. That is what elections are all about.

But the process matters, and we have a process now where no one is in charge, and we have to change that.

Mr. GOSS. Well, I think I agree with that.

Two things are clear. Accountability is insufficient. I agree. How you correct that exactly I don't know. And the other thing that is very clear to me is that we do not always get what we think we are getting when we vote for something—the great arena of unintended consequences, some of which are negative—many of which are negative.

Mr. MURIS. Sure.

Mr. GOSS. Those are areas which mean to me that you are absolutely right, the process does matter very much. And that is why, as I said, we are investing our time and your time, and we appreciate your time.

Ms. WAIT. Mr. Chairman, I would like to add something for two reasons, one because of what Tim said just now triggered a thought that I alluded to in testimony, but I would like to call your attention. And the other is, I can't let something that Rich said remain unchallenged.

The first is, in our system of government, elections are where accountability occurs. I mean, that is where the voters hold you all accountable for what you do.

I am peculiarly frustrated by a series of events that I kind of go through quickly in my prepared testimony. Over the last 25 years or so, as our budget choices have become less attractive, as the deficit and debt problems have become worse, as the Medicare and

Medicaid problems seem to swamp us, we have perversely made the system more complex, convoluted, less transparent, less universal, and in many ways so obscured that an otherwise informed and conscientious voter doesn't have a prayer of telling what you all are doing; and, therefore, the accountability—the fundamental accountability at the polls breaks down. And that is wrong. We got to do something to fix that, some how, some way.

Having said that, I cannot let go unchallenged Rich's aside about campaign finance reform. I got to say to you that the amounts of money you all spent to get reelected are paltry by comparison to the $1.5 trillion a year you have to spend to get yourselves reelected once you get here, and that is why the process that you are talking about today is so important that it is—I mean, I happen to disagree with him about campaign finance reform also, but if people understood the importance of this, that what you are really talking about is the voters' understanding how you decide how much they are going to pay in taxes——

Mr. DREIER. I should argue that Porter and I spend very little of both to get reelected.

Ms. WAIT. But, you know, $1.5 trillion is more money than anybody can possibly imagine, and it is in this public environment that we finally have to reconcile these questions about what we do want from government and what we are willing to pay for.

And in order to do that, you have to have a system in which you publicly formulate a framework that says this is what we want. This is the size government we want in chunks that people can digest, not 30,000 line items but in chunks people can digest. These are our priorities, and in a fashion that you can be held accountable against those priorities as time goes on.

I think if you can get to there that at least we instill some accountability back in the system. Without sounding too hokey, I think you can make giant strides toward helping people be somewhat less cynical about the Government.

Mr. KOGAN. If I may reclaim my time.

Mr. GOSS. We will allow you to have a final word on that. We are getting a little off the subject of this hearing, but I think you should be entitled to a brief closing statement on campaign reform.

Mr. KOGAN. I wasn't suggesting it because I thought too much money is spent on campaigns. I don't. Not only that, it would be fine with me if more money were spent on campaigns, and it would be fine with me if Members of Congress were paid more, because that would still be only a fraction of what they were worth. My point is not how much money but whom it comes from. I would rather it come from the public than from special interests.

Ms. WAIT. I think you would find the taxpayers wouldn't like that very much.

Mr. KOGAN. I am sure.

Mr. GOSS. Now we will define special interests. I think we have now covered most of the committees of jurisdiction. We have already put an end to Balkanization as we are sitting here. Any other topics?

Mr. DREIER. Not that I can think of.

Mr. GOSS. I thank you all very, very much for your time. This has been useful. And we would also like the opportunity to come back to you if we have further questions. Thank you very much.

The meeting is adjourned.

[Whereupon, at 11:47 a.m., the subcommittees were adjourned.]

○

ISBN 0-16-052127-0

90000

9 780160 521270