

*Hearing before the House Rules Committee on*

**H.R. 114 — Biennial Budgeting and Appropriations Act of 2011 [Subcommittee Consideration]**

Tuesday January 24, 2012

Testimony of Maya MacGuineas  
Committee for a Responsible Federal Budget at  
The New America Foundation

Good morning, Mr. Chairman and members of the Committee. Thank you for the opportunity to testify today on the important topic of fixing the budget process. It is a privilege to appear before the Committee.

I am the President of the Committee for a Responsible Federal Budget. Our Co-Chairs are Bill Frenzel, Jim Nussle, Tim Penny and Charlie Stenholm, and our Board is comprised of many of the past Directors of the Office of Management and Budget, the Congressional Budget Office and the Chairs of the Federal Reserve Board and the House and Senate Budget Committees. I was also a member of the Peterson-Pew Commission on Budget Reform, which spent three years developing a collection of recommendations to reform the budget process, which can be a helpful component in overcoming our fiscal challenges. The Commission released a plethora of papers and two reports – *Red Ink Rising* and *Getting Back in the Black* that focused on the need to adopt multi-year budgetary targets, automatic triggers as well as many other budgetary reforms.

I share a belief with many of you and other members of Congress that 1) our budget process needs major improvements; 2) an improved process can both help force and enforce better policies; and 3) process reform is not a silver bullet with regard to fixing our looming fiscal crisis, but it can help. The only way to fix that is to put in place a large, comprehensive fiscal plan addressing our major fiscal challenges, and the sooner we enact such a plan, the better it will be for the fiscal and economic wellbeing of the United States.

Our budget process is just not working. Deadlines exist in name only; appropriations continuously fall behind schedule leading to unwanted mini and omnibus legislation, and gimmicks are regularly employed. And these problems only exist for the small portion of the budget that lawmakers annually mark up and decide. The vast majority of our spending and tax policies are on autopilot, leading to a system where our national priorities are neither fully thought out nor fully funded.

The Committee for a Responsible Federal Budget and the Peterson-Pew Commission have crafted a number of budget reform recommendations, which we call the 3-Ts of ***Targets, Triggers and Transparency***, which we believe would enhance the current budget process. Among these are:

- Setting a medium-term debt target and a glide path of annual debt and savings targets to achieve it
- Using broad-based budget triggers with no programmatic exemptions to ensure that targets are met

- Following the enactment of a deficit reduction plan to stabilize the debt, using additional triggers and spending and tax expenditure caps to keep any plan on track
- Requiring the President to issue annual progress reports on the effects of all newly issued legislation and progress towards longer-term fiscal goals
- Presenting new budget allocations compared to the previous year's levels as well as other baselines Reforming the way for which emergencies are budgeted
- Presenting tax expenditures by area alongside other spending in the same categories
- Increasing the level of scrutiny and oversight on tax expenditures

Today's hearing is more specifically about the budget reform known as biennial budgeting, a reform that the Committee for a Responsible Federal Budget supports. I will also spend some time speaking about an extension of this policy, multi-year budgeting, something the Committee finds particularly important right now.

H.R. 114, the specific bill we are discussing today, would move the discretionary budget from an annual appropriations cycle to a two-year budget cycle. The most popular argument in support of such a regime would be the additional time Congress would now have freed up to conduct other business – from additional program review and evaluation to a more careful look at our budget and budget programs currently on auto-pilot. Fixing our fiscal problems will require going through our spending and tax policies with a fine-toothed comb and determining what works, what could work better, and what does not work. If given additional time, Congress would have more ability to conduct this type of needed oversight. In a time of limited resources, this becomes essential – we cannot afford wasteful spending when we are being forced to cut back on priority spending and/or raising taxes.

Over the years, Congress has mandated that agencies collect a significant amount of data to develop and track performance metrics. However, because of the compressed schedule and political realities, the budget is more and more rushed and legislators have less and less time to adequately use the wealth of data they receive to better align the nation's priorities with what programs we choose to fund and to remove waste and create efficiencies. Moving to a biennial system would give members an entire year to better conduct program evaluation and better set spending and tax levels. Members would then have more time to find under-performing or duplicative programs and eliminate or reform them, or even find over-performing programs and allocate additional funds.

At the same time, a two-year cycle would give the executive branch and its agencies more time to craft their budgets. Adding an additional year would allow these agencies to operate on a more stable funding ground, preventing un-needed payments for fear of reductions in the following year's budget, and by allowing better longer-term planning. Much like how families and businesses would appreciate the stability added by having more certain taxing and spending policies (instead of the current system of short-term extensions, and the fear of looming tax increases and spending cuts created by the lack of a multi-year budget), giving additional time would add stability to executive planning.

Biennial budgeting is not without its flaws, though. There are a number of fears that go along with this reform, not unlike any specific reform policy, as this is not a silver bullet. From a legislator's perspective, moving to a two-year cycle would mean fewer times agency heads would have to justify their appropriations. Thus, agencies might be less accountable to Congress.

Additionally, there are real questions as to how biennial budgeting would work in practice – would the old annual appropriations process continue to exist because of a surge in supplemental appropriations

bills? This is a real concern and it would require political will to prevent this from occurring. While supplemental funding bills are sometimes necessary due to the nature of government and the need to respond to emergencies or unforeseen events, creating a new budget cycle to see it exist in name only due to appropriators' desire to stay on a de-facto one year cycle would in fact only create more havoc and less stability. This could be avoided through more stringent definitions of what constitutes emergency spending and what could be part of a supplemental, or through other budget reforms.

Some of the budgeting work for the next nine years has already been done through the passage of the discretionary caps seen in the Budget Control Act. There is, in fact, no need for a top line discretionary funding level to be agreed to legally if the caps are followed -- which is not to say that this Congress, or future Congresses, cannot change these levels. Nevertheless, adoption of these levels has removed a large part of the annual budget work and has added another impetus to move away from the annual system.

I would now like to highlight what I believe are some of the things that can be done with an additional year of budgeting within a two-year cycle.

As intimated previously, one possible use of Congress' time in light of a biennial regime would be increased oversight and exploration of federal programs, the tax code and possible waste and inefficiencies all related to the budget. But beyond that, one possible thing that we at the Committee have long supported would be to create a budget concepts commission. Such a commission would look into a number of issues, including many of those I mentioned earlier in my remarks, such as better accounting, particularly for long-term spending programs, fiscal exposures, insurance programs, and programs that are intended to be pre-funded; improving the construction and use of budget baselines; capital budgeting and dynamic scoring issues; tax expenditures; accounting for private securities; leasing and public-private partnerships; and trust funds. As the nature of budgeting continues to evolve, a freestanding budget concepts commission would likely prove immensely beneficial.

A second possible or additional matter Congress could address with additional time is a more careful review of national priorities. Congress could conduct a more detailed analysis of our taxing and spending policies and rank them versus what our national needs are. This budget concept is known in other countries as *portfolio budgeting* and would focus on connecting the entire budget and tax programs with their intended objective. Time would be devoted towards ranking the programs, and the corresponding national priorities, to reflect what should be taxed and how much as each objective spending program receives. This would allow lawmakers more ability to have a transparent budget process over what the priorities are and how best to achieve them.

Related to this would be using the off years to engage in broader strategic planning for the nation. As of now, we do not have a national fiscal roadmap and no broader strategic path. We could use this time to identify long, medium and short-term strategic goals, take note of threats and new opportunities, political and economic changes etc. This would help guide policymakers as they hopefully engage in a more thoughtful budget process and allow them to take a step back on a regular basis from the nuts and bolts aspects of crafting a national budget. Not only do we not have a strategic plan, but we seem to be operating in the exact opposite with constant short-term measures, extenders and a never-ending political fight.

And finally, we could produce topical reports about the fiscal health of the country. Australia issues its Intergenerational Report every five years, which assess the implications of current policies over a longer

time horizon and looks at the effects of demographic change on economic growth. Past efforts in the United States to integrate generational accounting have been, while technically challenging, extremely illuminating. A deeper dive into topics such as the interconnectedness between federal, state, and local budgets or fiscal exposures due to contingent liabilities and implicit budget commitments would be immensely useful in identifying, and hopefully avoiding, future budgetary challenges. Rising Medicaid costs, increased state pension liabilities and local government bankruptcies have the potential to impact the federal fiscal outlook – preparing for these events would lessen the negative consequences and allow the federal government to better respond. Overall, there are numerous beneficial uses the additional time allowed would provide if the federal government moved to a two year cycle.

Related to biennial budgeting, but with significantly more upside, would be to develop a multi-year budget – something I'd like to take some time to discuss. Right now the country needs a fiscal plan to get us to a sustainable debt level with the debt on a declining path relative to the economy. Such a plan will probably need to span a full decade, which is a reasonable amount of time to make progress on reducing the debt to around 65 percent of GDP—though beyond that, we need to continue to make changes to bring it back closer to its historical level of below 40 percent. Ideally, we would put such a plan in place immediately and allow many of the changes to phase-in more gradually both to allow people to adjust as needed and to allow the economy to continue to recover. But in order to be credible, there has to be a real commitment to sticking to the plan in subsequent years. So if such a multi-year plan is adopted as so many fiscal experts have recommended, the policy then should be to assume that ten-year plan remains in place for the decade, though with enough flexibility to make necessary changes along the way to account for external changes that arise without derailing the overall glide path to an improved fiscal situation. One of the purposes of putting a plan in place is to reassure credit markets and rating agencies, and provide families and businesses with the stability they need to plan, invest, and help grow the economy. If this plan is seen as something that can be changed dramatically year-to-year, it will not provide that security or stability.

Therefore, the Committee for a Responsible Federal Budget has been focused on how to put a multi-year budget plan in place, as well as incorporate the necessary enforcement mechanism to keep such a plan in place. Besides adding the desperately needed stability, multi-year plans have the advantage of becoming the de-facto budget – they stay in place until an entirely new multi-year budget is agreed upon. As a result, our current practice of constantly missing deadlines, endless extensions, consistent fears of a government shut-down and the specter of a fiscal crisis, would end.

Nevertheless, I must emphasize that while I am fully in favor of budget process reforms that move the process in a more positive direction, they are in no way a replacement for the tough budget policy choices that have to be made. The Joint Select Committee on Deficit Reduction failed in making these tough choices, and we now have a \$1.2 trillion spending trigger that is set to go off January 1<sup>st</sup> of next year – something some are discussing ways to turn off with no corresponding savings. Turning off the trigger completely would send a signal to markets and the American people that Washington is unwilling to make any tough choices – it might even risk another downgrade. Even with savings equal to the trigger, though, that will be insufficient to prevent debt from continuing to rise as share of the economy this decade, and particularly insufficient to stabilize long-term debt based on our current trajectory. We need to focus on the largest problems in the budget, particularly entitlement spending on health care and retirement and an outdated and inefficient tax code, and come up with larger savings in order to bring the debt down to sustainable levels.

While fixing our broken budget process would certainly help achieve these goals and are critical to making them stick, the actual decisions made on policy choices regarding what and how much spending to cut and what and how much revenue to raise are the only ways to actually fix the real problems with our budget.

I would like to conclude by once again reiterating how much our current budget process is failing the American people. We have had nearly a dozen short-term continuing resolutions over the past two years – this is no way to inspire confidence in Washington’s ability to effectively govern or in the fiscal policies that will be in place going forward. This adds significant instability to the economy at a time when the recovery is still fragile. But the instability doesn’t stop there. There is still no consensus on other budgetary matters, such as expiring and expired tax extenders, the ‘doc fix’, the alternative minimum tax, the payroll tax holiday, the sequester and the looming 2001/2003/2010 tax cut expiration. If moving to a biennial system gives the added time needed to focus on important fiscal policies decisions, then we should move to it. Because we need a better process so we all can better serve the American people and also help our economy, we need a multi-year fiscal plan to address our fiscal issues.

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

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

*[Remarks]*

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I share a belief with many of you and other members of Congress that 1) our budget process needs major improvements; 2) an improved process can both help force and enforce better policies; and 3) process reform is not a silver bullet with regard to fixing our looming fiscal crisis, but it can help.

The only way to fix that is to put in place a large, comprehensive fiscal plan addressing our major fiscal challenges, and the sooner we enact such a plan, the better it will be for the fiscal and economic wellbeing of the United States.

Our budget process is just not working. Deadlines exist in name only; appropriations continuously fall behind schedule leading to unwanted mini and omnibus legislation, and gimmicks are regularly employed. And these problems only exist for the small portion of the budget that lawmakers annually mark up and decide. The vast majority of our spending and tax policies are on autopilot, leading to a system where our national priorities are neither fully thought out nor fully funded.

Today's hearing is specifically about biennial budgeting, which we support.

Biennial budgeting would give Congress additional time for evaluation and oversight. Fixing our fiscal problems will require going through our spending and tax policies with a fine-toothed comb and determining what works, what could work better, and what does not work. If given additional time, Congress would have more ability to conduct this type of needed oversight. In a time of limited resources, this becomes essential – we cannot afford wasteful spending when we are being forced to cut back on priority spending and/or raising taxes.

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The longer time cycle would also provide more stability.

Related to biennial budgeting, but with significantly more upside, would be to develop a multi-year budget. Right now the country needs a fiscal plan to get us to a sustainable debt level. Such a plan will probably need to span a full decade, which is a reasonable amount of time to make progress on reducing the debt to around 65 percent of GDP—though beyond that, we need to continue to make changes to bring it back closer to its historical level of below 40 percent.

Ideally, we would put such a plan in place immediately and allow many of the changes to phase-in more gradually both to allow people to adjust as needed and to allow the economy to continue to recover. But in order to be credible, there has to be a real commitment to sticking to the plan in subsequent years. So if such a multi-year plan is adopted as so many fiscal experts have recommended, the policy then should be to assume that ten-year plan remains in place for the decade, though with enough flexibility to make necessary changes along the way to account for external changes that arise without derailing the overall glide path

to an improved fiscal situation. One of the purposes of putting a plan in place is to reassure credit markets and rating agencies, and provide families and businesses with the stability they need to plan, invest, and help grow the economy. If this plan is seen as something that can be changed dramatically year-to-year, it will not provide that security or stability.

I would like to conclude by once again reiterating how much our current budget process is failing the American people. We have had nearly a dozen short-term continuing resolutions over the past two years – this is no way to inspire confidence in Washington’s ability to effectively govern or in the fiscal policies that will be in place going forward. The instability doesn’t stop there. There is still no consensus on other budgetary matters, such as expiring and expired tax extenders, the ‘doc fix’, the alternative minimum tax, the payroll tax holiday, the sequester and the looming 2001/2003/2010 tax cut expiration.

There is no question that when it comes to the budget, there is an awful lot of work to be done and I applaud the committee for looking into biennial budget as one possible improvement.

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