

**Statement of
Alice M. Rivlin
Director
Congressional Budget Office
before the
Committee on the Budget
United States Senate**

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Mr. Chairman, I am pleased to appear before this Committee to discuss possible ways of strengthening the Congressional budget process. My statement this morning will briefly review the progress already made in the budget process and will then offer several recommended changes in the procedures established by the Congressional Budget and Impoundment Control Act of 1974.

Big deficits and delays in adopting resolutions and passing appropriations have been cited as evidence that the budget process is failing and needs major overhaul. I do not share this view. The process has proved itself enormously resilient and adaptable in the face of extraordinary strains. It needs further strengthening but not basic change. The symptoms that cause concern about the process are much more the result of the basic underlying budget problems--an underfinanced budget and a rapid shift in budget priorities--than of procedural inadequacies.

At the beginning of this year's budget deliberations, the Congress faced the prospect of high and rising deficits over the next three years even assuming a moderate economic recovery. Under the discipline of the budget resolution, the Congress has recently enacted two major measures designed to reduce these deficits. The Tax Equity and Fiscal Responsibility Act raised revenues by nearly \$100 billion and cut spending by \$17 billion in fiscal years 1983-1985. The Omnibus Budget Reconciliation Act of 1982 reduced outlays by an additional \$13 billion over the same period. These actions, and the

additional spending reductions assumed in the budget resolution, have made a substantial down payment on correcting the unfortunate budget outlook projected in the baseline budget prepared earlier this year.

Nonetheless, the Congress will enter the fiscal year 1984 planning cycle with a very difficult assignment: to reduce the still excessive deficits over the next few years while maintaining economic recovery. This will require tackling all components of the budget, including national defense, income security, federal credit activities, and taxes. It will also require a strengthening of private-sector confidence in the economy and in the government. Only with a strong budget process--one that gives high priority to meeting aggregate goals, forces hard choices, and discourages cosmetic changes--can such confidence be built.

PROGRESS UNDER THE CURRENT BUDGET ACT

The Congressional Budget Act of 1974 was intended to increase Congressional control over the federal budget and to establish an orderly schedule of budget actions. The Budget Act originally established an annual multistep budget process. The Congress would set tentative budget totals in a first resolution in May (by which time all authorizing legislation was to have been reported out of committee); second, it would do all the detailed work on specific appropriations and tax laws; and third, it would make binding decisions on budget totals in a second budget resolution to be passed

in September just before the fiscal year began. Final adjustment was to be made through a process of reconciliation--that is, reconciling the detailed changes just passed with the spending and revenue totals in the second resolution.

Experience with the budget process has revealed that the hard decisions to cut spending or raise taxes must be made early in the year, not left to September when the budget year is about to begin. Hence, the first resolution has become increasingly important and the second increasingly a formality. This year's first concurrent resolution recognizes this development by explicitly stating that the first concurrent resolution will become binding if a second concurrent resolution has not been adopted by the beginning of the new fiscal year.

A related development has been the use of reconciliation instructions in the first, rather than the second, budget resolution for the past three years. Before the spring of 1980, the Congressional budget process had little impact on entitlement spending. Each year's budget resolutions included assumed legislative savings to be accomplished by amendments to entitlement program authorizations, but these legislative savings were rarely enacted. The first concurrent resolutions for 1981 and 1982 included reconciliation instructions directing committees to report amendments to mandatory spending programs. The fiscal year 1982 reconciliation instructions extended the scope of reconciliation by requiring multiyear spending

reductions. The reconciliation instructions for fiscal year 1983 continued to address mandatory spending and were extended to set revenue goals for the tax committees, again using multiyear targets.

The budget process has also been expanded to cover direct and guaranteed lending, an area of federal activity not originally specified in the provisions of the Budget Act. Federal credit activity rapidly expanded during the first five years of the Congressional budget process. While efforts were focused on holding down on-budget spending, off-budget credit and loan guarantee activity rose sharply. In response, the Congress began to seek ways to control federal credit through the budget process. The budget resolutions for fiscal years 1981 and 1982 set targets for total direct and guaranteed loans and allocated those targets among the budget functions. The first resolution for fiscal year 1983 went further, requiring new credit authorizations to be subject to appropriations limitations and the credit budget to be allocated among committees of jurisdiction; the targets will become ceilings upon enactment of the second budget resolution. These extensions of the budget process into the credit area give promise of better control over the total impact of the government on the economy.

Another important change is the growing acceptance of the multiyear nature of budget decisions. The budget resolution (including the reconciliation sections) now includes spending and revenue targets for the upcoming budget year and for two years beyond. This change recognizes several facts.

First, most of the outlays in the upcoming year are locked in so that substantial changes in priorities can only be accomplished over a longer period. Second, abrupt changes in the tax code or in entitlement programs, in particular, are disruptive. A multiyear approach allows for phasing in changes. Moreover, focus on the upcoming budget year alone is an open invitation to creative accounting and fund-shifting. Multiyear targeting is particularly important when it is deficits in the outyears that are most troubling from an economic perspective--as in our current outlook.

The changes that have been implemented under the Budget Act underscore its flexibility. In response to serious economic and budgetary problems, the Congress has been able to modify its procedures. These changes have strengthened the budget process and have permitted the Congress to begin to address the serious problem of reducing the deficit.

PROVEN CHANGES

To strengthen the process further, the Congress should continue the procedures that have already proved effective and expand upon them. The first resolution should be binding, multiyear goals should be incorporated in the resolution, reconciliation should be made a part of the first resolution, and the resolution should be formally expanded to cover credit. These

procedures are possible regardless of whether the Budget Act is actually revised.

Making the first concurrent resolution binding would force all participants to deal seriously with hard budget choices at an early point in the budget cycle, thereby giving subsequent committee actions firm guidance. Furthermore, a binding first resolution would eliminate the need for a second resolution, which could save considerable time and work. Amendments to the resolution would be possible at any time, but should be necessary only if economic conditions change significantly.

The current practice of including outyear numbers in the resolution should be strengthened by making those numbers binding. Making outyear numbers in the resolution subject to a point of order would be taking a step toward controlling the long-term growth of the budget. In addition, a fully considered multiyear plan would enable the Congress to use the outyear estimates provided in the resolution as a base for planning the next year's budget. The Congressional Budget Office (CBO) could develop its baseline estimates using the second year's estimates from the previous year's resolution. Changes resulting from legislative action could be distinguished from shifts in the economy to highlight the Congress's progress toward its targets.

Reconciliation should continue to be part of the first resolution, but possibly modified to allow more time between approval of the reconciliation instructions and reporting of the bills. To allow adequate deliberation on proposed changes, either a fixed time, such as 60 days after enactment, or a fixed date before the beginning of the fiscal year, such as September 15, might be appropriate.

Similarly, the expansion of the resolution to cover federal lending and loan guarantees--the credit budget--should be continued. The Appropriations Committees should be encouraged to set limits on credit program levels and to consider potential trade-offs between credit and direct spending. Reconciliation instructions might also be extended to cover non-appropriated credit programs. The off-budget status of some federal credit activities should be revised. Specifically, the budget authority and outlays for the lending activity of the off-budget Federal Financing Bank should be included in the unified budget in the accounts of the agencies originating the loans.

ADDITIONAL APPROACHES
TO STRENGTHENING THE PROCESS

A number of other budget procedures should be considered for inclusion in the budget process. First, some action is needed to ensure that appropriations bills are enacted on a timely basis and are within the limits established in the resolution. Second, tax expenditures ought to be included within the coverage of the budget process. Finally, the Congress should seriously consider shifting to a biennial budget as a means of solving its time and workload problems. The Congress could use the flexibility in the Budget Act to test these procedures.

Appropriations

Over the past few years, the Congress has increasingly relied upon continuing resolutions to fund appropriated activities. Delays in the enactment of appropriations bills have been due to a number of factors: policy differences between the House and the Senate, political differences between the Congress and the President, appropriations riders (for example, abortion and school busing amendments) and the budget process itself.

A related issue facing the appropriations process has been the problem of determining whether each bill was under or over the assumptions of the budget resolution. Under the Budget Act, only the aggregates are

subject to a point of order. The resolution makes an allocation among functions--between, say, guns and butter. The distribution of the aggregates among the committees of legislative jurisdiction--the spending committees--is not voted upon, but is specified in the accompanying report. Each spending committee then divides its allocation among subcommittees or major programs. The allocations of each Appropriations Committee to its subcommittees, and the subsequent reported appropriations bills, may deviate from the functional totals included in the resolution, thereby changing the resolution's priorities to those of the committee.

Various possible changes in the appropriations process might ensure timely enactment and compliance with the resolution.

Omnibus Appropriation. A single omnibus appropriation bill could be used. Any conflicts with the budget resolution could be resolved during consideration of the bill. A possible shortcoming of this approach is that if the President were presented an omnibus bill with which he disagreed, his options would all be distasteful.

Delayed Enrollment. A second option would be to retain the current process of considering individual bills and delaying the enrollment of those bills that exceed either the committee allocation or the functional allocation. Bills that had been held up because they exceeded the resolution or had not passed both Houses by, say, September 15, could be combined into a

single omnibus bill. This bill would then be offered to the Congress to allow it to make the changes needed to conform appropriations action with the resolution.

Automatic Continuing Resolution. A third alternative would be to enact a permanent, automatic continuing resolution to assure continuing funding of federal programs. This measure would automatically extend all appropriations bills pending at the end of the fiscal year at the previous year's level or some portion thereof, such as 90 percent. This would eliminate the end-of-year brinkmanship to approve a stop-gap funding bill, a practice that appears to the public as a failure of governance.

Binding Spending Committee Allocations. Finally, the allocations made by the Appropriations Committees under section 302b of the Budget Act could be made binding. In order to ensure that the functional priorities of the budget resolution were not disregarded, it might be necessary to require that the allocations be voted upon.

Tax Expenditures

The coverage of the budget process should also be expanded to cover tax expenditures. Tax expenditures are special provisions of the tax code designed to encourage some desired activity or to provide aid to certain categories of taxpayers. They are therefore similar to spending and lending

programs, and have become one of the major ways by which the federal government allocates resources and affects private decisions.

Nevertheless, the budget process does not control tax expenditures in the same way it controls direct spending. Although the CBO and committees of the Congress prepare estimates of the revenue losses that result from changes in the tax code, budget resolutions do not include ceilings on the total of tax expenditures. Nor are tax expenditures broken down into function-by-function targets and then crosswalked to committees of jurisdiction. One consequence of this lack of control is rapid growth. From fiscal years 1974 to 1981, tax expenditures grew by 179 percent, compared with a growth rate of 145 percent for direct spending (outlays). In 1974, there were 71 tax expenditures, while the fiscal year 1983 budget includes 104 items, with a revenue loss exceeding \$273.1 billion.

A tax incentive can be an efficient method of allocating resources. There is concern, however, that because of their separation from the budget process, tax expenditures have been used too often. The result may be to narrow the tax base so that it is unable to perform its major function of raising revenues. The large number of tax expenditures has resulted in a system that many believe is inequitable and overly complex. Finally, a strong case can be made that a number of the tax expenditures create serious economic distortions.

One approach to increasing budgetary control of tax expenditures would be to include a ceiling on tax expenditures in the aggregates section of the budget resolutions. Any ceiling involves measurement problems, but these can be minimized if controls are focused primarily on incremental changes in the total.

Setting an overall ceiling would enable the Congress to reduce the drain of tax expenditures on the revenue base. A further step would be to incorporate tax expenditures into the function-by-function review currently performed on spending programs. In most budget functions, there are tax expenditures that have purposes similar to spending programs; in fact, tax expenditures actually exceed outlays in the commerce and housing credit and in the general purpose fiscal assistance functions. Part of the coming effort to narrow the budget gap should include a thorough review of this overlap among spending programs and tax expenditures, with an eye to which approaches are most effective or least costly. This could perhaps be best done by allocating tax expenditures jointly to the tax committees and to spending committees with pertinent jurisdictions. A committee's actions on tax expenditures could be credited to its spending allocations, thereby encouraging trade-offs between the two.

The Congress made a start at tax expenditure reform this summer when it passed the Tax Equity and Fiscal Responsibility Act. This legislation contained 13 provisions that reduced tax expenditures and only 2 that

increased them, resulting in a net revenue gain of \$31 billion over the fiscal year 1983-1985 period.

Biennial Budgeting

Shifting to a binding first resolution and use of an omnibus appropriation would help reduce the current overload of the budget process on the legislative calendar. A more drastic change would be to adopt a biennial budget process extending the budget to two years and reducing the steps in the budget process by one-half. This would also reduce the legislative burden, encourage oversight, and enhance the quality of deliberation.

The first session of each term could be used for the enactment of major budgetary decisions: a binding resolution, a reconciliation bill, and tax and appropriations actions. (Adjustments would be considered in the second session only if the economy changed or other unexpected events occurred.) The second session would be devoted to oversight and consideration of authorizations. Additional emphasis on oversight is needed to allow review of major national policy issues such as financing Social Security and national defense, restructuring energy policy, and reconsidering the federal system. Appropriations and authorizations would be enacted for at least a two-year period, greatly reducing the layers of consideration now required of the Congress.

CONCLUSION

In short, Mr. Chairman, the budget process has proved to be very resilient and adaptable to change. What is needed now is continued wise use of this flexibility to bring the budget back into control.