

An Ambitious Agenda for the Pew-Peterson Budget Reform Commission

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Members of the Commission, I appreciate the opportunity to discuss your possible agenda.

I have submitted to the Commission two documents: my recent article from the Public Administration Review which suggests reforms to the federal budget process, and the slides for a Capitol Hill talk on the same topic sponsored by the Mercatus Center.

In my testimony today, I will make several recommendations about *how* you should go about your work, and then conclude with a suggestion about the *strategy of reform* you should favor.

Like many of you, I believe the budget process is broken. To begin to fix it, I have suggested that the *government* create a commission that would study different proposals for improving the process and suggest what it considers to be the best alternatives. It would then be up to the Congress and the President to decide whether to adopt any of these alternatives, which could be modified after political negotiations.

One advantage of my proposal is that the government would formally establish the commission. Doing so would indicate that important members of both the legislative and executive branch were so frustrated with the process that they would commit political capital to improving it, and were so curious about how to do so that they would be willing to consider new ideas.

Your commission, of course, is self-appointed. This is a second-best approach, in my opinion, but a pretty good one given the impressive backgrounds of commission members. I also believe that there is so much discontent in the Congress and the White House about the budget process that your recommendations *could* be taken seriously.

This economic crisis is an especially *good* time to be studying reforms to the budget process, because the fiscal risks taken by the U.S. are being exposed much sooner than will be the case if entitlement spending is uncontrolled over the long-term. The near-term prospect of massive increases in debt service costs should convince anyone that current actions to stabilize the economy must soon be followed by a credible plan to control deficits.

One problem, though, is that the government is still busy trying to figure out how to prevent further economic decline. And other top agenda items, including global warming, the wars, and health reform, will guarantee that when the window *does* open for serious consideration of

budget process reforms, it will soon shut. So you have some time to prepare, but you will need to be ready. So I suggest first that you aim to **produce your report by the end of this year, while regularly updating legislators and the White House on your progress.**

Another problem is that though many in the Congress dislike the budget process and the macro outcomes it enables, they also worry that proposed changes to the process *might* disadvantage their individual interests. They therefore decide that these changes should be opposed, just to be “safe.” If most legislators think along these lines, a reasonable projection is that the budget process will never be changed.

But the political scientists Baumgartner and Jones have shown that this assumption of continual stability is actually unsafe. Policies, and processes, sometimes *do* change dramatically. That is what happened in 1974 when the Budget Act was passed. If it is to happen again because of the challenges now faced by this country, what you recommend will be an improvement only if it is attractive to elected officials but also well-analyzed and designed. That is a demanding task.

Consider reform of budget concepts and related procedures. I need not describe to you the challenges of accounting for the TARP or the long-standing battles over baselines. It sometimes seems that such problems will never be solved. Yet much of the heat around these issues could be reduced by skillful presentations about the flaws of current practices and the pros and cons of alternatives to them. That was what the 1967 President’s Commission on Budget Concepts did for the budget concepts problems of its time. You should seek to emulate its approach by **drawing on a wide range of technical experts from government and academia.**

Of course, issues that are quite technical, like budget concepts, are also unavoidably political. Again, this group will be especially good at understanding current political barriers. However, a possible cost of having a deep understanding of how Washington works is that you might pay insufficient attention to the possibility of borrowing better practices from other governments and adapting them to our constitutional structure. To counter this tendency, I suggest that you also **contact selected experts from outside the U.S. from countries who have expert knowledge on promising practices**, such as Australia’s Charter of Budget Honesty or the U.K.’s sector reviews.

Another tendency of the typical discussion of budget process reform is to analyze the pros and cons of specific proposals, such as a hard trigger. Your commission, of course, must do this, but should do so only after **specifying the goals you would like the budget process to serve**, or alternatively, after **specifying the problems you want to solve**. For example, one of the common indictments of the current process is that it takes far too long. One explanation for this is that the current process creates strong incentives for the different branches and competing parties to stake out opposing positions, and to retain them for too long before finally compromising.

Partisan and ideological conflicts which helpfully frame major choices are desirable, of course.

What the government hasn't developed, though, is a structure for interactions between the branches in which decisions would usually be made on time, and in a way that would confront obvious budgetary problems. By clearly saying it would be your goal that the budget process enable this, you could then best evaluate potential solutions, such as a joint budget resolution.

I have long supported a joint budget resolution, but have also heard strong arguments against this approach. I am willing to admit that these arguments could be correct. However, I do assert that many evaluations of such proposals are only snap judgments based on the assumption that the status quo will rule. In place of this approach, **you should seek to use widely-recognized methods of institutional analysis.** Following typical economic logic, you should try to identify *incentives* that could stimulate more effective budgeting. But you should also use a very different approach drawn from history, political science, and sociology, which is to consider how *norms* about good budgetary practice can be strengthened.

I will conclude by suggesting you **consider the pros and cons of three different institutional strategies of budget process reform.** I strongly support the third strategy on this list.

1. More rules. Many reforms to the Congressional Budget Act have sought to perfect the Act by adding more rules. These rules worked when elected officials supported their intent, as was the case with caps and PAYGO during most of the 1990s. Some believe that the simple act of establishing these rules has had a positive, though smaller, effect, during periods when there was less support for budgetary discipline. Others are skeptical. At the very least, **when you suggest new rules, you should think about how normative support for these rules could be developed and protected, particularly through public outreach.** In addition, if you decide to recommend macrobudgetary or fiscal rules, such as those used in the euro zone, you should consider how these rules could best connect to other questions of macroeconomic management.

2. The end-run. Several of the commission members have strongly advocated a *policy* commission that, on a bipartisan basis, would propose significant changes to spending and taxing policies, which would then be entitled to a vote in the Congress. The despair about the capacity of the government which underlies this approach is certainly understandable. On occasion, though, this approach has been publicly justified by claims about the immorality of elected officials, particularly regarding their failure to meet their obligations to future generations. While I am willing to believe that a few politicians fit this bill, in general it is unnecessarily insulting, and it is certainly received that way by many politicians. I prefer the view that the real problem is that over the short-term elected officials must work within flawed institutions that make it impossible to fulfill the best of intentions. The policy commission approach would not seek to improve these institutions, but would instead seek to avoid them.

But as in the case of rules without normative support, elected officials will face strong incentives to reject a policy commission's proposals. Politicians can't avoid blame for the actions which they set in motion. In addition, by not changing underlying institutions, the one-shot approach invites a repetition of the problems typically generated by those institutions. Therefore, **I hope**

your commission will eventually reject the policy commission approach.

3. Ambitious reform. **The alternative to giving up on American government is to reform it for sustainable improvements.**

The best way I can think of for illustrating the value of this approach is by asking a simple question: why isn't there a Committee on Health? By this I mean one that would have the ability to address in an integrated way the budget policy challenge that we agree is probably the most difficult.

Instead, we now have a byzantine committee structure, often redundant processes of authorizations and appropriations, and a budget resolution that cannot set priorities. One result has been the continued expansion of mandatory commitments, especially through tax preferences.

You should directly address these problems by suggesting alternatives for reorganization and simplification of the committee structure and legislative process. Yes, this would be brave. But at least one of your members, Alice Rivlin, has made such suggestions in the past, as have David Obey and David Dreier.

This is a radically centrist approach that would require you to recommend changes that many legislators would not like at first impression. On the other hand, only by making such changes will the institution in which these politicians serve significantly improve its capacity. If you were to make this argument in concert, your impact could be great.

Thank you for considering my suggestions.