

TALKING POINTS AT BROOKINGS 10/18 PANEL

I'd like to make two main points this morning.

First, reforming the budget process will be very difficult, but it will not be impossible. Despite the current political situation, the next few years may see a greater chance of meaningful change than has been the case in recent years.

Second, a plausible strategy for reforming the budget process is emerging. This strategy emphasizes how portfolio budgeting could satisfy the interests of both parties to participate in a fair fight over how the budget allocates funds.

Process Reform Will Be Difficult But Not Impossible

Last year I wrote a paper for the National Budgeting Roundtable, a brief version of which was published by Brookings and is available today.

The title of the longer paper is "The Political Feasibility Of Doing What Is Almost Impossible: Reforming The Federal Budget Process."

Regarding "almost impossible," while some minor reforms could be adopted by the majority party through rules changes, most important reforms will only be adopted if there is a bipartisan agreement on their desirability.

Yet we are in an era where bipartisanship is almost non-existent; there are vast distances between the two parties on most major policy questions.

Budgeting has traditionally been a process where differences between parties are partially resolved by temporary compromises, because of the norm that annual budgets and appropriations bills have to be completed.

But obviously that norm is now dead.

And while a typical election year highlights the major differences between the parties, this year is very atypical, including the neglect of many important policy issues.

The likely winner of the presidential election, Secretary Clinton, will not have a strong mandate--though the prospective Vice President, Senator Kaine, has been an active supporter of better budgeting while Governor of Virginia and as a member of the Senate Budget Committee.

The House GOP, through its "A Better Way" publications, appears to be preparing for advocacy of policy and process proposals that are mostly familiar party positions. These include promises

to pass appropriations and regularly scheduled reauthorizations on time. Speaker Ryan recently said that he would like to start with tax reform. Perhaps the two parties can negotiate over how like-kind exchanges of depreciated real estate properties should be taxed.

My guess is that the fallout in the GOP from this presidential election will take some time to resolve. I will leave it to Molly to analyze how the margins of party control on each side of Capitol Hill could affect prospects for budget reform.

However, that this year the House and Senate Budget Committees both held series of hearings on budget process reform is a somewhat encouraging sign.

Only somewhat, though. First, some have suggested that the process hearings were a cover for the unwillingness to make timely budget decisions. Second, the hearings revealed substantial differences between the parties on how the process might be improved, particularly in the House.

Nevertheless, the hearings also showed that many legislators are frustrated and embarrassed by Congressional budget dysfunction. This is a necessary step for reform.

Shortly after the Congressional Budget Act was adopted, the political scientist Thomas Dodd argued that this law was an example of legislators who realized that their electoral prospects were harmed by serving in a dysfunctional body.

Legislators can get away with this for a period of time, by running against Congress, but eventually their constituents see them as part of the problem.

Another positive result from the Senate hearings was that there is some bipartisan recognition of the desirability of making some minor changes, such as limiting the vote-a-rama charade during consideration of the budget resolution.

So What Is a Plausible Strategy for Reform?

The Budget Control Act of 2011 emphasized trying to force a grand bargain on debt reduction. Whether such a bargain is desirable or not, the evidence is that “action-forcing mechanisms” haven’t been successful.

There wasn’t enough trust between the parties to enable compromises over big differences for the mandatory spending and tax parts of the budget. And the focus of the back-up provisions on discretionary spending produced policies that twice had to be revised, as they will need to be again next year.

The better alternative is to try to improve how the budget process can be used to allocate the government’s limited funds. The portfolio approach that Steve described should be the first step

in this approach. After all, reaching the goal of fiscal discipline for the whole of government requires the capacity to make intelligent decisions for each part of government.

Senator Enzi has suggested that a subcommittee of the Budget Committee could be tasked with reviewing a sector of the budget, including spending through the tax code, which would allow “reducing wasteful spending and focusing attention on measurable results.” He should be commended for this stance.

In contrast, a staff paper from the House Budget Committee majority warned against this approach as potentially promoting a “tax and spend” result. In other words, the difficulty we face is how to convince each side that they get enough out of the portfolio approach to make its risks worthwhile.

The Brookings brief addresses this problem by suggesting several framing approaches for describing budget process reform proposals. I’ll mention two here.

First, far too often we talk about budget process reforms as the equivalent of terribly tasting medicine that must be swallowed in hopes of avoiding certain death. This negativity is often not credible.

The better approach is to be more positive. To switch from the medicinal metaphor, we need to replace the sticks of budget process reform with carrots. In fact, Congress, and individual legislators, can better influence policy by making budget decisions rather than by putting them off, over and over again.

Second, the portfolio approach will enable each side to have a say--in a fair fight--over how spending and taxing policies in each sector of the budget should be improved. To quote from the brief:

Deficit hawks should especially value this “level playing field” effect because it would encourage more competition between claimants for funds. Those who want to expand spending on specific programs could claim that reallocating funds from ineffective and low-priority programs would produce “opportunity benefits.”

To be clear, and controversial, I view this approach as the minimal needed reform. Over the long-run, Congress should make larger reforms to its duplicative and inefficient committee structure and legislative procedures. Congressmen Lipinski and LaHood have sponsored a bill that would create a new committee on the organization of Congress, which I hope will be considered seriously next year. For now, though, let’s try the baby step of portfolio budgeting.