

Testimony before the U.S. Senate Budget Committee
April 13, 2016

on
Fixing the Broken Budget Process: Outcome Budgeting to Maximize Citizen Value

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Chairman Enzi, Senator Whitehouse, and Members of the Committee, thank you for inviting me to testify on this important topic. Thank you also for holding this series of hearings, for budget process reform is greatly needed.

Most flaws of the current process are well known. Congress often does not enact budget resolutions, and regular appropriations bills are enacted far too late, if at all. Confidence is justifiably low that budgeting supports wise counter-cyclical management of the economy and avoidance of financial problems over the long-run. And the process is too complex. Your constituents don't understand how budgeting is supposed to work, and it's no wonder that they don't.

Some of that complexity is the result of well-intentioned previous reforms. By adopting and amending the Congressional Budget Act, Congress created rules designed to develop and enforce budget limits. Yet consider the situation in which you now find yourself. The Budget Control Act's discretionary caps, as set after the "Supercommittee" did not reach agreement,

were then adjusted for short terms in both 2013 and 2015. Few participants believe that the caps scheduled for the remaining years will hold, given their potential effects on spending for infrastructure, research, education, the disadvantaged, and national security.

If this is correct, and if baseline projections are accurate about growth in mandatory spending, especially for net interest, medium-term fiscal risks are worrisome. Concern about those risks might lead Congress to again search for so-called “action-forcing” process reforms. But the experiences under both Gramm-Rudman-Hollings and the Budget Control Act show that it is extraordinarily difficult to force deficit reductions, particularly for mandatory spending and for tax expenditures (which below I call “tax spending”).¹

This is why the topic for today’s hearing is so timely. As important as it is to limit the debt exposure of the federal government, this is not the only goal Congress should hold for the budget process. Congress should also want to use the budget process as one of its main tools for designing, funding, and overseeing public policies that will improve the lives of American citizens. If the process is used to eliminate low priority spending, that will help prevent unnecessary debt. Adding effective spending for high priorities can grow the economy and address many important goals citizens hold for their nation and the world.

¹ Roy T. Meyers, The Implosion of the Federal Budget Process: Triggers, Commissions, Cliffs, Sequesters, Debt Ceilings, and Shutdown, *Public Budgeting and Finance*, 34:4, Winter 2014; <http://userpages.umbc.edu/%7Emeyers/implosion.pdf>.

It is therefore important to ask: Which features of the current budget process enable you to make allocations to the most efficient and effective programs that address high priority goals? And which features have the opposite effect, serving as barriers to generating value for citizens?

The situation is not entirely bleak, for we can answer the first question by identifying some positive attributes that lead to good allocations. The decision in 1921 by Congress to delegate budget preparation to the President has led to a sophisticated budget preparation system that rules out many bad allocations and generates some good ones. The laws you passed in 1993 and 2010, the Government Performance and Results Act (GPRA), and its Modernization Act (GPRAMA), stimulated significant performance management advances in the executive branch. You draw on the valuable expertise of the Congressional Budget Office (CBO), the Governmental Accountability Office (GAO), and committee staff. And as legislators who regularly interact with your constituents, you stay informed of their values and experiences-- helping you determine what goals to emphasize and what programs to fund.

On the other hand, there are many features of the current process that make it extraordinarily difficult for you to make the allocations that will best serve the American people. An especially notable barrier is how responsibility over most sectors of the budget is fragmented between discretionary, mandatory, and tax spending. This is due to the original design of the Congressional Budget Act, which overlaid a new process on top of traditional committee jurisdictions. The fragmentation of the process was then enhanced by the enforcement procedures of the 1990 Budget Enforcement Act and the 2011 Budget Control Act.

As your committee knows, those enforcement procedures are imperfect. Last year you worked to prevent phony savings from “CHIMPs,” changes in mandatory spending claimed in appropriations bills. It is desirable to stop gimmickry. Yet the traditional segmentation of discretionary and mandatory spending makes it extraordinarily difficult to make intelligent tradeoffs across these categories for many sectors of the budget. Why does this defect continue? It is hard to think of a policy justification, leaving the plausible political explanation that it has been maintained only to protect turf.

To improve its ability to make budget allocations, Congress will need to address this fundamental flaw in the budget process. This is why you should support the “portfolio budgeting” approach suggested by Redburn and Posner.² In their paper for the National Budgeting Roundtable, they provide two examples of the many sectors of the budget where the government’s efforts are divided between discretionary, mandatory, and tax spending: higher education and housing. These different types of spending should be compared to each other when making budget allocations for these sectors. Yet in the executive branch, the budget process focuses on spending by departments, and is insufficiently coordinated with review of related tax expenditures. For example, the informative Program Assessment Rating Tool, or PART, developed by the George W. Bush administration, applied only to departmental spending;

² F. Stevens Redburn and Paul L. Posner, Budgeting for National Goals, Working Paper #2, National Budgeting Roundtable, George Mason University, August 2015; <http://psc.gmu.edu/wp-content/uploads/New-Ideas-for-Federal-Budget-Working-Paper-No.-2.pdf>.

it did not cover tax expenditures. Ignoring education and housing tax spending meant that the PART was aptly named.

Redburn and Posner recommend the better approach of viewing all government efforts in a budget sector as a “portfolio.” This is an excellent metaphor for what budgeting should do. As with well-designed investment portfolios, it recognizes the desirability of diversity. In the case of policy, this means government applying different policy tools to typically variant conditions across the country. The budget portfolio metaphor also reminds us of what a smart job seeker will do when constructing a portfolio of past achievements and current skills that can be shown to potential employers. That job seeker will highlight positive accomplishments, weeding out attempts that didn’t fully succeed or that are no longer relevant, and suggest how future accomplishments are likely. This is similar to how budgeting should work--selecting from current activities to determine which deserve continuation, and concentrating resources on promising new alternatives.

The portfolio approach recommended by Redburn and Posner would build on executive branch achievements in strategic planning and in measuring and managing performance. They are correct in noting, though, that “the current GPRAMA process lacks explicit connection to the budget process;” it instead emphasizes quarterly reviews for those managing to the President’s priority goals.³

³ Ibid, p 16.

The President's priority goals are affected by the statutes you pass and the budgetary resources you provide. But in general, the executive-legislative branch consultations mandated by GPRAMA and its predecessor have not been influential. While Congress has required the executive to engage in various "outcome budgeting" activities, it has not demonstrated a similar commitment to using the information generated by these activities.

One cause of this problem is the way Congress is organized. Imagine that the executive branch did present Congress with a detailed portfolio review for higher education or for housing, or if Senate Budget Committee staff prepared a similar analysis with assistance from CBO and elsewhere. Imagine also that this review proposed a reallocation of funds within the portfolio that would rebalance the discretionary, mandatory, and tax spending categories. What would happen next? Would the current budget process help Congress consider and then act on the recommendations of the portfolio review?

It would not. The budget resolution process is too weak to direct reallocations across the fragmented committee structure. At best, Congress could experiment with ad hoc procedures to cross committee and enforcement boundaries, but this is something that Congress has tried only in rare circumstances, as it did with the Carter energy plan. So you should be asking: What reforms might better enable Congress to utilize portfolio reviews? More generally, how can Congress help improve government's ability to make budget allocations both within and between sectors of the budget?

In the remainder of this testimony, I will propose that you consider two non-incremental reforms. But first, I need to acknowledge that budgeting is difficult not simply due to the flawed design of the process. Its problems result just as much from the big differences on policy between the parties, and the political risks of attempting to resolve those differences. Reaching agreements on sensible compromises--typically required for our checks and balances system to work well--is now impeded by low levels of trust between the parties, and sometimes within them. This is true even for situations in which you might expect it would be easier to compromise, such as in a budget conference, where agreeing to a number between two proposed amounts is a traditional practice.

This means that reforms to the budget process must accommodate--even celebrate--your desire to express your differences over policy issues. At the same time, those reforms should enable you to waste less time and to adopt workable policies. When you consider how proposed reforms might simultaneously help you meet these different goals, it is important to keep in mind that Congress, like any institution, learns as it goes. This means that you should be cautious about immediately dismissing a proposed reform because it would require some difficult adjustments from current practice. This inevitable cost should be balanced against the possibility that a reform will produce significant benefits after several years of implementation.

In my opinion, the alternative with the greatest potential for improvement is a comprehensive reorganization of the committee structure and a simplification of related procedures. This is an extraordinarily complex topic, so today I will not discuss all of its

important components. Its basic virtue would be a better alignment of committee authority and expertise with the various sectors of government activity. This would allow each responsible committee to make strategic policy decisions and budget allocations within its sector. For example, there would be a Health Committee, with jurisdiction over all discretionary, mandatory, and tax spending, as well as regulatory policy, for the health sector. Given the long-term challenges presented by excessive spending on health, and the need to improve health outcomes for many Americans, it should not be hard to see the advantage this structure would have over the currently fragmented system and process.

For most people in Washington, at most times, committee reorganization and process simplification is a great unmentionable, for obvious political reasons. Yet experts on budgeting and policy-making have periodically made persuasive cases for reorganization. In 1986, following her founding directorship of the Congressional Budget Office, Alice Rivlin gave her presidential address to the American Economic Association, calling for streamlining the Congressional budget process.⁴ In 1993, Senator Kassenbaum proposed a well-designed restructuring of committees by sector, giving them both authorizing and appropriating responsibilities.⁵ The bill would also have renamed your committee as the Committee on National Priorities, which is a good description of what you should aspire to set.

⁴ Alice M. Rivlin, "Economics and the Political Process," *American Economic Review*, 77: March 1987, pp. 1-10.

⁵ <https://www.congress.gov/bill/103rd-congress/senate-resolution/13/text>.

In previous hearings in this series, your committee has investigated biennial budgeting, unauthorized spending, and regulatory budgeting. Reorganization and simplification would make it much more likely that Congress could periodically undertake concentrated reviews of budget sectors using a rolling reauthorization schedule. Congress could require the administration to support this schedule by mandating production of Quadrennial Reviews for all sectors of the budget; DoD and several other agencies already prepare such reviews.

Reorganization and simplification would also reduce unproductive redundancy, such as the need to pass two very similar bills each year for national defense. Regarding regulatory policy, incorporating a retrospective review of existing regulations into a strategic review of spending programs has a better potential for aligning the incentives created by the federal government. It would not replicate the worst parts of the budget process, as I fear would be the case under a regulatory budgeting process.⁶

The political benefits from reorganization and simplification could also outweigh the costs of transition to this modernized approach. If all sectoral committees have control over spending in their unified jurisdiction, and all legislators are members of several committees, each legislator will be guaranteed influence over a significant part of the budget, subject to the constraints set by the budget committees. Procedures could also be developed to allow a limited number of amendments on each bill, meaning that proponents and opponents of programs would

⁶ Roy T. Meyers, "Regulatory Budgeting: A Bad Idea Whose Time Has Come?," *Policy Sciences*, 31: December 1998, pp. 371-384; <http://umbc.edu/%7Emeyers/regbud.pdf>.

have the opportunity to engage in a fair fight over how funds would be allocated across all programs in a sector of the budget.

The second major approach to reform that I think you should seriously consider relates to Senator Kassenbaum's idea of renaming your committee as one that would address national priorities, rather than “just” the budget. The emphasis in budgeting has always been on controlling government costs, which are easier to measure than outcomes and which must be financed. But you can't budget well without thinking about why you are spending money; thus the call for “outcome budgeting,” of which there are many variants.

The current administration's emphasis under GPRAMA has been managerial accountability for reaching its priority goals. This is an appropriate focus for the branch that is tasked with the faithful execution of laws. It is also something to which Congress should pay attention through its oversight activities. But carrying out existing laws is only part of your responsibility and of the President's. Creating value through your policy-making also requires accurate assessment of the conditions in the country and the world, and setting goals for programs that seek to improve those conditions.

As a country that has a very advanced form of government in many respects, the United States already does a great deal of condition assessment and goal-setting at the program level. The accuracy and transparency of government data is often outstanding. And it is a rare agency that hasn't been given numerous, often difficult goals that it should seek to attain.

Nevertheless, there are limitations to the current approach. Consider the Obama administration's priority goals on "Climate Change (Federal Actions)." The goal statement is to:

More than double Federal government consumption of electricity from renewable sources to 20% by 2020 and improve energy efficiency at Federal facilities as part of the wider strategy to reduce the Federal Government's direct greenhouse gas emissions by 40 percent by 2025.⁷

Note that the goal is only for the federal government. Of course, the administration has a much more ambitious goal for reducing climate disruption that applies to all of America rather than to just the federal government, as shown by its support of the Paris Agreement. My own preference is that this national goal be made even stronger, and communicated more widely by the administration, and for that reason I want to thank Senator Whitehouse for his persistent and eloquent advocacy of this position.

Whatever your position on climate disruption, the general point here is that such big issues should be your emphasis, rather than arcane disputes over CHIMPs and the like. In the current process you do get around to some of those big issues, but often indirectly, such as when you consider how national security or the country's infrastructure will be hurt by an arbitrary ceiling on all discretionary spending.

What is missing, therefore, is a national strategy, or more accurately, a deliberation that would point towards one. I am not proposing that in setting national priorities you should do anything that would resemble the top-down planning sometimes used by authoritarian

⁷ <https://www.performance.gov/node/3406/view?view=public#overview>.

governments--far from it. Instead, I would like the Senate to have the opportunity to live up to its self-image as a world-class deliberative body. This would be more likely if it modified how it constructed its budget resolution, or alternatively, developed a national priority statement that would accompany its annual or biennial budget resolution. That is, if you are going to shift towards outcome budgeting, you need to be clearer about what outcomes you want the budget to emphasize. To what extent will the U.S. attempt to mitigate and adapt to climate disruption? To promote its exports abroad? To eliminate child poverty? To control migration? And so on.

Consider how the process works now. Each year you assemble to hear the President's State of the Union speech, and you receive the President's budget. The speech and the budget make many claims and propose numerous initiatives, and are followed by your mixed reactions, organized generally along partisan lines. In years in which you find it possible to pass budget resolutions, sometimes those resolutions are accompanied by comprehensive but not always realistic plans for modifying budgets and policies. In other years, the resolutions only set out budget aggregates, functional allocations that are not binding, and numerous "reserve funds" that are mostly symbolic.

There may be feasible alternatives that would allow you to better express your views about the nation's priorities and to incorporate some of these findings into the budget resolution. One would be to require that the executive branch compile data on its priority goals, and on similar goals stipulated by vote of Congress, into an annual report that would be published around the time of the President's budget submission. It could be called *The State of the Nation*,

to which claims made in the State of the Union speech could be compared. Several states now present such information to their citizens through easy-to-use web sites, such as Virginia Performs.⁸

Following the release of *The State of the Nation*, and the President's budget, the Congress could designate several weeks during which the parties could debate on how well America is doing and how it might improve. This would be a modernization of what are now the committees' "Views and Estimates" reports to you. Your committee could then write a budget resolution, having been informed by the debate. That debate will undoubtedly highlight disagreements, but it will likely also reveal agreements, on which the start of a successful resolution might be built. This will be particularly the case should you seriously consider shifting from a concurrent budget resolution to a joint budget resolution, which is a desirable reform in my opinion, but also a topic for another time.

To be clear, this stage of the budget process--setting priorities across sectors of the budget--will always be the most difficult. There isn't a convenient metric for weighing the relative values of "guns vs. butter," or many of the other difficult cross-sectoral choices you must make. Politics--partisanship, ideology, lobbying, and votes--will unavoidably and justifiably be central to the process. What you should seek, though, are ways to make those politics produce better outcomes. This can be done by commissioning the generation of better information, by

⁸ <http://vaperforms.virginia.gov/>.

reorganizing the committee structure, by simplifying budgetary and legislative procedures, and by debating big issues.

I would be glad to answer questions you have. Thank you again for the opportunity to testify.