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The "Ball of Confusion" in Federal Budgeting: A Shadow Agenda for Deliberative Reform of the Budget Process

PAR Mini-Symposium on the Federal Budget Process: The Great Debate Continues

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The budget process is seriously flawed, as Irene Rubin suggests, but there is little prospect for its effective reform. Current economic and political conditions could open the window for reform, but the excessive partisanship that helped create these conditions also has reduced the pool of institutionalists who could lead reforms. More important is confusion about which reforms might be most effective. Most proposed reforms would create more rules, but they will not work unless politicians commit to meeting the goals such rules are intended to support. Those commitments could be produced by deliberation over critical issues that have been neglected in recent discussions of budget process reform: how the process could support macroeconomic policy making, how improved budget concepts could accurately measure finances and aid in dealing with upcoming policy challenges, how reorganization could enable intelligent priority setting, and how the process could be better aligned with the constitutional sharing of powers and the electoral system.

> The first half of this article argues that problems with the process are more serious than both [Rubin and Hoagland] acknowledged, that some problems with the budget process are attributable to confusion, and that effective budget process reform will require a deliberative process that seeks to reduce such confusion.

Many baby boomers will remember a popular song from 1970 called "Ball of Confusion (That's What the World Is Today)."[1] Sung by the Temptations, its lyrics weren't great: They included the rhyming phrase, "Great googalooga, can't you hear me talking to you?" The song did include lines that are relevant to budgeting (e.g., "Politicians say more taxes will solve everything") and expressed discontent that has returned to the political landscape (e.g., "People all over the world are shouting, 'End the war'"). But what especially impressed then, and makes the song still relevant, was the song's rhythmic urgency; it evoked the concerns of people asking worried questions about the state of the world.

In a 2007 *Public Administration Review* article, Irene Rubin expressed serious concerns about what she called the "unraveling" of the budget process. G. William Hoagland (2007) responded by crediting the process with some successes that balanced the problems he acknowledged. The first half of this article argues that problems with the process are more serious than both acknowledged, that some problems with the budget process are attributable to confusion, and that effective budget process reform will require a deliberative process that seeks to reduce such confusion.

The foundation for the process that Rubin argues has unraveled is the 1974 Congressional Budget Act, which, like almost all legislation, was a compromise that reflected the policy concerns and political pressures of that era. What Rubin identifies with her metaphor of "unraveling" was entirely predictable—as time uncovered dramatic changes in partisan politics and surprising policy dilemmas, the patched quilt of the budget process suffered worse wear than fraying a bit at its edges. Rather than try to reverse the unraveling of the process, it's time to sew a new one—to refound the budget process. The second half of this article thus seeks to expand the budget process reform alternatives that should receive serious attention by elected officials.

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Dead, or Just Pinin' for the Fjords?

The fiscal year 2009 budget deficit will exceed $1 trillion, an amount justified by the need to offset the economy's rapid deterioration. Once the economic cycle turns, however, most budget experts warn it will be imperative to reduce structural budget deficits. Experts had the same feeling during the mid-1980s, when deficits hit the previous post–World War II peak as a percentage of gross domestic product. After Ronald Reagan's reelection, when an effort to slow entitlement spending growth failed, Congress resorted to the procedural absurdity of the Gramm-Rudman-Hollings Act. It set deficit targets and mandated automatic spending cuts in case those targets weren't met, an approach that was described by one of its authors as a "bad idea whose time has come." Experience quickly confirmed that, indeed, bad ideas don't work. Then, deficit control procedures adopted in the 1990 Budget Enforcement Act and the massive deficit reduction packages of 1990 and 1993 under Presidents George H. W. Bush and Bill Clinton helped generate the budget surplus that appeared in 1998, with a substantial boost from extraordinary productivity growth. Medium-term projections unrealistically showed such big surpluses that the federal government might pay off its debt. Policy again turned: Add the defense spending shock from 9/11 to the decision of Republican leaders to protect their majority status with "big government conservatism" (i.e., tax cuts financed by borrowing rather than by spending cuts), and then add the budgetary effects of the financial crisis, and you arrive at our current situation.

While large projected deficits once focused attention on possible flaws in the budget process, that has not been the case recently. For example, the House Rules Committee has held only five hearings on budget process issues in the last eight years, and none since 2005. One reason is that budget problems, while generally appreciated by Americans, have not been highly salient compared to a series of other issues. Consider the reception received by budget hawks, epitomized by the "Fiscal Wake Up Tour," led by U.S. Comptroller General David Walker, accompanied by a panel of experts from conservative and moderate think tanks.[2] While this tour may have slightly increased the public's awareness of fiscal risks, it did not force presidential candidates to make policy proposals that would reduce deficits; instead, they proposed policies that would do the opposite. One candidate, Mike Huckabee, an ordained minister, responded to criticism of this with, "Folks, I didn't major in math. I majored in miracles."

Rather than sacrificing for deficit reductions, many Americans would prefer painless miracles that expanded health care coverage, lowered taxes, and ending war spending. Even the children of baby boomers, while resentful on the surface of supposed intergenerational inequities, do not act as if projected deficits are important (Buckley 2007). The wonderful metaphors of Charles Schultze (1989)—where the risks of structural deficits are not wolves at the door, but rather termites in the basement—are consistent with most Americans' embrace of "out of sight, out of mind."

If the best animal metaphor for budget policies is termites, then a comparable animal metaphor for the budget process may be the dead parrot from the Monty Python skit that begins with a customer saying to a pet store owner, "I wish to complain about this parrot what I purchased not half an hour ago from this very boutique."[3] Fans of the skit know what happens next: The owner of the store (Michael Palin) tells the customer (John Cleese) that the (Norwegian blue) parrot is "just resting," or, on second thought, "pinin' for the fjords." In fact, rigor mortis has set in, and the only reason the poor bird was standing on his perch when purchased was that he had been nailed there. As Palin's denials of the obvious become even more absurd, Cleese loses his calm and indignantly shouts (with accent):

> 'E's passed on! This parrot is no more! He has ceased to be! 'E's expired and gone to meet 'is maker! 'E's a stiff! Bereft of life, 'e rests in peace! If you hadn't nailed him to the perch 'e'd be pushing up the daisies! 'Is metabolic processes are now history! 'E's off the twig! 'E's kicked the bucket, 'e's shuffled off 'is mortal coil, run down the curtain and joined the bleedin' choir invisible!! THIS IS AN EX-PARROT![4]

So, (1) is the budget process an "ex-budget process," (2) is it "just resting," or (3) is it still functioning adequately? In Washington, it is not impossible to find people who take all three positions—though on different days.

Senator Kent Conrad (D-ND), the chair of the Senate Budget Committee, is an example. When the Congress passed the fiscal year 2009 budget resolution on June 5, Conrad claimed credit in a Senate Budget Committee press release:

> We have clearly demonstrated Democrats' ability to govern. For the second year in a row with Democrats controlling Congress, we have passed a budget. This stands in stark contrast to previous Congresses. In fact, this is the first time since 2000 that Congress has adopted a budget during an election year. And even more important, this fiscal plan sets the nation back on a path of fiscal responsibility.

The resolution, at 122 pages long, is not easy to summarize, but it is easy to criticize.[5] The bottom line to its supporters was that the resolution would return the budget to surplus in fiscal year 2012. The resolution's assumptions, however, were clearly faulty, assuming the expiration of tax cuts that many had pledged elsewhere to continue, and neglecting to assume war funding that soon would be appropriated. Congress permitted higher discretionary appropriations than requested by President George W. Bush, yet it was widely known when the budget resolution passed that Congress would wait to enact most appropriations bills until the president vacated office, nearly four months after the start of the fiscal year.

But prior to drafting this budget resolution and taking credit for its contents, Senator Conrad had proposed, with Senator Judd Gregg (R-NH), a Bipartisan Task Force for Responsible Fiscal Action. Their basic rationale was that elected officials were so unlikely to make difficult budgetary choices that a bipartisan task force should instead be entrusted with this task. The task force's recommendations would be considered on a fast track, but a three-fifths majority in each body would be required for passage. Harsh reactions by Senate colleagues to the proposed task force prevented its adoption.

In sum, Conrad's position was first that the budget process was an "ex-budget process," much like the dead parrot. He then argued when the Senate passed the budget resolution that the process was working well enough. But neutral evaluators of this resolution's unimpressive contents concluded that, at best, the budget process was, like the dead parrot, "just resting."

Though many elected officials privately acknowledge that the budget process is not working well, most lack the time, interest, and position to develop workable reform alternatives. Those few who do may learn that some oft-proposed alternatives (e.g., a constitutional amendment for a balanced budget) would worsen the process (i.e., by setting an unreasonably fixed target and by adding the unwieldy judicial branch to an already overly complicated process). Political realists also understand that Congress is an exceptionally traditionalist institution.

A weak budget process is also functional for the many elected officials who greatly value extreme partisan conflict. In recent decades, partisan behavior among elites has returned to the high levels of a century ago; coincidentally, this trend began roughly about the same time that the Congressional Budget Act was adopted (McCarty, Poole, and Rosenthal 2006). Now the majority attempts to make all decisions without involving the minority and claims credit for the supposedly positive results. While this relegates the minority, especially in the House, to being bit players, at least they can blame the majority for anything bad in the hope of reversing their minority status in the next election. Neither side has a strong incentive to start cooperating, because it is likely that the other side will take advantage of the first mover's unilateral disarmament (Gilmour 1995). Rubin may have been thinking especially of this when she wrote, "It is not so much that we do not know what reforms are likely to work, but that we do not know how to motivate those who benefit from the status quo to adopt and implement the necessary reforms" (2007, 615).

In Search of a Few Institutionalists

It may be, though, that this assessment is wrong, at least for predicting the future. This article suggests that we need to think much more about which budget process reforms might be preferable. But first, we need to consider whether the budget process is ripe for reform.

While Congress generally is averse to change, periods of policy and institutional crisis, like that we are now experiencing, have stimulated internal reforms (Dodd 1993; Mayer and Canon 1999; Schickler 2001; Zelizer 2004). Legislators reform, then, because they are losing *individual* power because of their *branch's* weakness. Passage of the Congressional Budget Act was enabled by public disapproval of Congress that was attributable, in part, to late appropriations, and by presidential threats of congressional prerogatives. The 1987 stock market crash set in motion the negotiations that eventually produced the Budget Enforcement Act, implying that another stimulus for budget process reform is a weak economy joined with a financial sector crisis in which the government is implicated. Approval ratings for Congress are at historic lows (even lower than those for President Bush), and though budget failures are not the main cause, they are implicated (e.g., earmarks, war costs, inactivity enabled by numerous budget process veto points).

Significant reform will not occur, though, without a return of "institutionalists" to Congress. By this term, I mean legislators who forgo actions that would bring temporary personal and partisan advantages but over the long run would hurt the institution. More positively, congressional institutionalists work tirelessly to promote norms and to design organizational structure and procedures so that legislators can *cooperate* on policies, as well as *dispute* them, in order to make decisions that are better for the country (Hamilton 2004; Heclo 2006). Many seasoned observers (e.g., Mann and Ornstein 2006) have lamented the absence of such figures from today's Congress—leaders who would remind us of, say, Representative Richard W. Bolling or Senator Everett Dirksen. These leaders certainly engaged in partisan conflict, but they also practiced the art of compromise. Today's close partisan combat makes that much harder.

Some of President Obama's rhetoric and actions suggest that he desires to be an institutionalist-oriented and transformational president. Along with the larger Democratic majority in the Congress, Obama has huge policy ambitions (health reform, reducing global warming) that can be met only if he builds cross-aisle coalitions. Plus the magnitude of the ongoing fiscal stimulus may soon require that the government develop a more credible approach to dealing with structural deficits once the economy improves. Lacking this, those lenders who have "flown to quality"—that is, invested in relatively safe Treasury bonds—may fly elsewhere if they perceive that large U.S. deficits will set in motion an inflationary reduction in their wealth.

A Shadow Agenda and a Deliberative Process

Assuming institutionalists emerge to lead budget process reforms, what should they advocate?

Answering this question well is a more complicated problem than many seem to appreciate.[6] When budget process reforms have been proposed in recent years (e.g., see Committee for a Responsible Federal Budget 2007; CBO 2004; OMB 2008; Riedl 2005), the following usual suspects have been lined up:

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- More rules to prevent actions: caps on discretionary spending, sometimes with "firewalls" (separate caps for subsets); "pay-as-you-go" (pay-go) plans to prevent tax or entitlement changes from increasing the deficit; sequestration to backstop these rules.
- More rules to force actions: "triggers" to set spending ceilings for programs that, when hit, would require expedited consideration of changes (the "soft" approach) or would automatically revise those programs through executive action (the "hard" approach); triggers for the whole budget, with sequestration applied to direct spending; programs put on a schedule for automatic termination ("sunset") unless renewed by a commission; a commission would require that programs deliver "results" to retain funding.
- Increasing transparency: disclosing sponsors and beneficiaries of earmarks before consideration; publishing on the Internet data on actual expenditures in a highly specific format (e.g., location, purpose, beneficiary).
- Some very old chestnuts: shifting power toward the president by grant of a line-item veto; changing the budget process schedule from annual to biennial.

Many of these proposals have a return-to-the-past character, which is a problem when some remember only the good part of the old days, such as viewing 1990–98 as the "golden era" of the budget process and repressing memories of the government shutdowns of 1995–96. To avoid this problem, analysis of such proposals should carefully compare their pros and cons (Joyce 1996, 2008; Meyers 1996). For example, increased transparency for earmarks might enable enforcement of a ceiling on this spending, but the savings would be small, and transparency also could certify credit-claiming by earmark sponsors, creating pressure to increase the ceiling.

What budget reformers need to do more generally is to ponder whether the significant accretion of rules since 1974 has helped or hindered the process (Schick 1980, 1990, 2007). While some of these rules have prevented evasions of budget controls, they also have slowed legislative action, a particularly worrisome problem in the Senate. The bigger problem is that budget process rules often have been ignored or waived. Sometimes, the response to this practice is to make a rule "tougher" by adding more specificity or apparent legal force. The Office of Management and Budget (OMB) proposed to define "emergency" *in the law* with criteria such as "sudden, which means quickly coming into being or not building up over time" and "temporary, which means not of a permanent duration." Perhaps this desire for clarity is understandable in a town where a president splits hairs on the meaning of "is" and Supreme Court justices pretend to take an abstract constitution literally. It does imply, though, that substantial parts of the dictionary must be incorporated into budget statutes, or that a textbook description of basic mathematical operations must be cited in baseline rules. But even if that route is chosen, it is likely to fail, for even presidents have found it convenient to violate clearly written OMB rules (e.g., on lease-purchases).

Of course, rules often don't fail because they are either too complicated or not complicated enough. Rather, rules fail because they are endogenous to the political institutions that wrote them, meaning that they can be changed whenever the institutions want. Rules that would produce politically uncomfortable results are more likely to be changed.[7] Consider the Democrats' recent experience with pay-go rules. Generally weaker than earlier versions, and differing between the House and Senate, pay-go has featured in many disputes over Medicare and Medicaid, the alternative minimum tax and tax extenders, renewed benefits for farmers and new benefits for veterans, terrorism insurance and flood insurance—the list goes on and on. Republicans and wavering Democrats, particularly in the Senate, have been unwilling to require offsets, practically eviscerating the newer pay-go, and even the advocates of pay-go have used accounting gimmicks to claim compliance. Pay-go seems to be promoting cynicism more than deficit reduction (Friel 2008; Gregg 2008).

Wildavsky and Caiden would explain this situation by arguing that without normative support, budget rules will fail (2004, 181). Unfortunately, how to use rules to promote norms is still a fundamental mystery in practice. While rational institutionalists narrowly consider how normative commitments could be made credible by enforceable contracts (a.k.a. rules), the contrasting perspective of public administration is that normative agreement often requires a significant element of deliberation (Hood and Jackson 1991). There is no space here to summarize this broad literature, but its essence is that government officials should think about and discuss the implications of decisions before they act (Cooke 2000; Gutmann and Thompson 1996).

The critical recommendation in this article is that such a deliberative process is needed to jump-start the cause of successful budget process reform. That is because the reform agenda outlined here does not *confront* the underlying problems that prevent budget process success. The remainder of this article identifies four such problems: (1) the lack of a clear connection between budgeting and macroeconomic policy making; (2) budget concepts that neither accurately reflect financial transactions nor help the country address looming policy challenges; (3) the unsuitability of current jurisdictions and budget categorizations to support intelligent priority setting; and (4) the delay and conflict that epitomizes budgetary relationships within the Congress and between the Congress and the presidency.

Given space constraints, this article does not recommend exactly how to do this. Instead, the approach is to provide a "shadow" agenda, as would a loyal opposition, for budget process reform. This agenda could be used by a budget process reform commission, which could study these problems and then recommend changes that politicians could then consider and modify. Some significant reforms of the U.S. budget process have been generated using this approach (Cleveland, Brownlow, Hoover, and the President's Commission on Budget Concepts); significant innovations in budgeting by Westminster countries also have been informed by deliberative processes (Rubin and Kelly 2006).

This suggestion is very different from the action-forcing commission, task force, and trigger proposals listed earlier. Their proponents assume that the process is so broken that reform is not possible; rather, elected officials must be convinced to bind themselves to the mast, citing as evidence the base realignment process. The more appropriate comparisons are to the Gramm-Rudman-Hollings budget cuts and to Medicare's "Sustainable Growth Rate" cuts to physicians' fees. Both failed because of congressional refusal to allow "automatic" processes to impose political pain (see Brookings-Heritage 2008 and Penner and Steuerle 2005 for positive views on this approach, and Aaron et al. 2008 and Greenstein 2008 for negative ones). Instead, it would be smarter to hope for compromises, ones in which the potential components of a better budget process are analyzed by skilled practitioners and academics and then negotiated into a new design by the elected officials who are constitutionally responsible for governing.

Reconnecting Budget Totals to Macroeconomic Policy Making

One of the disputes between Rubin and Hoagland was whether the budget process is supposed to be "neutral" with regard to budget totals or biased toward the prevention of deficits. The liberal populist Jim Hightower once wrote a funny book titled *There's Nothing in the Middle of the Road But Yellow Stripes and Dead Armadillos* (1997) that is relevant to this dispute. He warned Democrats that moderation is no virtue; instead, it invites being run over, as happens to armadillos who try the middle of the road. (A promise: this will be the last animal metaphor.)

Budget process "neutrality" has been an attractive rationale to politicians on both sides of the aisle who prefer to avoid the fate of brave armadillos. Many Republicans have played to their base by pledging never to increase taxes, and many Democrats have promised never to cut priority spending. The result is a process that Herb Stein described well:

> Discussion of federal budget policy in the United States has fallen to an abysmally low level. It consists wholly of bumper-sticker slogans, sound bits, lip reading. It finds public expression in shibboleths like no new taxes, balance the budget, don't raid Social Security. Prescriptions for dealing with the budget evade the central problem, which is making choices. (1989a, 16)

Consider the supposed "golden era" of deficit reduction from 1990 to 1998. Though deficits were converted to surpluses, the capacity to integrate budgets with macroeconomic policy was not improved. The period began when President George H. W. Bush agreed to a bipartisan deal that included tax increases, but he was then brought down by the right wing of his party. Clinton won the presidency while promoting fiscal stimulus, and then he turned on a dime to govern by drawing from the budget hawk policies of two candidates he defeated (Paul Tsongas and Ross Perot). The resulting budget surpluses brought a new political challenge when the Republicans demanded large tax cuts. Clinton responded, true to form, with symbolism—he "saved Social Security first," declaring the trust fund cash flow surpluses to be off-limits; then his vice president repeated to the point of being ridiculed that he would protect these funds with a "lockbox." That is, the Clinton administration failed to educate the public about the possible benefits of building debt capacity to deal with future budget commitments and contingencies.

After winning a legally contested election, President George W. Bush enacted massive and imprudent tax cuts. Assuming that the revelations of Paul O'Neill are accurate, the Bush administration did so with a remarkably confused understanding of macroeconomics (Suskind 2004). Supporting his effort was Federal Reserve chairman Alan Greenspan. While Greenspan reacted in horror to threats to the Fed's independence from legislators' suggestions about monetary policy, he quickly offered opinions about fiscal policy when importuned by legislators, who hoped to gain opaquely stated support for the budgetary policies they advocated. The risks of this interaction were shown when Greenspan intentionally allowed his warning about the rapid progress on debt repayments to rationalize Bush's tax cuts (Kuttner 2004).[8]

How did the Fed chairman become an oracle? In part, he filled the vacuum left by the weakness of two executive branch economic policy institutions: the Council of Economic Advisers and, in the Bush administration, the Office of Management and Budget, whose directors after Mitch Daniels were less visible than the "at an undisclosed location" vice president. Under the framework established by the Employment Act of 1946 and the Humphrey-Hawkins Act of 1978, these institutions are charged with integrating and explaining macroeconomic and budgetary policies. According to authorities such as Nobel laureate Joseph Stiglitz, the Council of Economic Advisers and the OMB have been supplanted by the White House's National Economic Council, an instrument of the permanent campaign.[9] In Congress, the Joint Economic Committee, similarly charged by statute with macroeconomic policy setting, has long been unable to deliver. If the budget committees once performed that function, they no longer do so, as budget resolutions fail to provide convincing rationales for their totals.

But budget totals do have effects: on the government's financial sustainability, on macroeconomic growth and stabilization, on the balance of intergenerational equities, and so on. Understanding these effects is necessary if we are to have a budgetary norm of "balance" that is more than a meaningless abstraction. Therefore, a better budget process would feature robust institutions that would analyze, negotiate, and explain how the budget's "bottom line(s)" would affect macroeconomic conditions. The first task of a budget process reform commission should be to develop advice on this topic. It could consider whether the government should continue to use discretion to set budget totals, or whether it should adopt as guidance one of a variety of fiscal rules, such as a ceiling for public debt as a percentage of national income, the "golden rule" of a budget balanced over the business cycle, a target for budget surplus-driven national saving that could help finance future entitlement spending, or a deficit to finance public investment. It also could, either as an alternative or as a complement to a fiscal rule, recommend how specific macroeconomic and budgetary institutions could improve their capacities and interactions.

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Any commission discussion about these topics would necessarily require clarification of related budgetary accounting concepts. The next section addresses this issue.

Modernizing Federal Budget Concepts: Ticking Time Bombs and Beyond

Military planners can be criticized for correcting past errors more than anticipating future problems. Many budget hawks argue that they have long avoided this "last war" mistake by focusing on future financial risks, which they believe are concentrated in the "big three" entitlement programs: Social Security, Medicare, and Medicaid. Despite their vigilance, defeat may be close at hand, as some boomers are now collecting early retirement benefits. The magnitude of that defeat could be quite large: When budget hawks peer into the future, they see entitlements expanding to equal total current government spending. After assuming that current nonentitlement spending and revenues are unchanged, they project that the government would have to borrow excessively, which would crowd out private investment and throw the economy into a deep dive, or hand over ownership of the United States to foreigners.[10]

The best method for measuring the budgetary cost of potential long-term financial commitments is called *accrual budgeting.* It calculates the likely costs of future commitments by converting future cash flows into their present values. However, in general, the federal budget counts only current cash flows; the major exception where accrual budgeting applies is programs that extend loans and loan guarantees. This is despite the fact that federal agencies have now spent nearly two decades and massive amounts of money improving their ability to prepare retrospective financial statements on an accrual basis.[11]

Why has the federal government shied away from requiring accruals for the largest entitlement programs? Using Social Security rather than health spending for the sake of simplicity, there are conflicting explanations. Because baby boomers have already earned many of their expected credits, accrual might be too late to have an effect. Others worry about the opposite effect—that accrual could quickly force cuts, causing incumbents to be blamed by those who lost expected benefits. A third perspective is that accrual could certify that projected benefits had been earned, converting what are only semistrong promises into iron-clad liabilities. A fourth concern is that uncertainties about the magnitude and timing of benefits are so great that accruals could foster such gaming that budgetary aggregates would be completely distorted.

Though the official budget largely uses the cash basis for calculating budget totals, Walker of the Government Accountability Office (GAO) frequently presented the different concept of "net operating cost" (which counts long-lived costs for federal employee retirement and the like, but not for Social Security, Medicare, and Medicaid). The GAO (2007) also suggested that the government publish a long-term fiscal sustainability report, again separate from and different than the budget. Unlike the net operating cost calculation, it would include the unfunded costs of the big three entitlements, for example, by estimating the "fiscal gap" (the immediate increase in taxes and/or cuts in spending necessary to make up a projected excess over time of outlays over revenues). While these different approaches each provide potentially valid summaries of the government's financial position, that they are presented at the same time without sufficient explanation means that confusion over the budget's bottom line is now certified by the government's auditor.

Budget hawk presentations often try to cut through this confusion by extrapolating trends to develop future-year point estimates of huge government debt, high "European tax rates," and much smaller gross domestic product. They may be right, though a more reasonable projection would assume that politicians will react before it's too late to prevent catastrophes.

On the other hand, budget hawks might be underestimating the potential problems. Because the current financial crisis has been compared to that which started the Great Depression, you might try the following thought experiment: Travel back 75 years from now (following the Social Security and Medicare actuaries)—that is, from 2008 to 1933. Ask yourself, what important things happened in the decade following 1933 that an intelligent person would not have predicted? Now do the same for the next 65 years. It's a very long list. Now try the same for the 75 years after 2008—and by the way, best of luck. Donald Rumsfeld was wrong about much, but he was right that there are "unknown unknowns," and they will be important (Taleb 2007). Yet the "known unknowns" are now worrisome enough: restructuring the world's financial system, reducing national security threats, coping with pandemics, and adjusting to global warming (Smil 2008). None of these financial risks is recognized by the budget hawks' focus on the big three entitlement programs.

If the budget process is to help us deal with these challenges, then we need improved methods for measuring and reporting the costs of government actions. Budget concepts and projections are based on the 1967 President's Commission on Budget Concepts and on provisions of the Congressional Budget Act, as amended. However, these guidelines are both flawed and insufficiently developed. Baseline projections, for example, when prepared according to the law's prescriptions, are widely viewed as unrealistic. In response, the Congressional Budget Office (CBO) developed alternative scenarios that seem more plausible. A more recent example of confusion was the reported $700 billion cost of the Bush administration "bailout" plan. This plan presented immense difficulties to those who would project its cost. The Treasury initially requested that its assistance be accounted for under the principles of the Credit Reform Act, which requires the accrual method of measuring the net cost of a government action using discounted cash flows, but in this case adjusted for risk. Of course, in this case, the government was greatly expanding its role in the economy *precisely because* financial uncertainties made it impossible for private entities to reliably project likely cash flows. And after the Bush administration used bailout funding to infuse equity into banks, it used an older scoring convention to show a much larger deficit than did CBO, suggesting that executive and legislative deficit measures might eventually differ by hundreds of billions of dollars.

The financial crisis arose, in part, because the government failed to accurately determine the scope of the budget—that is, what's properly counted and what's properly excluded. Early in the crisis, the government effectively took control of Fannie Mae and Freddie Mac. These "government-sponsored enterprises" avoided budget scrutiny despite the huge risks they were imposing on the government and the economy because they were controlled by private rather than public leaders. That is, budget concepts used a black- or white-only palette rather than a range of grays more appropriate for the sector-blurring real world. For more than two decades, the Treasury, CBO, and others produced quality analyses of this problem, sometimes suggesting that the implicit subsidies to a government-subsidized entity be included in the budget. Political opposition prevented this modernization of budget concepts.

Other scope issues of comparable complexity will present themselves as the nation debates national health insurance and proposals to reduce global warming. When the Clinton administration proposed a new health care system, the CBO had to rule whether the new system should be reflected as part of the budget. It controversially recommended "yes" for the "health care alliances," because their ostensible private status didn't hide the reality that they would be effectively controlled by the government (CBO 1994; Seiler 1994; White 1994). Now, comprehensive health care reform has returned to the agenda. In 2008, the CBO, together with the Joint Committee on Taxation, stated in a letter to the sponsors of a bill that would create the "Healthy Americans *Private Insurance* System" (emphasis added) that "most health insurance premiums that are now paid privately would flow through the Federal budget" (CBO/JCT 2008, 3).

Related logic was recently applied by the CBO to another of our great challenges—global warming. The Lieberman-Warner Climate Security Act would create a Climate Change Credit Corporation, which would auction some emissions permits (the proceeds of which would be placed in a fund) and give away others. The CBO ruled that these latter allowances should be recorded as revenues and outlays: "[T]he government is essential to the existence of the allowances and is responsible for their readily realizable monetary value through its enforcement . . . Therefore, CBO considers the distribution of such allowances at no charge to be functionally equivalent to distributing cash" (2008, 7). The implications of this logic are immense, for it could convert all government actions that affect resource allocation and distribution into spending equivalents that would show in the budget.[12] As with health care, it would greatly expand the budget's scope, an important consequence in a political culture that is averse to "big government."

As with the link between macroeconomic policy making and budgeting, there are no easy resolutions to budget concept problems. But there are many problems that deserve attention, such as how to cost underfunded insurance programs or how to beat back pressure to record only the first-year cost of a "lease" that is effectively a purchase. A commission that addressed such conceptual uncertainties and political problems, if it lived up to the reputation of the President's Commission on Budget Concepts for using the best available analysis at the time, could help reduce the gimmickry that besets the process (Mathiasen 2005; Meyers 2004).

Finally, returning to the case of health care, it is well known that, despite the focus of some budget hawks on Medicare and Medicaid, the budget challenge of financing these programs is inseparable from the broader challenge of financing the growth of the economy's health care sector. Two decades ago, Herb Stein (1989b) wrote a wonderful book in which he argued that this and similar realities in other sectors of the economy (e.g., the relationship between Social Security and private saving) requires thinking more broadly about policy than is permitted by the budget's current focus on the government's finances, to the point that we might attempt to "budget the GNP." This insight may threaten those who worry that it implies a "national planning" that is taboo in the United States, or that it would supplant the primacy of the (idealized) budget process—but Stein's suggestion is worth much additional consideration.

Improving Priority Setting by Modernizing Committee Jurisdictions and Budget Categorizations

The President's Commission on Budget Concepts listed among the budget's multiple objectives that the budget "proposes an allocation of resources to serve national objectives, between the private and the public sectors, and within the public sector." Given the scope and scale of the federal government, such priority setting is inherently a difficult task. Yet it is made nearly impossible by the obsolete categorization of the budget's elements and the corresponding but also obsolete jurisdictional claims on those elements.

That obsolescence was ratified by the 1974 act, which overlaid budget committees, a goal-setting budget resolution, and enforcement procedures on established authorizations and appropriations committees and processes. The budget committees were not armed with the power to force the disparate committees to adhere to priorities that are supposed to be set in the budget resolution. That budget resolution shows notional mandatory and discretionary *subtotals* for each of 19 mission areas or "budget functions," with the statement of managers in the conference report then allocating the discretionary *total* to the appropriations committees. But these apparent budget priorities are only advisory, because the appropriations committees make the actual allocations when they subdivide the discretionary total among the 12 appropriations subcommittees. So if Congress wanted the budget resolution to decide how to divide funds between guns and butter (or more specifically, the F-22 versus the Milk Income Loss Contract program), it would have to reform the process so that it could (1) force appropriators to use the budget resolution functional allocations as the guide for their decisions, and (2) integrate mandatory spending allocations into this process.[13]

The essential cause of this dysfunctional process is that the congressional committee structure, the legacy of almost two centuries of infrequent political innovation and compromise, glorifies traditions (Cogan 1994; Stewart 1989). The result brings to mind the classic cartoon from *The New Yorker* that portrays a bureaucrat walking past an office door labeled "Bureau of Alcohol, Tobacco, and Firearms," and about to pass doors labeled "Bureau of Heroin, Snuff, and Dynamite," "Bureau of Caffeine, Cocaine, and Plutonium," and "Bureau of LSD, Cupcakes, and Anthrax." Similar misorganization exists in budgeting for health policy, where (in the House) Medicare and tax preferences are under the jurisdiction of the Ways and Means Committee, Medicaid is under the Energy and Commerce Committee, and most discretionary spending is under the Labor/Health and Human Services and Veterans subcommittees of Appropriations. But if health policy is now the greatest budget challenge we face, and if important aspects of health policy are so interrelated that they should be considered jointly, why not reorganize and create a health committee that could take primary responsibility for this topic?[14]

One argument against this course is that the traditional distinction between authorizations and appropriations properly separates the distinct activities of goal setting and funding. Anyone who is familiar with the realities of Congress knows, however, that this distinction is more theoretical than practical. Appropriators routinely write "legislation" that, by rule, should be in authorization bills. Sometimes they do this because Congress does not enact authorizations for years after previous authorizations have expired. When Congress does pass authorizations, it often does so after the appropriation is passed, even though the authorization is supposed to come first. Authorizations also include provisions that are indistinguishable in effect from appropriations limitations. Such committee redundancy permits grossly inconsistent actions, such as the recent authorization of more spending for bridge safety at the same time that the authorizing and appropriations committees were fighting over how to respond to the reduction in highway trust fund receipts caused by increased gas prices. This fragmentation makes Congress procedurally incapable of weighing the relative merits of different approaches to addressing the same problem. It has particularly resulted in the explosion of new spending in the form of tax preferences, even when this form of spending is relatively inefficient (e.g., capped tax credit bonds such as Qualified Zone Academy Bonds rather than regular appropriations).[15]

The executive budget process has a greater claim to effective priority setting because of its hierarchical structure and because of its performance management orientation—though the United States is far behind countries that review sectors comprehensively, such as the United Kingdom. U.S. budget preparation too infrequently uses "crosscuts" to compare similar but silo-separated programs, and it generally fails to integrate tax preferences into budget reviews. At the agency and program levels, significant progress has been made as a result of concerted execution of the Government Performance and Results Act and the Program Assessment Rating Tool. But Congress has more often received performance measures and program ratings with apathy or distaste than with approval (Redburn, Shea, and Buss 2008). A reorganization that would better align committees and functional jurisdictions, thus making committees identifiably accountable for directing and overseeing performance, could help Congress come to its senses. Priority setting in the budget process also could be encouraged by systematic reporting of economic, social, and environmental indicators (GAO 2004; Miringoff and Miringoff 1999). Such reports could be especially helpful in framing the budget resolution, by providing verified information that would supplement the position-taking rhetoric that now dominates the debate.

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Total skepticism about reorganization's prospects is understandable. Politically, it is exceptionally difficult because of committee seniority rights and electoral incentives (Adler 2002; Arnold 1998; Davidson and Oleszek 1977). Nor would it be a panacea, as rationalization of jurisdictions can't eliminate all overlaps, and some redundancy can be productive when turfing inspires innovation (King 1997). However, reorganization could simplify enforcement rules and reduce the number of committee veto points that enable delay. And speaking of DeLay (the former majority leader of the House), in 2005, he reorganized House appropriations subcommittee jurisdictions to protect his favorite NASA from raids by veterans' advocates in the VA-HUD bill. While his motivation was not one of reform, his reorganization illustrated that committee jurisdictions are not immutable; it followed a homeland security reorganization and was followed by another reorganization of the appropriations subcommittees when the Democrats gained control. The end result was a slightly more rational structure. Why not build on this progress?

Improving Collaboration between Executive and Legislative Institutions

Governments occasionally replace dysfunctional rules with simpler, more effective ones. A budget process example is the "Gephardt rule," which in the House automatically engrosses a bill to raise the public debt ceiling once the budget resolution is adopted. Because borrowing is the result of prior decisions to spend more than tax, this rule eliminates the need for a time-wasting symbolic vote and an opportunity for cheap blame generation by the minority.

Much of the rational institutionalist and comparative literature on budgeting suggests that blame generation be better targeted. To simplify this logic, legislatures tend to universally distribute generous benefits to individual districts; controlling the resulting excesses requires delegating authority to an executive who can be held accountable by an electorate that understands this person is solely responsible for budget totals. Alternatively, particularly when the electoral system favors coalitions over majority governments, the electorate should expect that coalition partners will develop binding contracts among themselves to produce and maintain prudent budgets (Von Hagen, Hallett, and Strauch 2002).

The 1921 Budget and Accounting Act was consistent with the logic of delegation to the executive, as the president acquired a central budget office and the power to prepare the executive budget. In the Congressional Budget Act, Congress moved the opposite way: It reasserted its power by assuming the responsibility of writing its own budget. But because James Madison's design of "separated institutions sharing powers" was not junked—the president retains the veto power and the bully pulpit—the current system breaks down when both branches for partisan reasons act as if their respective budgets are unrelated.

Could this problem be reduced by modifying the contracting approach for American institutions? One proposal of this type is to change the budget resolution from concurrent to joint form (Meyers 1990). If both branches planned to first agree on budget totals, and succeeded, they could find it easier to negotiate the details by the beginning of the fiscal year. The comparative evidence is that a two-step budget process produces more prudent results. Skeptics respond by predicting that agreement on totals would not precede agreement on all the details, and legislators often argue that a joint budget resolution would shift power to the president. On the other hand, if Congress reached early agreement with the president, it would be less exposed to claims that it was imprudent (Hilley 2008).

Success with a joint budget resolution would depend primarily on how national leaders felt obligated to behave—that is, on whether they could strengthen the budget norm of compromise.[16] If they desire to do that, they might support the maintenance of this norm by establishing complementary procedures that would reduce opportunities for unrealistic credit claiming and unfair blame generation. Recalling the problem of presidential candidates' dreamy promises, the United States could replicate Australia's "Charter of Budget Honesty," which requires the Treasury and Finance departments, if requested, to cost a candidates' election promises prior to a general election (Australia Department of Finance 2007; Wanna, Kelly, and Forster 2000, 254). While the Tax Policy Center and U.S. Budget Watch produced useful calculations of the 2008 candidates' unaffordable promises, official estimates would receive more attention from the media and public. For a more continuing public education, a popular budget report, like those released periodically in the past, could annually explain the basics of budget projections and choices to citizens.

Conclusion

In reaction to a proposed balanced budget constitutional amendment, CBO director Rudy Penner said that "the process is not the problem; the problem is the problem." There is much truth to this view; only by adopting policy changes will the desires of those who wish for a more sustainable budget be met. But a more realistic view of budget policy change understands that shifts in budget policies tend to coincide with changes to rules and norms. That is, no one (including Penner) really believes the extreme version of Penner's aphorism; after all, Washington arguably has the world's densest concentration of people who calculate the policy implications of rules. Most are trying to protect the status quo. If the result of their combined efforts is an unsustainable budget policy, then rules and norms will eventually need to change.

This article has suggested that the most intelligent way of addressing the unraveling that Rubin discusses is to deliberate on the causes of and solutions to four major problems. This will require confronting intellectual challenges and even more daunting politics—or as the Temps sang it, "Great googalooga!" But unless these problems are addressed, a safe projection is that the ball of budget confusion will keep spinning.

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Notes

1. By Normal Whitfield and Barrett Strong, Motown Records, complete lyrics at http://www.oldielyrics.com/lyrics/the_temptations/ball_of_confusion_thats_what_the_world_is_today.html.
2. See http://www.concordcoalition.org/events/fiscal-wake-up/index.html.
3. See http://www.mtholyoke.edu/~ebarnes/python/dead-parrot.htm.
4. I acknowledge that Dana Milbank of the *Washington Post* used the same skit for a biting sketch of Hillary Clinton's refusal to acknowledge that she had lost the Democratic nomination for president, but I have used this comparison to the federal budget process for several years.
5. That's not unusual; the Senate Budget Committee Republican staff's Budget Bulletin observed on March 13, 2008, that "the content of an actual budget resolution is notoriously useless for almost any user."

6. On the other hand, it could be worse. The budget process reform agenda in the United States is much shorter than in many other countries because of the relative success we have had in dealing with the essential tasks of budgeting. For example, few advocates in the United States argue for greater control of obligations and for higher-quality audits of expenditures, as these functions are performed with quiet professionalism in most cases.
7. See Primo (2007) for an extensive review of the massive public choice literature on this subject. Though it provides valuable insights that historical analysis does not, this literature is still too reductionist to enable careful design of a better budget process.
8. John Maynard Keynes once observed that we are often the slaves of a defunct economist. Today, he might complain that recently we were the slaves of a very alive economist, and a central banker at that. Now Greenspan's Fed is blamed for enabling asset bubbles that will lead to heavy fiscal costs. His successor was generally unwilling to comment on the details of budget policy but was forced to make the Fed the "guarantor of last resort."
9. For economy policy histories, see Dolan, Frendreis, and Tatalovich (2008); Feldstein (1994); Frankel and Orszag (2002); Kopke, Tootell, and Triest (2007); and Orszag, Orszag, and Tyson (2002).
10. See, for example, Kotlikoff and Burns (2004). There are substantial reasons to question their proposed solutions, which focus excessively on reductions in entitlements (see White 2001).
11. Though not without problems. An example: The GAO confessed that its attempted reconciliation between accrual and cash deficits by fiscal year 2007 created a difference of 2 percent of revenue that could not be explained, though it gave the Statement of Social Insurance an unqualified opinion (GAO 2007, 2008a, 2008b).
12. For a discussion of the challenges to budgeting for regulatory policies, see Meyers (1998).
13. I am indebted to Van Doorn Ooms for the guns versus butter example, which I have updated.
14. When I have talked with legislators from other countries, they have been befuddled that that the United States doesn't have a health committee. For examples of major reorganization proposals, see Rivlin (1986)—collapse authorization and appropriations by sector—as well as Cohen (1982) and Tate (2004)—obey the suggestion for an "omnibus" budget.
15. For the results, see the President's Advisory Panel on Federal Tax Reform (2005).
16. A similar opportunity has recently been described by the National War Powers Commission, which proposed new procedures to replace the ineffective War Powers Act (and arguably, to reinvigorate the "ex-Constitution").

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