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MEMOS TO NATIONAL LEADERS

SUBJECT: STRENGTHENING THE FEDERAL BUDGET PROCESS

FROM: PAUL POSNER, STEVE REDBURN, PHIL JOYCE, and ROY MEYERS

It is now widely understood that the federal government faces a large long-term mismatch between its policy commitments and its projected revenues. Closing this fiscal gap will, by all authoritative accounts, require hard choices to yield trillions of dollars in budget savings. Achieving these while sustaining the nation's highest public priorities, supporting robust and sustained economic growth, and dealing with inevitable emergencies and surprises will be difficult at best.

Soon after the fall elections the U.S. will approach a "fiscal cliff" which provides still another opportunity for negotiated agreements on large policy adjustments to address the long-term problem. Continued stalemate would trigger sudden across-the-board spending cuts and massive tax increases, pitching the nation back into recession and greatly complicating an already staggering political and fiscal challenge. Whatever budget savings are negotiated, whether on this or the far side of the fiscal cliff, must be implemented and sustained year by year through the federal government's budget process.

At this inopportune time, the federal government's budget process has virtually seized up. Routine decisions on annual discretionary spending are usually late, causing uncertainty and disruption. The largest parts of the budget, including revenue policy and entitlements, are on autopilot. Major decisions to reform the tax code and adjust spending priorities are blocked or deferred. Even if the familiar budget process were working smoothly, however, it would not be up to the tasks now facing us. The nation needs a new approach that is more far-sighted and strategic, more focused and disciplined.

To help the next Administration and the next Congress be better equipped to meet the fiscal challenge, a group of four expert observers of that process has prepared the attached set of memos. Each memo presents a set of Recommended Actions – both practical and bold – that deserve serious consideration in a necessary effort to repair and remake the federal budget process. Two of the Memos to National Leaders describe steps to expand the budget's time horizon and to help policy-makers act more strategically to meet the public's highest priorities while finding budget savings sufficient to put the federal budget on a sustainable path. The other two memos are directed, respectively, at the Executive Branch and Congress, and propose complementary changes to help streamline, focus, and discipline budget decisions and to better fix responsibility for budget outcomes.

The Recommended Actions include:

1. Conducting selective strategic reviews of major spending and tax portfolios, supported by outside experts, to drive better use of resources for the nation's highest priorities;
2. Enacting a joint budget resolution annually that includes medium- and long-term targets for the debt and budget savings to reach the targets;
3. Enforcing Presidential accountability by requiring an annual fall address on the fiscal outlook and how his budget addresses it;
4. Making the budget committees leadership committees with power to enforce the budget resolution;
5. Using reconciliation procedures to enforce debt targets until the debt stabilizes;
6. Eliminating a separate vote to raise the debt ceiling.
7. Consolidating Congressional authorizing and appropriations committees; and
8. Prohibiting use of Continuing Resolutions to delay appropriations.

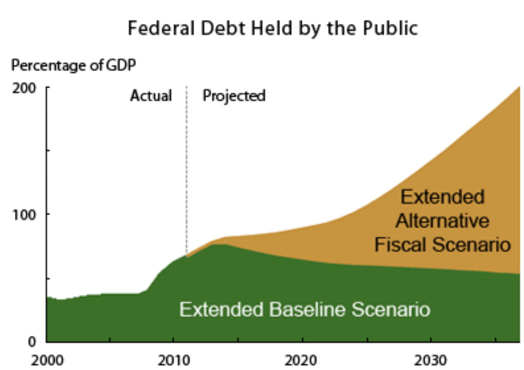
MEMO #1: BUDGETING FOR THE LONG TERM, AVOIDING THE REAL FISCAL CLIFF

FROM: PAUL POSNER, STEVE REDBURN, PHIL JOYCE, and ROY MEYERS

Abstract: *To address a large long-term gap between federal revenues and spending commitments, the budget process and institutions should be reformed to be more far-sighted. Reforms will raise the salience of the long-term fiscal challenge and make it more difficult for policy makers to ignore the long-term implications of their decisions or their failure to act. The President and Congress should agree on fiscal goals as a starting point for work on the annual budget and the budget resolution should be a multi-year plan to meet specific fiscal targets. The President should show how his fiscal policies will play out over the far horizon and how much his policies will do to close the long-term fiscal gap. Other procedural and institutional changes can be made to provide the incentives and discipline needed to put the budget on a sustainable path.*

The United States, along with most advanced nations, faces nearly unprecedented fiscal risks, over the longer term. Even as the United States recovers from the current recession, an aging population and rising health care costs will, in the absence of policy changes, send the budget into a tailspin, with deficits and debt rising to unsustainable levels that would eventually cause an economic shock. As these spending pressures accumulate, a smaller cohort of workers will be left behind to finance these costs. Unless a longer view of the budget is adopted to address the problem of its long-term sustainability, Americans' standard of living will assuredly decline and the precipitous policy changes necessary to rescue the nation from economic meltdown will cause lasting damage to the political fabric of the nation.

The chart below from the Congressional Budget Office's (CBO) latest long-term outlook illustrates the nature of the long-term challenge. Under a likely extension of current policies, represented by the "extended alternative fiscal scenario," debt is projected to explode. In other words, the current course leads to deficits that would eventually be economically unsustainable, as rising government debt crowded out nearly all private investment and growth.



Economist Herbert Stein long ago suggested that if something is unsustainable, it will stop. But there is a corollary—how it stops matters. Will we see a gradual adjustment, or a rude shock caused by economic forces over which we will have little control? Achieving a more sustainable fiscal policy without such a shock requires early action. If started early enough, needed changes in spending and taxes can be phased in gradually, giving people and businesses time to adjust their plans and expectations.

The alternative is an unavoidable crisis, which will cause harm to current and future generations. Such a crisis would force policy makers to make far more painful and precipitous policy changes than are required to meet the challenge now. Such a so-called "hard landing" has in fact occurred in other nations where financial markets lost confidence in fiscal and economic management.

The central question facing the U.S. system and those of other advanced nations dealing with similar fiscal outlooks is whether a democratic nation like ours can take proactive leadership before a crisis forces our hand. Unlike many nations in Europe, the U.S. does not face immediate pressures to undertake massive deficit reduction. We have the opportunity to phase in changes to entitlements and taxes that will take effect when the economy recovers sufficiently. Studies across the Organization for Economic Cooperation and Development (OECD) nations have shown that national leaders spearheading fiscal reforms increase their chances of getting reelected.

A Long-Term Approach to the Federal Budget

The budget process and institutions can be reformed to raise the salience of the long-term fiscal challenge and make it more difficult for policy makers to ignore the long-term implications of their decisions or their failure to act. Four sets of reforms can make a difference:

1. **Information -** The President should be expected to show how his fiscal policies will play out over the far horizon, and should be expected to say how much his policies will do to close the long-term fiscal gap. CBO should regularly assess and report on the impact of both the President's budget and proposed Congressional budget resolutions on the long-term fiscal outlook.

   More systematic information should be provided to the public on what the Government Accountability Office (GAO) calls "fiscal exposures" – a concept including traditional accounting liabilities such as federal debt as well as commitments such as Medicare and Social Security.[1]

[1] U.S. Government Accountability Office, *Fiscal Exposures: Improving the Budgetary Focus on Long Term Costs and Uncertainties*, GAO-03-213, January, 2003.

For selected programs that are considered firm commitments, long-term measures of the net present value of costs could be considered for inclusion in the budget itself, as is currently done for loan and loan guarantee programs. Such items as the accruing long-term costs for federal retiree pension and health care could be considered to be booked in the budget on an accrual basis; the long-term accruing costs of federal insurance subsidies for such areas as private pensions and deposit insurance are also amenable to this kind of noncash treatment. In these programs, the costs of what amounts to contracts are understated by a cash approach to budgeting. Accrual approaches to these items would record these longer term costs in the budget year when the commitments are actually made.

2. **Fiscal Goals** - The President and Congress should agree on fiscal goals as a starting point for work on the annual budget. This could be done by establishing targets for medium- and long-term deficits, levels of debt, fiscal gaps or other measures that could be widely understood and gain broad support. Other nations, such as New Zealand and Sweden, have managed to sustain budgetary surpluses for many years, thanks partly to their adoption of overall fiscal targets that serve to reframe debates by justifying fiscal sacrifice. Fiscal sustainability, like price stability and full employment, should be an explicit goal of national fiscal policy and economic management.

   The use of a multi-year framework for budgeting is now an international standard and has proven useful in establishing a longer-term view and greater discipline. While other countries have adopted a hard “fiscal rule,” such as a requirement that budgets be balanced over economic cycles, we do not believe such a mechanical rule is the best approach for the U.S. However, the Peterson-Pew Commission on Budget Reform has recommended setting a glide path to achieve a 60 percent debt to GDP ratio within a decade, a level far below the projected result of current policy. Adoption of this or a similar goal for the medium term would be both practical and helpful. Because the U.S., unlike many other nations, has failed to adopt an overarching fiscal goal or target, it has deprived leaders and voters of a key compass point as it conducts budget debates.

   Medium- and long-term fiscal targets, and estimated budget savings to achieve them, should serve as a starting point for developing annual budgets in both the executive and Congressional phases of the process. In the latter phase, the budget resolution could be reformulated to enact a multi-year deficit reduction agreement to meet a pre-established debt target. The resolution would specify policy changes and spending caps consistent with the target and shape the work of other Congressional committees. As time goes by, the target can be adjusted as needed for changes in the economy, national security challenges, or other emergencies. The budget resolution would annually reaffirm Congressional commitment to reaching the target. Any budget resolution that did not comply with the law would be subject to points of order and backed up by sequestration if the points of order did not have their desired effect.

3. **Incentives -** Incentives such as points of order and triggers can help promote action on some of the major drivers of the long-term fiscal gap on both the spending and revenue sides of the budget. Designing points of order to inhibit the enactment of *new* long-term commitments is something that is well within our current policy traditions – in fact, the Senate has already incorporated such a point of order in its rules, requiring policies to be deficit neutral in each decade over the next forty years. However, we will need to go beyond restraints on new policies to prompt policy reforms in existing spending and revenue programs driving the long term outlook.

   Enforcement mechanisms can include *"soft triggers."* These would be linked to a benchmark policy goal, can prompt accountability by requiring Presidents and/or Congress to make an affirmative decision to either ignore the trigger or take some action to address it. Such triggers have been described as "speed bumps" because they permit determined majorities to ignore their blandishments, but provide leverage for leaders looking for a reason to act. Some also advocate *"hard triggers"* which, when a benchmark policy goal is exceeded, automatically institute specific policy reforms, either through spending cuts or revenue increases. Hard triggers for Social Security and Medicare were supported by a broad based coalition of budget experts from think tanks ranging from the Heritage Foundation to the Brookings Institution and Urban Institute. This proposal would seek, in effect, to cap these mandatory programs by setting limits on growth, enforced by automatic cuts in benefits and premiums, among other things, when exceeded.[2] An opposing coalition of liberal think tanks and experts argued that the proposal would shift risk from the government to weaker clients and would fail to also address tax expenditures whose growth is also jeopardizing the fiscal outlook.

   Spending ceilings accompanied by triggers and caps on the growth of automatic tax and spending programs would transform the nature of government's commitment from open-ended to resource-limited. Given the long-term challenge, it is time to change the presumption that the major share of spending and revenues should remain on automatic pilot.

   Significant questions remain about how triggers can be designed to ensure accountability while also providing reasonable certainty and equity for families and businesses, particularly during downturns. Revenue triggers, which could take the form of surtaxes or delays in indexing and other scheduled revenue-reducing provisions, would present novel design challenges, as none have yet been developed, enacted, or

[2] Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future* April, 2008.

applied. Congress has failed to observe its own triggers in the past when it was unable to resolve sensitive equity issues across programs – the failure of Gramm Rudman Hollings deficit triggers and Medicare doctor payments limits are two prominent examples. It is difficult to imagine that hard triggers will be politically sustainable absent major reforms to health care and other programs driving long-term growth of debt. Soft triggers are less controversial and a good place to start enforcing targets and limits.

Institutional Reforms

A long-term approach to the budget requires strengthening the central fiscal policymaking institutions for both the President and Congress. As other memos from this group have highlighted, the budget processes followed by Congress and the Executive Branch have split and divided decision-making. This has frustrated the thoughtful consideration of the nation's budget expenditures and revenues – the parts have often been stronger than the whole.

Addressing the long-term budget agenda will require central institutions for budget formulation able to steer change and shape resource decisions across a wide range of programs, committees and agencies. In Memo #2, we discuss strengthening the budget committees as a way to provide a longer-term and more strategic approach.

Recommended Actions

1. The President should be required to include in annual budgets a detailed analysis of the impact of his fiscal policies over two decades at least. The President also should provide specific budget proposals to close any projected long-term fiscal gap.
2. The Office of Management and Budget (OMB), GAO and CBO should prepare annual reports on "fiscal exposures", including the long-term costs of major social insurance and pension commitments.
3. Accruing costs for long-term commitments such as federal pensions and health care and federal insurance programs should be addressed as they arise and included in annual estimates of spending and deficits.
4. The President should propose and Congress enact medium- and long-term targets for the debt, as a starting point for estimating annual and multi-year budget savings required to achieve them.
5. The President and Congress should collaborate to develop soft triggers for both major entitlement and tax programs.
6. Annual budget resolutions should be used to implement a multi-year target such as debt as percent of Gross Domestic Product and should include specified policy changes and caps on appropriated spending consistent with that multi-year framework.
7. CBO should be required to assess whether the President's budget and the budget resolution meet overall savings targets previously adopted by deficit-reduction legislation.

MEMO #2: BUDGETING STRATEGICALLY

FROM: STEVE REDBURN, PHIL JOYCE, ROY MEYERS, and PAUL POSNER

Abstract: *Facing prolonged slow growth and fiscal austerity, the federal government must make more effective use of limited public resources and mobilize private investment to achieve the most important national objectives. This requires a more strategic approach to fiscal choice, using information on expected costs and returns to the economy over a long horizon. The budget's decision-making should be organized around enduring missions and long-term social goals. For selected goals, the relevant portfolio of spending, tax expenditures, legislative and regulatory mandates, and other policy tools should be regularly shaken to separate wheat from chaff. Each review should include non-federal partners and be conducted with full transparency, public hearings, and input from all stakeholders. Expert panels should be asked to review evidence on social benefits from recommended changes in policy and resource use and advise on effective implementation of the recommended strategy. At the completion of each review, the President's budget and legislative agenda for the next fiscal year should incorporate policy changes estimated to achieve breakthrough returns and accelerated progress toward the priority goal.*

In the face of its greatest fiscal challenge, the federal government's budget process as we have known it since 1974 has collapsed. It seemingly cannot function in the face of wide partisan and ideological divisions that exacerbate the conflict already inherent in a system of shared and dispersed authority. The annual appropriations process designed to make detailed choices about hundreds of important programs has practically seized up. Bigger choices about how to slow health care spending growth, deal with unemployment and sluggish recovery, or reform a tax system widely regarded as unfair and a drag on growth are being deferred.

If we continue budgeting this way – cutting spending or raising new revenues without a careful eye to the Nation's long-term interests and the sustainability of its commitments – we risk a period of slow growth and austerity that could cripple all efforts and threaten our position in the world. If instead we manage fiscal challenges strategically, we will be able to more effectively reallocate public and private resources to growth-sustaining investments vital for long-term fiscal stability.

To make effective use of its limited public resources and to mobilize private investment to achieve its most important national objectives, the United States needs an approach to fiscal choice that is more strategic in its scope and capacity to prioritize. It needs a new, rigorous review process that analyzes the base of current resource use and alternatives using information on expected costs and returns to the economy over a long horizon. Put simply, given the hard choices ahead, the federal government needs to learn how to budget strategically.

To budget strategically means to direct resources to the highest priority policy objectives and to find the most effective and efficient means to realize those objectives. It requires being more far-sighted (see memo on “Budgeting for the Long Term”), taking into account the implications of current policy for the government’s ability to meet future needs. And it requires taking a much broader view of the federal budget than we are used to. This way of approaching the federal budget would be a dramatic change from the current practice of enacting policies and appropriations piecemeal with little regard for the long-term costs or social benefits of those actions.

A strategic approach to budgeting requires a broader conception of what the budget is and does. Herbert Stein, former chair of the Council on Economic Advisors, once observed: “Sensible decisions about those expenditures can only be made after considering the total national provision for those purposes, and not just the federal provision.” To correct serious omissions from the budget process, including regular review of tax expenditures and regulations, Stein proposed that “we should budget the . . . GNP [i.e., the entire economy] before we start budgeting [what] the federal government spends.”

One benefit of a strategic approach is that it highlights non-budgetary ways—such as regulation—in which government influences allocation of national output. As an alternative to new spending, existing spending can be designed to be more productive by nudging or incentivizing major changes in non-federal policy and private behavior.

A strategic approach recognizes the complementary roles state and local governments and other federal partners play in shaping how society’s resources are used. Most of what the federal government does to improve the environment, expand opportunities and provide health care for the poor, build infrastructure, bolster homeland security, or pursue many other policy goals is done through various partnerships, with a mix of federal and non-federal resources and people.

Budgeting will always remain a political process of balancing conflicting values, views of government and its role, and material interests. However, the process can be organized in a way that helps policymakers decide how to pursue their policy goals with better results through smarter allocation of limited resources.

We will know we are budgeting strategically when big commitments are made in a form that permits accountability for results and are backed by the resources and legislative authorities necessary for their achievement. Resources will have been reallocated on a large scale from low-priority, unproductive uses to high-return investments. Making such strategic choices will increase the productivity of federal investments and have an accelerating effect on the achievement of major improvements in Americans' well-being, opportunity, and personal safety, and the Nation's competitiveness, growth, and security.

Toward a Strategic Approach

Considering where we are and the nature of our governing system and politics:

- How do we move to a budget process that is more strategic in its approach?
- How do we define and inform the main strategic choices and their expected returns with estimates of long-term benefits and costs?
- How can we organize and use that information to compare the effects of budget and policy alternatives and make better choices?

In short, what would a more strategic budget process look like if fully realized?

A strategic approach will require:

- New ways of organizing and using information;
- New decision methods; and
- Supportive reforms in both Presidential and Congressional processes.

What are some practical steps to move toward a more strategic way of budgeting? A set of new opportunities was provided by the GPRA Modernization Act of 2010 (P.L. 111-352). It requires the executive to identify selected "federal priority goals"—to improve policy outcomes that are the shared responsibility of more than one department or agency—and to plan and budget accordingly. Beginning with the FY 2013 budget process, the Obama Administration has begun to pilot this approach. After required consultations with key Congressional committees, OMB is given a mandate to set out the priority goals and designate a lead official responsible for each. Taken seriously and used boldly, this new authority could be the foundation for a more strategic approach.

To support strategic decisions and as a preamble to more detailed budget choices, those who lead the process will need to restructure much of the budget's decision-making around major enduring missions and long-term social goals. For each, a *portfolio* of related spending, tax expenditures, legislative and regulatory mandates, and other policy tools must be regularly updated to separate the substantive from the inconsequential. Analysis of costs and benefits must be rigorous and empirically grounded. For greater independence and rigor, Congressionally chartered institutions with a mission to provide technical and scientific policy advice—such as the National Academy of Public Administration and the National Research Council—could be tasked with analyses of the evidence on benefits and costs of alternatives.

With time and work, the information used to budget and keep account of both costs and results can be reorganized around priority national goals, and analysis extended to tax expenditures. Budget development can begin with prioritization of the many important goals that the federal government pursues, with metrics tied to a comprehensive set of social indicators. New structures of accountability can be established around each major (and many lesser) policy objectives. New procedures for systematic consultation between federal and state governments can be built for shared goals.

For its part, Congress must be prepared to revise and streamline its jurisdictional responsibilities in ways that facilitate integrated authorizations for and oversight of spending, tax expenditures, and other policy tools for each major federal mission. As the Executive Branch is held accountable for performance, it must be given flexibility over the use of funds consistent with its explicit performance mandates and commitments. In Memos #3 and #4, we outline changes in the way the executive and legislative branches manage the annual budget process that would facilitate a more strategic approach and contribute in other ways to improved fiscal outcomes.

Budgeting more strategically will require not merely technical and organizational changes, but also a mental shift. We must learn to conduct our fiscal affairs in a larger way and over a long horizon, to focus as much attention on benefits as on costs, and to measure our fiscal commitments both by their sustainability and by their contribution to society's highest aspirations.

Recommended Actions

1. The new Administration, in consultation with leaders of the next Congress, should identify and announce a handful of high priority national objectives that will be the focus of strategic budget reviews over the coming year. The aim of each review should be to achieve a breakthrough in enhanced use of public and private resources to achieve ambitious improvements by specified dates toward a major policy objective – such as a more productive labor force; greater energy independence; or broad improvements in health, – while at the same time yielding budget savings as scored over a five-year period and or longer and social benefits far exceeding its costs.
2. Each strategic budget review should rigorously examine the full *portfolio* of current federal programs cutting across multiple agencies and departments, including tax expenditures. As alternatives to current or proposed spending, it should assess the potential use of regulations and other policy instruments to achieve a given objective. It should also examine the contributions of states, communities, and others to achieving the objective.

3. The Administration should designate a leader responsible for convening and conducting each strategic review. Each review should include representatives of non-federal partners and should be conducted with full transparency, public hearings, and input from all stakeholders. Expert panels of the National Research Council should be asked to review the evidence on the effectiveness and relative social returns from recommended changes in policy and resource use. Advice should be sought from the National Academy of Public Administration on effective implementation of the recommended strategy.
4. At the completion of each strategic budget review, the President's budget and legislative agenda for the next fiscal year should incorporate the first stages of a proposed reform estimated to achieve breakthrough returns and accelerated progress toward the priority goal.
5. Under renewed Presidential reorganization authority, Congress should give fast track consideration to any reorganization legislation required to implement the recommended strategy.

MEMO #3: STRENGTHENING THE PRESIDENT'S ROLE IN THE FEDERAL BUDGET PROCESS

FROM: PHIL JOYCE, ROY MEYERS, PAUL POSNER, and STEVE REDBURN

Abstract: *To help the public hold the President and Congress jointly accountable for better budget outcomes may require granting the President a larger role in the budget process. Beginning the annual budget process with a negotiated agreement between the President and Congress enacted as a joint budget resolution, giving the President enhanced rescission authority, and other legislative reforms would help. The President could be required by legislation to address the nation each fall on fiscal sustainability. If the President takes the lead in summarizing these challenges, and the Congress weighs in with its own views, then there will be a better basis for debating different budget options and holding leaders accountable for improved budget outcomes.*

Article I of the Constitution grants "the power of the purse" to the legislative branch by requiring that all government spending be appropriated by Congress. This creates the potential for electoral accountability and responsiveness to the public on how the government spends money and on how the government finances spending through taxing and borrowing. Article II of the Constitution gives the President veto power over legislation and the responsibility to execute programs.

Because the Congress and the President share powers, they usually must compromise to enact legislation, including budgets. But sharing power also permits each branch to blame the other when they fail to compromise, a common practice in recent years. This memo discusses how granting the President slightly greater powers could increase accountability for achieving good budget outcomes.

In 1921, Congress strengthened the President's budgetary role by passing the Budget and Accounting Act. This law gave the President the responsibility to review executive agency budget requests and to propose a budget for the whole government. One motivation for giving the President this power was that since the President represents the whole country rather than just a small portion of it, a comprehensive budget proposed by the President could make necessary tradeoffs between competing interests.

While the executive budget power has not always been exercised responsibly, on balance Presidential budget proposals have provided useful policy and technical guidance to Congress. The executive branch has many highly skilled budget and finance personnel, and by international standards the transparency of government finances is high. Most recently, the executive branch has made significant progress in generating useful performance information and partially integrating that information with budget formulation.

Further empowering the President on the budget is a potentially attractive response to the current failures of federal budgeting to the extent that they stem from diffuse responsibility for budget outcomes. This shift of power can be approached in two very different ways.

One approach directly challenges the Madisonian design of our government by greatly reducing the power of Congress over the budget. For example, Congress could be prevented from increasing spending above the amounts requested by the President at the budget account level, which would require a constitutional amendment. Placing so much more power in the President's hands would enable the public to know whom to blame when policies were seen to fail or fall short. Some comparative research on government budgeting supports such an approach, finding that centralization of budget powers tends to reduce government debt.

We believe that this approach would not work in the U. S. It would never be acceptable to a country in which the legislature has had over two centuries of budgetary power. The system of checks and balances is widely seen as a fundamental protection against abusive or irresponsible use of power. And in fact, there is no guarantee that giving the President dominant power over the budget would prevent irresponsible behavior. We believe institutional checks on Presidential power are necessary to supplement any punishment voters might inflict on an incumbent President or that President's party.

A more transformative approach would be for the President and the administration to make a sustained effort at educating the public about the conditions faced by the nation, the goals adopted by the two branches, and the strategies carried out in hopes of meeting these goals. This is not done now in the annual State of the Union, which is just a long list of policy proposals and political claims by the President. Nor does the President's budget provide a sufficient description of conditions, goals, and strategies--in fact, even though the budget document concentrates on spending and tax proposals, its complexities make it generally incomprehensible to most Americans. It should be supplemented with a short "citizens' budget report" that communicates in plain English the budget realities facing the nation and the President's proposed responses. That report should be supported by a sustained effort to integrate, prioritize, and communicate the information already included in many valuable reports produced by government agencies. These reports, as well as the recent development of transparency websites that allow citizens to discover the details of individual government transactions, present citizens with information overload. If the budget process is to allocate prudently the government's limited resources, then citizens need a better understanding of the policy challenges faced by the nation. If the President takes the lead in summarizing these challenges, and the Congress weighs in with its own views, then there will be a better basis for debating different budget options.

We therefore propose a different approach that would shift the balance slightly in the President's favor, in ways that would remedy problems with the existing budget process. Five options are described below, in increasing order of importance.

Recommended Actions

1. Give the President the line-item veto or expedited rescission authority. The former would require amending the Constitution and is therefore not an immediate possibility; the latter could be achieved legislatively and is therefore feasible. Expedited rescission authority would allow the President to propose cancellation of individual provisions in enacted appropriations bills and require Congress to take up-or-down votes on those proposals. This power could be used by the President to highlight unjustified spending items that were enacted only because they were included in large appropriations bills, and prod Congress to reject this spending the second time around. However, this procedure would extend a process that already fails to meet deadlines. Presidents already have the capacity through Statements of Administration Policies to identify objectionable items, especially now that the Congress has prohibited the "airdropping" of earmarks into conference reports. If the experiences of governors with the item veto provide an accurate basis for estimating what could happen at the federal level, the practical effect of that veto on the nation's fiscal sustainability may be positive, but almost certainly will be small.
2. Begin the annual budget process with negotiated agreement between the President and Congress on a joint budget resolution. This would set in law each year the budget totals that are now supposed to be passed by the Congress in the form of a concurrent budget resolution. By making this process joint, requiring the President's assent, the Congress would no longer be able to pass bills based on its totals and pretend that the President's veto is politically meaningless--until the threat of a veto becomes real at the beginning of the fiscal year. Since the joint budget resolution conforms best to the constitutional structure, early negotiations between the branches would allow them to reach compromises over the budget's major parameters, and then to move on to the many important details in appropriations, authorizations, and reconciliation bills. Should the expectation that an early negotiation produce agreement on budget totals not be realized, the Congress could still pass a concurrent resolution as a backup procedure.
3. Require the President to propose budget modifications in particularly challenging sectors of the budget. This will require legislation. While the informational effect of the President's budget request is substantial, the Congress is not required procedurally to

vote on its contents. An alternative would be to create fast-track procedures for selected areas, in which Presidential proposals would be guaranteed votes, with or without amendments. It could be used to give the President the responsibility to propose significant reorganizations of federal agencies and programs. GAO reports have documented substantial duplications and overlaps between programs that if reduced could save money. A reorganized executive branch, especially if matched by a reorganized Congress, would allow the government to make policies strategically and align those policies with budget allocations.

4. Convince the Congress to limit the extensive direction it now gives agencies about how they should spend money. This approach would take advantage of the substantially increased ability of the executive branch to report on its performance in attaining program goals. Despite this information, the Congress has continued to give agencies detailed directions in authorizations and appropriations bills about how and where money should be spent on specific inputs and activities. This practice can be justified when agencies abuse the discretion they are given by the Congress. But for other agencies, giving them greater flexibility about how inputs are used and which activities they carry out, contingent on their achieving measured results, could allow managers to reduce unnecessary costs while improving performance. Presidents should be given the chance to run more agencies in ways that can give citizens a greater 'bang for their buck,' and the Congress should hold administrations accountable on this measure.
5. Expect Presidents to invest more effort in educating the public about the country's long-term fiscal outlook and the policy responses that would put the government on a fiscally sustainable path. One step in this direction is to require by legislation that the President address the nation each fall on fiscal sustainability. This high visibility forum could direct the public's attention to this issue and provide a summary of how the President's budget was received by the Congress. When combined with the other reforms we propose, it could help the public to hold Presidents and the Congress accountable for acting in a fiscally responsible way.

MEMO #4: STRENGTHENING THE CONGRESSIONAL BUDGET PROCESS

FROM: ROY MEYERS, PAUL POSNER, STEVE REDBURN, and PHIL JOYCE

Abstract: *The current Congressional budget process, far from encouraging fiscal discipline, works against a responsible approach to budgeting. The Budget Committees should be made instruments of House and Senate leadership and be given authority sufficient to shape annual budget legislation. The currently optional reconciliation process should be mandated annually until the publicly held federal debt is stabilized at 60 percent of GDP. To streamline Congress's work, the authorizing and appropriations committees should be combined. To break the pattern of serial continuing resolutions that hamper effective administration, any appropriations bill should be required to provide at least a full year of appropriated funding in order to be considered on the floor of the House or Senate.*

Congress has been a strong player in the budget process since the founding of the republic. Historically (that is, prior to 1974) that role was mainly manifested, at least on an annual basis, in the consideration and passage of appropriations legislation. Since 1974, with the passage of the Congressional Budget and Impoundment Control Act, the Congress has been empowered to play a more substantial role in establishing overall fiscal policy. At this point, both the annual appropriations process and the larger budget process have become increasingly dysfunctional. Much of this dysfunction relates to the increasingly partisan nature of the budget process, but there are various reforms that can be considered that may encourage a more effective Congressional budget process.

To that end, this memorandum lays out the nature of the problem, and proposes some specific solutions, many of which would require legislative action that might be considered as a part of a first year agenda for the next Congress and administration.

We see three main problems with the Congressional budget process as it now operates.

- First, appropriations legislation, necessary to fund 40 percent of the government on an annual basis, is chronically late.
- Second, and related, the budget resolution, designed to promote the setting of overall fiscal policy, has become an "optional" device, seemingly only enacted when broad consensus already exists on a path for the budget.
- Third, the budget process, far from encouraging fiscal discipline, detracts from a responsible approach to budgeting.

Below we give a brief description of each of these problems and the difficulties they create:

Late Appropriations—The appropriations process consists of (at this writing) the enactment of twelve appropriations bills that together fund the discretionary portion of the government. Only THREE TIMES in the past 37 years has the federal government enacted all of these bills prior to the beginning of the fiscal year. Instead, in most years a series of "continuing resolutions" (short-term appropriations) fund the government, until all the bills can be enacted. In some years, there have even been full year continuing resolutions. This is such a routine occurrence that the Capitol has become somewhat numb to its effects. Far from just a story of political disagreement, chronically delayed appropriations have real negative effects, reducing government's effectiveness. The effects include increased contracting costs, uncertainty for recipients of federal funds, cutbacks in training and development for staff, and delays in hiring personnel.

"Optional" Budget Resolutions— The device that was created to give the Congress an equal voice in setting overall fiscal policy is increasingly just a hit and miss proposition. From the advent of the budget resolution in fiscal year 1977 through fiscal 1998 (that is, the first 22 years), there was *always* a budget resolution, although these resolutions were frequently late. Since fiscal year 1999 through fiscal 2013, however (a span of 15 years), Congress failed to adopt a budget resolution at all on *seven* separate occasions. This represents not only a failure of Congress to follow its legislative mandate; it also suggests that the budget committees may lack enough power to make adoption of the budget resolution the imperative it was intended to be.

Erosion of Fiscal Discipline—Aside from (but related to) these two problems, is a third. There was a time when the appropriations committees were viewed as "guardians" of the public purse and the budget resolution was viewed as a means of promoting fiscal discipline. As of 2012, neither of these is true. The appropriations process has largely become an elaborate, time-consuming mechanism for distributing particularistic benefits (pork). Moreover, while the budget resolution was used to impose or promote fiscal discipline in a few notable cases, especially during the 1990s, it has since 2001 been used to make deficits larger. The Bush tax cuts of 2001 and 2003, for example were enacted using the budget resolution's reconciliation procedures. Even when the budget resolution imposed fiscal discipline on other committees using the reconciliation process, this has not resulted from a collaborative process between the Budget Committees and these other committees, but a more adversarial one. Deficit-reducing actions in one year have sometimes been followed by attempts to undo this deficit reduction in subsequent years. Perhaps the best example of this is the so-called "doc fix", which annually reverses reductions in Medicare payments to physicians that were initially enacted through reconciliation.

Towards a More Functional, Disciplined Congressional Budget Process

Solving these problems will not be easy. Many of them, at their base, are related to the larger dysfunctional, partisan nature of the budget process. Certain changes in the budget process, however, can assist the process to become timelier and fiscally responsible. Many of these involve creating the incentives necessary to spur the Congress to effective action.

A key to giving the Congressional process greater focus and discipline is strengthening the budget committees, giving them both the power and the status that would enable them to accomplish the tasks they were given in the 1974 Congressional Budget Act. In fact, the Budget Act intentionally made them weak, relative to other committees, both by their membership and by the power granted to them. Particularly given the magnitude of the fiscal problem facing the country, it is imperative that the Budget Committees—as the only committees in the Congress with an overall perspective on the budget—be made an effective instrument that House and Senate leaders can use to discipline other committees.

The appropriations process must be made to work better. It is simply not acceptable for the Congress to fail to discharge its most basic of responsibilities on an almost annual basis. Moreover, the appropriations process should be focused on the big decisions about the effectiveness of federal programs, not act mainly as a means of distributing a very small percentage of federal funds to the districts of influential members of Congress.

Creating a more effective budget process involves reform of the committee structure and responsibilities. First, the Budget Committees should be given more clout by reforming their membership. In addition, it would bring more substantive expertise to spending decisions and consolidate decision-making to combine authorizing and appropriating responsibilities. This also would reduce the number of separate committee assignments, giving individual members more time to develop specialized policy expertise. Advocates of jurisdictional consolidation have pointed to the repetitive nature of budget decisions, particularly for discretionary programs. Every year, for example, there is *both* a defense authorization bill *and* a defense appropriations bill. Combining committees might promote fiscal discipline if this reduced the number of members of Congress who routinely are in competition with each other for the distribution of funds (which occurs, for example, when both authorization and appropriations committees attempt to dole out money for highway projects).

The budget resolution should include targets for the deficit and debt going forward. Combined with the strengthened and expanded powers of the budget committees, this will help ensure that the nation's leaders can establish meaningful targets for broad fiscal policy prospectively, as a guide for subsequent appropriations, mandatory program authorizations, and revenue decisions. In contrast, the current debt ceiling sets a limit on paying for the bills already incurred by previous decisions in each of these arenas. This is akin to having a separate vote on whether or not to pay the nation's credit card bill after the spending has occurred. The debt ceiling is anachronistic. It may have made sense in 1918 to help Congress retreat from its prior role in pre-approving each Treasury debt issuance. But, in a modern global economy, the debt ceiling serves no purpose and merely invites fiscal hostage taking. We have seen how such fiscal brinkmanship has affected the nation's bond rating; according to the GAO, it may contribute in the future to increasing the interest rates that Treasury must pay to more skeptical markets, according to a GAO study. The requirement for a separate vote to raise the debt ceiling should be eliminated.

The recommendations that follow are designed, in total, to improve the prospects for the Congress to engage in forward thinking, fiscally disciplined budgeting both by enhancing the status of the budget committees and by creating incentives designed to encourage action, as opposed to inaction.

Recommended Actions

1. **Make the Budget Committees leadership committees**. The Peterson-Pew Commission on Budget Reform explicitly advocated a legislative change providing that the budget committees include "House and Senate leaders and the chairs and ranking members of both the appropriations and revenue committees and other major authorizing committees." This recommendation is aimed at making it more likely that the budget committees would be invested in fiscal goals that had been agreed to prior to the year's budget process and would be committed to carrying out those goals in the subsequent legislation. Such a change might aid in the passage, content, and adherence to the budget resolution. In another memo we describe how the budget resolution can be reformulated to provide a multi-year framework based on established fiscal goals, such as stabilizing the debt.
2. **If the budget resolution is not reported out by the Budget Committee in either house by May 15th in any year, permit any member to propose a budget resolution on the floor of the House or the Senate.** Both the House and the Senate could then take up a budget resolution without the Budget Committees having any role in the process. This would create incentives for the Budget Committees to act, since otherwise they would cede power to other actors in the Congress.
3. **Require the reconciliation process to be used annually until the public debt is stabilized at 60 percent of GDP**. Currently, the reconciliation process is optional. This means that the Congress does not have to confront mandatory spending and revenue decisions unless they desire to do so. Instead of permitting them to duck responsibility, reconciliation should be a required part of the budget process. If a reconciliation bill is not considered by the House and Senate in a given year, a sequestration process involving automatic spending cuts and tax increases should take effect.

4. **No longer require a separate vote to increase debt limit.** Rather than require separate legislation to raise the debt limit, separate from other fiscal decision-making, debt ceiling adjustments should either be automatic or be made as part of the annual budget process, ensuring that the government will meet its financial obligations. One option is to include a debt ceiling adjustment consistent with budget estimates in an annual joint budget resolution (see memo #3).
5. **Combine the authorizing and appropriations committees**. Currently the federal budget process has three stages: Consideration of the budget resolution (including reconciliation), authorization of federal programs and, for programs requiring annual spending authority, the appropriations process. Proposals to combine the latter two stages usually would restructure committee jurisdictions along functional lines (defense or health or education), with committees having jurisdiction over both mandatory and discretionary programs, and over authorization and appropriations. These committees could take general responsibility for performance in a mission or functional area, including review of related tax expenditures and effective program implementation.
6. **Prohibit continuing resolutions**. Specifically, this would require any appropriation bill to provide at least a full year of appropriated funding in order to be able to be considered on the floor of the House or Senate. One practical way (but not the only way) to enforce this would be to prohibit any bill that does not provide a full twelve months of funding to be passed unless 75 percent of each house voted for the bill. This is a radical idea. It would possibly make it more likely that government shutdowns of the type not seen since 1995 and 1996 would occur. On the other hand, that fact might make it less likely that we would continue the process of enacting serial continuing resolutions that create numerous problems for federal agencies and recipients of government funds. The argument here is that the routine practice of serial CRs creates more problems than brief periodic government shutdowns.