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# REFORM OF THE FEDERAL BUDGET PROCESS

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HEARINGS  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON  
GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDREDTH CONGRESS  
FIRST SESSION

MARCH 12, APRIL 2 AND 30, 1987

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# REFORM OF THE FEDERAL BUDGET PROCESS

THURSDAY, MARCH 12, 1987

HOUSE OF REPRESENTATIVES,  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:43 a.m., in room 2154, Rayburn House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks, Robert E. Wise, Jr., Frank Horton, and Robert S. Walker.

Subcommittee staff present: Richard C. Barnes, staff director; full committee staff present: William M. Jones, general counsel; Donna Fossum and Robert S. Richard, professional staff members; Marilyn Jarvis, staff member; and Alexander B. Cook, minority professional staff, Committee on Government Operations.

## OPENING STATEMENT OF CHAIRMAN BROOKS

Mr. BROOKS. The committee will come to order. This morning, the Subcommittee on Legislation and National Security begins a series of hearings on reform of the Federal budget process.

The primary purpose of the hearings is to determine whether our current budget problems are the results of a flawed budget process or simply the product of inaccurate or unrealistic budget numbers.

If the problem turns out to be one of bad numbers, the solution is clear—get better numbers.

If the problem turns out to be one of bad process, however, we will have to consider the possibility that the President and the Congress may not be playing proper roles in the budget process.

Before us today, we have some of the Nation's foremost authorities on the Federal budget. Altogether, they have spent the better part of a century dealing with the details and totality of the Federal budget. We look forward to hearing what they have to say about the current problems with the Federal budget. We particularly look forward to hearing any suggestions they might have as to how to address these problems.

I yield to Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman. I have a statement which I will ask unanimous consent to include in the record at this point.

Mr. BROOKS. Without objection.

Mr. HORTON. I want to join with you in welcoming the witnesses and especially John Rhodes, who will be with us shortly.

[Mr. Horton's opening statement follows:]

## OPENING STATEMENT OF CONGRESSMAN FRANK HORTON

MR. CHAIRMAN, SETTING THE FEDERAL BUDGET IS AN IMPORTANT JOB WHICH SHOULD INVOLVE THE BEST, MOST COOPERATIVE EFFORTS OF THE EXECUTIVE AND LEGISLATIVE BRANCHES OF GOVERNMENT. UNFORTUNATELY, IN RECENT YEARS, IT HAS BECOME A TORTURED EXERCISE MARKED BY GREAT DISAGREEMENTS, AND HAS CONCLUDED IN HUGE OMNIBUS BILLS WHOSE CONTENTS ARE LARGELY UNKNOWN EVEN TO THE PEOPLE WHO WRITE AND APPROVE THEM. CLEARLY, THE BUDGET AND THE BUDGET PROCESS HAVE BOTH GONE AWRY.

HOW DO WE FIX THE PROBLEM? MOST OF THE CHANGES WE HEAR MENTIONED ARE TECHNICIANS' PROPOSALS -- THEY MAKE THE PROCESS MORE COMPLICATED, AND THEREFORE MORE LIKELY TO BREAK DOWN. I'M NOT CONVINCED THAT WE HAVE A GOOD GRASP ON SOLUTIONS.

IN LIGHT OF THIS PREDICAMENT, I AM VERY PLEASED THAT WE HAVE HERE THIS MORNING TO DISCUSS REFORM OF THE FEDERAL BUDGET PROCESS SOME OF OUR NATION'S BRIGHTEST AND MOST KNOWLEDGEABLE THINKERS ABOUT THE SUBJECT. CONGRESS AND THE PRESIDENT HAVE A JOINT RESPONSIBILITY TO MAKE THE BUDGET AND BUDGET PROCESS WORK BETTER. I LOOK FORWARD TO HEARING THE IDEAS OF THESE WITNESSES, IN THE HOPE THAT WE CAN BENEFIT FROM THEM.

Mr. BROOKS. Thank you very much.

Our first witness today is Lawrence Chimerine. He is chairman and chief economist of Chase Econometrics. He is president of the Monetary Policy Forum, chairman of the Economics Planning Council, and a member of the Economic Forum of the Conference Board. He serves on advisory committees of the Bureau of Labor Statistics, the Bureau of the Census, and the Department of Commerce. Prior to joining Chase, he was manager of the U.S. Economic Research and Forecasting for IBM Corporation.

We appreciate your being here this morning. We accept all of your statement for the record. Please proceed with your comments as you see fit.

**STATEMENT OF LAWRENCE CHIMERINE, CHAIRMAN AND CHIEF ECONOMIST, CHASE ECONOMETRICS**

Mr. CHIMERINE. Thank you, Mr. Chairman. I am delighted to be here, and to see you and your colleagues on the committee again.

I would like to focus my remarks this morning on No. 1, what I think are the principal causes of current budget deficits; No. 2, what effect they are having on the economy; and No. 3, how I think we should get out of this mess. In the process, I will make a few comments about some of the proposals that have been made regarding budget reform, although I will say right at the outset that, in my judgment, the budget process is not at fault in any way for the current large deficits. It would be almost like blaming the Government Printing Office for large deficits because they price the budget documents. And, in fact, in my view, we ought to hold off any change in the budget process until we've addressed the fundamental problem of these large deficits first, because doing so will just divert attention away from the real problem.

Let me start with why we have these budget deficits in the first place. I think it is pretty simple. It primarily reflects decisions that were made in 1981, namely the massive tax cuts at the same time we were putting in place an extremely large military buildup. In my judgment, these two combined almost guaranteed that we would have extremely large budget deficits forever, on and on and on, if that entire program was put in place, as turned out to be the case. I can still remember some of the projections which came out of the administration that the program would actually produce a balanced budget by 1984. Those were based on two things: First, a whole raft of unspecified—if I remember, a magic asterisk of some sort was used in the process—cuts in nondefense programs that were extremely unlikely to begin with because most of the programs that were likely to be affected are relatively popular with both the Congress and the public; and, second, on top of that, the use of extremely optimistic assumptions that were far outside the range of historical experience in this country.

They were justified early on by the administration based on new supply side theories which were completely inconsistent with available evidence. As a result, the full extent of the program was extremely risky from day one because it was almost certain, as I said a moment ago, that they would produce these large deficits.

I looked back at some of our work back in March 1981, and based on an analysis that we did at that time, I made the statement that if the entire administration program was put in place, we would have deficits of at least \$100 billion a year forever. I guess we were off. It looks like it is \$200 billion a year forever.

What I am saying is it's pretty obvious why we have these large deficits and it should have been obvious at that time.

That doesn't mean I think the full blame lies with the administration, Mr. Chairman, because there were many people in the Congress, and I can remember discussing it with some of them at that time, who deep down knew that something was wrong here, that this would not balance out and that this program was risky and could lead to large deficits, but they voted for the program anyway.

You can argue where the blame lies, whether it is within the Congress or the administration. Let's say it is spread around. What I'm really saying is that the fundamental cause of large budget deficits were the economic decisions or policy decisions, particularly on the tax side that were implemented in 1981.

We have heard a lot of other explanations in recent years. There are some people who have said, well, that's not true, what really caused all these deficits was the sudden and unanticipated recession in 1981 and 1982. Yes, they made deficits larger than they would have been, but that was not the primary cause of these large deficits because large full employment deficits were put in place with the tax cuts. In fact, what has been most disturbing is that for probably the first time in our history, the deficits kept getting larger and larger even when the economic recovery began.

As you know, the normal pattern in this country is for deficits to fall during recovery periods. Exactly the opposite has happened during the last several years.

A second explanation you hear a lot is that it was caused by disinflation, which eroded the tax base or at least the nominal tax base. Well, that's true, of course. It also held down the growth in Federal expenditures, particularly for the indexed programs, and while the deficit probably would have been a little bit smaller had we had higher inflation in recent years, that explains only a small portion of these large budget deficits.

Then you hear a third explanation—the reason we have them is because the Congress has not implemented all of the budget cuts that the President has recommended in recent years. I find that hard to accept because the truth of the matter is, that while the Congress has not accepted all of the specific cutbacks the administration has proposed, they have, No. 1, cut nondefense spending sharply and No. 2, made up for what they didn't cut by significantly scaling back the administration's military requests.

If you take out interest expense and look at the rest of Government spending, it has been very close to what the President has proposed in his budget submittals in recent years, so I don't think that argument has any merit.

In fact, what has really happened in recent years is that the Congress keeps struggling and struggling to make some budget cuts, only to find 6 months later that the effects of those budget cuts have been completely wiped out by the use of optimistic assump-

tions so that the deficits were larger because the economy didn't grow at anywhere near those optimistic assumptions.

Second, because interest expense consistently outpaced what had been predicted because of the use of those optimistic assumptions, actual deficits were higher than projected, meaning in following years interest expense was higher than projected as the national debt rose faster than expected.

That's why we have had these large deficits, not because the Congress has not made budget cuts in accordance with the administration's requests, even though in some cases those requests were denied.

Then of course, the fourth argument is the budget process itself. In my judgment, the only way a different budget process could have prevented these large deficits in recent years is if it could have prevented the use of optimistic assumptions on a continuing basis. If somehow we could have worked into the budget process that these high growth forecasts and other projections could not have been used by the administration, as the basis for budget calculations, then we possibly could have avoided large deficits, but none of the recommendations I have seen would have overcome that problem, so again I cannot attribute any recent deficits to the budget process itself.

I think everyone here by now is aware of the impact of these deficits on the economy. In the early stages of the recovery, there's no question that they helped stimulate a faster recovery, but in recent years I believe they have become counterproductive.

The early stimulus has faded. Now what we are getting is the effect of lingering high real interest rates, the overvalued dollar, reliance on foreign capital to finance the deficits, all of which in my judgment have slowed economic growth in the last 2½ years or so. We have had subpar growth, still very high unemployment, weak profits and in general subpar economic performance since the middle of 1984.

In my judgment, budget deficits, through the indirect effects I just described, have played a role in that and in my view, if the budget deficit problem is not addressed, it will continue to hold down long-term economic growth by depressing investment, by continuing to add to our competitive problems in world markets, by resulting in a sharp outflow of interest and dividends to the rest of the world, by potentially leading to more inflation down the road, or through some combination of all of the above. If we don't come to grips with the deficit problem, we can look forward to many more years of slow growth at best, and perhaps even worse.

The other aspect of the deficit problem that in my judgment creates some concern about economic performance is the fact that we no longer can use fiscal policy as a stabilization tool in this country. No matter how slow the economy is, once the deficit is already \$200 billion, it is hard to argue we should cut taxes or raise spending in order to stimulate the economy, because doing so will just aggravate our long-term problem.

Where do we go from here? Well, I think we have to start with an admission that the current outlook for the budget deficit is still considerably worse than current Government projections suggest. Despite the administration's recent budget submittal, we are no-

where near the \$108 billion deficit estimate for 1988, even if the Congress were to adopt all the administration's cuts, we still have the fundamental problem of underestimating the cost of various programs, of using high growth forecasts and of all the other optimistic assumptions and expectations that have been built into budget projections in recent years. On a current service basis, the deficit will be close to \$190 billion or higher this year, and will not drop significantly below that during the next several years unless additional actions are taken.

Two things that have made the outlook worse and will contribute to still high deficits are first of all, I don't think tax reform is revenue neutral, Mr. Chairman. It will increase revenues in this fiscal year but over the next 4 or 5 years in total, it will be a revenue loser in my judgment. Second, we are now entering an era in which inflation is accelerating but it is essentially external inflation—increases in imported goods prices and in oil prices.

That is going to increase the cost of various Government programs, particularly the indexed programs, more rapidly than the tax base, because the tax base itself, that is, income, is not rising proportionately.

These two factors combined with underestimates of the cost of farm programs' other factors suggests to me that the deficit outlook is still extremely poor, more than has been admitted until now.

What do we do about it? Well, first, Mr. Chairman, I think we need an appropriate target. I think the idea of trying to balance the budget by 1991 is poor, and would do significant short-term harm for the economy. The truth of the matter is that the starting point is much worse than had been expected when Gramm-Rudman-Hollings was put in place.

Any serious effort without budget gimmickry but with real action, designed to get us to a balanced budget by 1991, when we are starting at \$220 billion, in my judgment, would take too much fiscal stimulus out of the system too quickly, and runs the risk of producing a serious recession in the near term.

In my judgment, a more appropriate target, at least on an intermediate basis, is to try to stabilize the Federal debt to GNP ratio. As I think everybody knows, that ratio had declined during most of the post-war period. In the last 5 or 6 years, it has risen sharply and I think that it has to be stabilized in order to get us out of the problem of continued upward spiraling interest expense in the years ahead, even with stable interest rates. That's the appropriate target, a stable Federal debt to GNP ratio on an intermediate basis.

To do that would require essentially getting us to a deficit of about \$100 billion a year, give or take \$10 billion or so. I think on a legitimate basis, we should aim for that kind of a deficit by the end of this decade. It means going from \$220 to about \$100 or roughly speaking, cutting the deficit about \$30 billion a year.

How to do it. Well, first of all, I think Gramm-Rudman-Hollings is the wrong way. It is too optimistic in its targets. Second, it will cut spending even if the economy weakens further. It does not take accurate account of underlying economic conditions. Third, the sequestration process falls on only a small part of the budget, it

doesn't include taxes, it doesn't differentiate between good programs and bad programs.

As I mentioned a minute ago, it could actually make a recession worse because the target remains, even if the economy weakens and the deficit gets larger, so you would have to cut more at a time when you wouldn't want to do that.

On top of that, it neglects what I think is probably the most key aspect of budget policy, namely it is not addressing our other national priorities. We have other problems in this country. Balancing the budget or cutting the deficit is only one of them. We do have a serious competitive problem in world markets. I won't get into it in great detail right now, but that might require beefing up our educational system, spending more for retraining, stimulating research and development, and doing other kinds of things.

Gramm-Rudman-Hollings does not take that into account and must cause cutbacks in programs that might actually jeopardize long-term economic growth.

I think the way to approach the problem, Mr. Chairman, is first, to set the objective I've talked about, \$100 billion roughly by 1990. Second, use realistic assumptions to achieve that target, that is to base our budget calculations, I would suggest no more than an average of 3 percent economic growth over the next 5 years—even that might be too optimistic.

Agree that if the deficit turns out to be higher because the economy is weaker than that 3 percent growth, you don't take actions to offset that. That would just aggravate the sluggishness in the economy.

In addition, I think a budget summit between the administration and the Congress would expedite the process. There are three other areas that I would look at very carefully. No. 1, in view of our competitive problems in world markets, we may no longer be able to afford to spend 6 or 7 percent of our GNP on national defense when the Japanese and the others are spending 1 percent of their GNP on national defense. Either we have to find a way to share this more equally or in some way, we have to examine the defense budget from the standpoint of what it is doing to our competitiveness and see if it's possible to make any additional cuts from what we are now spending.

I think it is about time we admit that we no longer can afford all the entitlement programs we have in this country. In particular I suggest that in one way or another we convert as many of them as we can to means-tested programs, and determine how much we can save on the budget during the next several years in doing that.

In addition, we need to look at those programs that are essential for our future, like the ones I mentioned earlier, to see if they are being adequately funded. When we add up all those pieces on the spending side, the difference between the target I laid out earlier, getting on a gradual basis to a \$100 billion deficit by the end of the decade, the difference between that and what we have to spend to make sure we provide adequately for strong national defense, as minimally as we can, after taking into account whatever we can do on the entitlement programs, after beefing up those programs we want to, the difference will have to be made up on the revenue side. It's that simple.

I think if we are honest about it and avoid the gimmickry and the optimistic assumptions, we are going to need some revenue increases. I would suggest if we do, Mr. Chairman, that they be implemented in such a way that they do not make the tax structure even less progressive than we have already done in recent years.

We are shifting the tax burden in this country away from the high and upper middle income groups, down to other groups, particularly the middle income group. I think we have done as much as we want to do on that basis. I would suggest that if we do have to raise more revenues, it be done in a way that at least maintains the current progressivity of the system—if not, make it even somewhat more progressive than it is right now.

Very quickly, Mr. Chairman, just to say a couple of words about the suggestions that have been made to change the budget process. First, I think that ought to be delayed until we make the tough decisions to reduce future deficits. It is just going to divert attention away from that and quite frankly, a lot of people are just using that as a way to do that, to divert attention from the deficit problem itself or to shift the blame away from where it really lies.

On some of the specifics, I mentioned Gramm-Rudman-Hollings targets. I would ignore them. Line item veto, I am dead set against it. I don't think our system of government should put that much power in the hands of one individual, even with some of the veto provisions that have been talked about. I think we would gain very little from capital budgeting. It would lead to a lot of budget gimmickry, how do we categorize education, for example, is that a capital expense or an operating expense. It would lead to definitions in such a way as to show smaller operating deficits.

And Government is not a business. We do things for social good here. We don't make spending at the Government level to generate future revenues.

The concept of capital budgeting is less relevant for Government than it is in the private sector and it won't address the issue anyway of how much we have to raise in capital markets to finance Government expenditures and Government deficits. That's the key.

I'm dead set against the balanced budget amendment for the same reasons I talked about earlier with respect to Gramm-Rudman-Hollings, plus again, it will lead to optimistic assumptions and all sorts of ways to get to a forecast of a balanced budget when in reality it may not happen.

The one reform that I would favor is the biannual budgeting process. I think the Congress is spending much too much time going through numbers and going through the appropriations process. It waits for the administration's budget, which is generally dead on arrival, and then spends 8 months putting a new budget together.

It is diverting attention from the real need, looking at what the priorities in this country should be and what Government ought to be doing to address those priorities. There isn't enough attention being devoted to that, and there is too much on the actual number crunching exercise. I think anything that can reduce that would make a contribution to improving the budget process.

I think I'll quit there, Mr. Chairman, and take whatever questions you and your colleagues might have.

[Mr. Chimérine's prepared statement follows:]



**CHASE**

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Chase Econometrics

Statement By

**Lawrence Chimerine, Ph.D**  
Chairman and Chief Economist  
**Chase Econometrics**  
Bala Cynwyd, Pennsylvania  
215/667-6000

**United States House of Representatives**  
**Subcommittee on Legislation and National Security**  
Washington, D.C.

March 12, 1987

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My name is Lawrence Chimerine, and I am the Chairman and Chief Economist of Chase Econometrics. I appreciate the opportunity to testify before the House Subcommittee on Legislation and National Security regarding the federal budget deficit, Gramm-Rudman-Hollings, and other deficit-related issues.

#### SUMMARY

In sum, my views are as follows:

- (1) The enormous budget deficits of recent years were caused primarily by the combination of the military buildup and the tax cuts enacted in 1981. Projections of a balanced budget by 1984 were highly unrealistic from the start because of the very optimistic economic assumptions, and large unspecified spending cuts, they were based on.
- (2) The federal deficit has continued to rise in recent years, despite new spending cuts, partly because of the enormous growth in interest payments (reflecting insufficient deficit reduction in prior years). In effect, the Congress has adopted spending cuts, only to find that the future deficits were higher than expected because the economy did not perform as favorably as assumed, and because of the "snowball" effect of rising interest expense.
- (3) These enormous budget deficits are already having adverse effects on the economy. In particular, the relatively high real interest rates they've caused, and the increased need to borrow from overseas to finance the deficits, have been partly responsible for the extremely sluggish economic growth during the last two and one-half years, for the deterioration in investment at a time in the business cycle when it is normally strong, and for our worsening international competitiveness.
- (4) Despite the obvious need to cut the deficit further, I believe that the Gramm-Rudman-Hollings (GRH) targets should either be abandoned or ignored, for two reasons. First, strict adherence to those targets would weaken the economy further, potentially leading us into a recession. Second, it is necessary to coordinate deficit reduction with other priorities, including improving our competitiveness in world markets. Thus, a more rational approach to determine appropriate deficit targets and to achieve those targets while at the same time addressing other priorities is necessary.
- (5) In my judgment, large budget deficits can in no way be blamed on the budget process itself. The fundamental problem has been the inability or unwillingness of the Administration to accept the dimension and seriousness of the problem, leading to the use of unrealistic assumptions rather than real actions to reduce projected deficits.
- (6) Of all the suggestions that have been made to improve the budget process, I believe the use of bi-annual budgeting can make the most improvement while at the same time causing no significant change in the balance of power between the different branches of government. I

believe, however, budget reform should be delayed until deficits are first brought down to acceptable levels.

### CAUSES OF BUDGET DEFICITS

In my view, the enormous federal budget deficits of recent years were largely predetermined by the enactment of the tax cuts in 1981, at the same time that the massive military buildup was being put in place. The Administration's early projections, which forecast a balanced budget by 1984, and projections of relatively low and/or declining deficits which were made in following years, were flawed because they were based on extremely optimistic economic assumptions, as well as on unrealistic assumptions regarding the likely magnitude of nondefense spending cuts (especially since many of these programs are relatively popular with both the Congress and the general public). We at Chase Econometrics predicted well in advance of enactment that the 1981 tax package would lead to unprecedented budget imbalances on an ongoing basis -- in fact, in an analysis that we prepared in March 1981, we predicted that the budget deficit will substantially exceed \$100 billion per year as far out as we can see if the Administration's complete program were to be enacted. The Administration's optimistic economic assumptions were so far outside the range of historical experience, and so inconsistent with the available evidence with respect to "supply-side" effects, that the use of those assumptions to underlie tax and budget policy was ill-advised to begin with.

While the Administration is largely at fault, the Congress must accept some blame for record deficits because it enacted the program despite strong beliefs among many members that it would lead to enormous budget deficits, which would eventually cause economic harm.

A number of other explanations of the deficit have surfaced in recent years, especially among supply-siders, all of which are inaccurate in my judgement:

Myth #1: Large budget deficits were caused by the sudden and unanticipated 1981-82 recession. While it is true that the 1981-82 recession increased deficits (in that and succeeding years) over and above what they would have been, the recession explains only a small portion of these deficits. In particular, the Administration's program put in place large full-employment deficits for the years ahead -- the effect of the recession only added to those to produce even higher actual deficits, but they would have been large in any case. Furthermore, the deficit has risen steadily during recent years, even while the economy was recovering -- this is virtually unprecedented in the history of the United States, during which actual budget deficits have almost always fallen (both in absolute terms and as a percent of GNP) during economic expansion periods. Finally, record deficits were forecast by us and others even before the recession began.

Myth #2: The large deficits are the result of the disinflation which has reduced growth in the nominal income base. Based on my

calculations, this has been a relatively small factor in recent budget deficits because inflation has also slowed the growth in federal expenditures, especially for indexed programs.

Myth #3: Massive budget deficits have been caused by the failure of the Congress to implement the spending cuts that the President has proposed. In my view, this too is a highly inaccurate and misleading explanation of recent deficits, because: (a) While the Congress has not implemented all of the Administration's recommendations for cuts in social programs, it has nonetheless made sizable cuts (as a percent of GNP, discretionary nondefense expenditures have declined by several percentage points in recent years). (b) The Congress has also authorized less growth in military spending than the Administration has requested. Thus, total federal expenditures (excluding interest) have risen at a rate very close to the President's recommendations in recent years -- the major difference has been in the mix between defense and nondefense programs. Furthermore, interest expense has consistently outpaced Administration and Congressional projections because the continuous use of unrealistic economic assumptions has caused actual budget deficits to far exceed previous estimates, causing the national debt to grow more rapidly than forecast. In effect, the Congress has struggled each year to make very difficult budget cuts, only to find that the effect on the deficit has been swamped by slower-than-forecast economic growth and by the surge in interest payments. Additionally, the modest tax increases that were passed by the Congress in 1982 and 1984, despite the Administration's initial objections to those tax increases, actually prevented what would have been even larger budget deficits.

Myth #4: The budget deficit has been caused by the budget process. In my view, there is absolutely no validity to this assertion whatsoever -- there is no budget process that could have prevented the large budget deficits in recent years. In particular, no other budget process would likely have: (a) prevented the Administration from using such optimistic assumptions, (b) prevented the enactment of the 1981 tax cut, (c) made the Administration willing to raise taxes in recent years, or (d) produced much more sizable cutbacks in federal expenditures.

#### THE ECONOMIC EFFECTS OF LARGE BUDGET DEFICITS

The recovery which began at the end of 1982 is now more than four years old, one of the longest on record. However, the health of the economy has nonetheless been overstated, as evidenced by the following:

(1) There have been two very distinctly different parts of the recovery period. The first eighteen months (or all of 1983 and the first half of 1984) was characterized by extremely rapid growth (over 7% at an annual rate as measured by real GNP). However, the two and one-half years since that time have witnessed a dramatic deceleration in the rate of growth to an extremely sluggish 2.5% average rate -- this is well below the historical average, so that only marginal additional progress has been made toward completing the recovery

process. This is best illustrated by the fact that unemployment, capacity utilization and other measures of economic performance have shown no significant additional improvement since mid-1984. And, because of the dramatic slowdown since mid-1984, growth during this recovery in total is now below the rate experienced in most other postwar recovery periods -- and the average growth of less than 2.5% since 1980 is far below that experienced in previous postwar decades.

(2) This period of extremely slow growth has taken place even though the level of economic conditions has not been satisfactory. This reflects the fact that the 1981-82 recession followed closely on the heels of a previous recession, so that economic conditions were extremely depressed when this recovery period began. Therefore, virtually all measures of economic performance are still unsatisfactory. For example, the near 7% unemployment rate that has prevailed during the last two years plus is obviously a significant improvement over the near 11% rate of late 1982, but it is still far above the postwar average.

(3) The performance of the economy during the past several years has been highly uneven, with many sectors still mired in recessionary conditions. This has created major industry and geographic differences which are causing severe hardships in many areas.

In sum, the performance of the economy in recent years, at least with respect to real economic growth, has been vastly overstated -- the recovery in total has not been particularly strong and is far from complete; we have experienced only marginal additional progress in completing the recovery process during the past two and one-half years; and the economy is still operating at highly unsatisfactory levels by historical standards. In my judgment, the subpar performance of the economy in recent years, and the likelihood of continued slow growth in the foreseeable future, reflects in part the enormous budget deficits of recent years. Put simply, the large structural budget deficits did stimulate economic activity during the early stages of the current expansion period -- now, however, they have become counterproductive for economic growth. First, these deficits have been in great part responsible for the high real interest rates which still exist (despite declines in nominal rates in recent years), which in turn are holding down capital spending and inventory investment. Second, largely because of enormous budget deficits, the U.S. dollar increased sharply relative to other countries at a time when underlying U.S. competitiveness in world markets was actually declining -- this dramatically worsened our competitive problems, contributing to the largest trade deficits in the history of the United States. These trade deficits remain extremely large despite the recent declines in the dollar because: (a) the dollar is still highly overvalued on a fully trade-weighted basis, especially in view of the reduced differentials in productivity between the United States and other countries; and (b) the dollar has been overvalued for so long that it will take many years to reverse the actions put in place in recent years. In my view, the large trade deficits have been a major factor holding down economic growth -- they in part directly reflect the impact of budget deficits on U.S. interest and exchange rates. In effect, budget deficits have

contributed to large trade deficits because of the need to attract foreign capital in order to help finance them. Third, the enormous imbalance in recent years among regions, industries and economic sectors is also in part directly related to the budget deficit and its effects on the U.S. economy.

#### THE CURRENT OUTLOOK FOR THE DEFICIT

In my judgement, the outlook for the budget deficit is much less favorable than current government projections indicate. This reflects: (a) the likelihood that tax reform will be a revenue loser on average (although not in 1987); (b) foreign-induced inflation will push up indexed program expenditures more rapidly than it will increase the tax base; (c) the shift in the balance of political power, coupled with the upcoming presidential election, will result in increased expenditures for health care, drug abuse and other programs; (d) expenditures for farm programs will far exceed current projections; and (e) economic growth will continue to lag behind current government forecasts. Thus, without additional actions (either spending cuts or tax increases), I would expect the federal budget deficit to reach or exceed \$190 billion this year and decline only slightly during the next several years.

#### LONG-TERM DEFICIT EFFECTS

I think the enormous budget deficits still in place jeopardize the future of our economy even more. First, the weakness in investment (especially in longer-lived equipment) which has materialized in the last several years, and is now continuing, in part reflects still high real interest rates that industrial companies and commodity producers still face. This will hold down productivity growth, as well as available capacity, in future years -- both limit potential long-term economic growth. Second, as mentioned earlier, the damage done to the tradable goods sector in recent years will take many years to overcome. In fact, it has become somewhat of a vicious cycle because our foreign competitors are using the enormous profits they earned in U.S. markets in recent years to fund new product development, while many U.S. industries have had to cut back such development because of weak profits; this will only exacerbate our long-term competitive problems. Third, continued large budget deficits will eventually cause an enormous tax burden for future generations because the national debt is continuing to rise -- thus, even in a period of stable interest rates, interest payments will rise at a rapid pace, creating the need for large tax increases in future years. Fourth, any effort by the Federal Reserve to prevent a continuation of high interest rates, or to produce more downward pressure on the dollar to improve our international competitiveness, would be potentially inflationary on a long-term basis. Fifth, large deficits have rendered fiscal policy almost completely useless as a stabilization tool. In particular, the modest declines in the full employment deficit now taking place, plus the fact that a larger fraction of deficits is due to rising interest payments (which have smaller multiplier effects), fiscal policy is actually becoming somewhat less

stimulative even though nominal budget deficits have not declined significantly. And, the need to reduce budget deficits on a long-term basis makes it impossible to use fiscal policy to help stimulate the economy in the short run should conditions so warrant. All of these factors essentially imply slower economic growth, and potentially sharper business cycles, in the decades ahead -- for these and other reasons, it is essential that we put future deficits on a downward trend as soon as possible.

#### GRAMM-RUDMAN-HOLLINGS

The problems with the GRH legislation have by now been discussed many times -- in brief, they include the following:

(1) The GRH deficit targets are extremely unrealistic in view of the current starting point. In particular, any realistic effort to achieve the \$108 billion target for FY 1988 is almost certain to produce a sizable recession in the U.S. economy. Furthermore, the targets are too optimistic for the next several years as well -- it is not necessary to achieve a balanced budget by 1991. A more appropriate goal would be to stabilize the federal debt/GNP ratio, after the sharp increases in that ratio in recent years -- this would come about if the deficit is reduced to approximately \$100 billion by 1991. The need to stabilize the federal debt/GNP ratio primarily reflects the fact that a stable ratio will also stabilize future interest payments (relative to GNP) at stable interest rates, and thus stop the upward spiral that could further widen future budget deficits if the ratio continues to rise. While I believe that the budget deficit should be reduced even further on a longer term basis, the above should be the intermediate objective.

(2) GRH targets take no account of underlying economic conditions -- thus, even further budget cuts would be necessary to meet those targets if the economy were to weaken, despite the fact that such cuts would weaken the economy further. Thus, GRH eliminates the budget as an automatic stabilizer.

(3) Under GRH, the entire burden of automatic sequestration would fall on only a relatively small part of the budget, and revenues are completely off the table.

(4) GRH does not discriminate between good programs and bad programs. Mindless adherence to targets is probably already causing some cutbacks in programs that are well run and effective, and in the process, creating unnecessary hardships.

(5) As important as cutting the federal deficit is, it is not the only national priority. In particular, unless we address some of our other key economic problems, the outlook is for continued modest economic growth during the next several years. GRH diverts attention from these and may actually be preventing adequate funding for those programs which are important for our future.

I, in fact, believe that economic growth in the United States is likely to lag behind the postwar average for many years, despite a falling trade deficit. One reason for this expectation is that a major factor which produced the staggering U.S. trade deficits during recent years has been a narrowing (or elimination in some cases) of the competitive advantages that the United States enjoyed after World War II. These advantages resulted from the development and implementation of new technology, the use of more sophisticated mass production techniques in manufacturing, the mechanization of agriculture, etc. -- they caused average productivity in the United States to far exceed that of other countries (and the gap to widen) for many years.

The "catching up" of the rest of the world during the last 15 years appears to reflect a number of factors, including the spreading of technology throughout the world, the rebuilding of war-ravaged infrastructures in Japan and much of Europe, emphasis on product quality, and investments in new and modern facilities in many other countries. However, the earlier U.S. productivity advantages were used to raise wages and income levels substantially throughout much of the economy -- these increases in wages have now produced an enormous disparity in labor costs, which, when combined with differences in capital costs, can no longer be justified by productivity differentials. This deterioration in relative U.S. competitiveness is evidenced by the rise in the U.S. bilateral trade deficit with Japan and some other countries during the late 1970s and early 1980s -- several temporary factors, including surges in bank-financed exports to Latin America and oil-financed exports to the Middle East, as well as an undervalued U.S. dollar (especially in relation to European currencies), temporarily bolstered our aggregate trade performance at that time despite the deteriorating fundamentals. When these temporary factors were reversed, the U.S. trade balance began to worsen rapidly -- enormous budget deficits and the overvaluation of the dollar in recent years accelerated this trend.

While efforts have been made to improve productivity and lower costs in the United States in the last several years, it seems clear they have not been enough to improve U.S. competitiveness sufficiently to bring about a sharp decline in future trade deficits. First, while productivity growth has accelerated in manufacturing, aggregate productivity growth still remains disappointingly low. And, much of the improvement in productivity in industry reflects layoffs, rather than benefits from the increased use of new technology or more efficiency in the manufacturing process -- this process can't be repeated indefinitely, especially since many of the employment reductions have been among managerial and nonproduction workers. Many U.S. industries thus are now experiencing the worst of both worlds -- falling employment and continued erosion in market share. Second, while many companies have frozen or even cut wage rates (in addition to staff reductions), wage levels remain far above those in many other countries (especially the Far East NIC's). Third, efforts to improve efficiency and reduce costs are being implemented in Japan and other countries, offsetting some of those being made in the United States.

Finally, the decline in the dollar thus far has had only a modest affect on U.S. competitiveness because it has been limited to the Japanese yen and the major industrialized countries in Europe.

These factors and underlying productivity trends suggest that the trade-weighted average of the dollar in real terms may have to fall to, or below, the early 1980s levels in order to produce the same degree of relative competitiveness which existed at that time. This trend implies a continued upcreep in inflation as dollar declines are increasingly reflected in higher prices for imported goods, and as prices of domestically-produced competing goods are raised in response. Furthermore, the combination of slow growth in wages and higher inflation will cause real incomes to stagnate (this process has already begun) -- as a result, the growth in consumer spending will likely be sluggish for many years, reflecting the effects of these cutbacks in white and blue collar employment and wages, and declines in the value of the dollar, on household purchasing power. This conclusion is reinforced by data indicating that wages and salaries among the job losers in recent years have been above the average in most cases, and that wages for a large fraction of the new jobs that have been created have been below the average. Thus, we will likely be trading a modest improvement in our trade deficit for slower growth in consumer spending, but with no pickup in overall economic growth.

In my judgment, the only way to avoid a long period of slow economic growth, and relatively stagnant living standards, resulting from our reduced competitive advantages in world markets is if we can restore the productivity advantages -- to accomplish that objective, it may be necessary to improve our educational system, to devote more of our resources to research and development, to implement more effective job retraining, to increase capital formation, etc. And, the longer we wait before implementing these or other measures, the more that future living standards and overall growth will be jeopardized.

Currently, high debt levels may well also limit economic growth for many years, for the following reasons: (a) Delinquency rates for consumer loans, and corporate defaults and bankruptcies, have increased sharply, indicating that at least a portion of the economy has become overburdened. Furthermore, for the remainder of the economy, the ability to continue financing a large fraction of current expenditures by borrowing has diminished greatly because debt servicing has increased significantly relative to cash flow and household incomes. In fact, there is evidence that the buildup of corporate debt in recent years is now causing cutbacks in capital spending -- this will not only prevent a stronger economy in 1987, but could actually hinder growth in the longer term. (b) The large buildup of debt has been used primarily to finance budget deficits, consumption, and financial transactions, rather than investment -- thus, it will not yield improvements in productivity, competitiveness, etc. that could increase potential growth, and generate higher incomes to both service the debt and stimulate spending. (c) The massive accumulation of debt in recent years has been financed in part by borrowing from overseas -- the increasing cost of servicing this rapidly growing foreign debt will slow

long-term growth by transferring dividends and interest payments out of the U.S. economy.

In addition, the difficulty in servicing the larger volume of debt may make future recessions more steep, especially since any further increase in defaults and delinquencies will weaken the already fragile financial system (bank failures continue to increase even though the economy is still growing). The corporate sector is especially more vulnerable to an economic slowdown, or higher interest rates, because it has not only been adding debt at record levels, but it has also been redeeming equity since 1984, making it more leveraged. The risks associated with the more highly leveraged corporate sector is being exacerbated by the increased portion of bank lending to more risky borrowers.

Currently high burdens are thus another reason to consider new measures to improve productivity in the United States, in order to reduce the burden of this debt, and in order to offset their potential drag on economic growth in the future.

#### POLICY RECOMMENDATIONS

As indicated earlier, additional actions will be needed to bring future deficits down. However, an approach that will enable us to bring them down in an orderly manner, while at the same time addressing our competitive problem and others, must be put in place. As will be seen below, this will involve a comprehensive re-evaluation of our current budget and other national priorities.

In general terms, I suggest the following approach:

(1) Realistic budget targets should be adopted, based on the following guidelines: (a) they can realistically be met, (b) they will not create a short-term risk to the economy (such as strict adherence to the current GRH targets would), (c) they are consistent with the intermediate target of stabilizing the federal debt/GNP ratio by the end of the decade (or 1991), and (d) they should be based on realistic economic conditions (average real GNP growth of approximately 2.5% to 3% per year would be my recommendation), since the risks associated with the use of faster growth, by further delaying real action, are too great to bear. As mentioned earlier, a reasonable target under these criteria would be to reduce the deficit by 1990-91 to approximately \$100 billion. It is important to note that the actual deficit might be somewhat higher or lower if the economy is much weaker or stronger than assumed -- no offsetting actions need be taken if that were to occur.

(2) It should be agreed by the Administration and the Congress that all projections of future deficits must be based not only on realistic economic assumptions, but must avoid accounting gimmicks, sale of assets, deliberate underestimates of the costs of various programs, etc. Realistic estimates of future federal expenditures must then be developed consistent with predetermined national priorities. I believe these priorities should include continuing to provide for

appropriate national security, improving our competitiveness, maintaining a safety net for those who need it, etc.

(3) The Administration and the Congress should jointly determine the appropriate level of military spending that is absolutely required for national security in the years ahead. For this purpose, it should be recognized that we no longer have the competitive advantages in world markets to continue to essentially fund the security of the entire free world. The 6% to 7% of GNP that we plow into national defense is not available for capital formation, for research and development, for education, etc. as it is in many other countries. Thus, a realistic military program which provides for sufficient national security without further jeopardizing our competitiveness needs to be established.

(4) Our approach to entitlement programs must be re-evaluated. In my judgment, strong consideration should be given to converting many of these programs to means-tested programs. In particular, it should be evident that, in view of our other needs, we cannot continue to spend such a large fraction of our resources on the aged, while we neglect education and other programs geared toward the young (which will more strongly effect future economic performance). In my view, the only way to provide for a safety net for the disadvantaged and for the elderly that need support, while at the same time addressing our other problems, is to maintain current benefit levels for those who really need them but cut them for those who do not. Changes should be made in these programs in accordance with this principle, and future expenditures should be estimated on that basis.

(5) It is important that a comprehensive study be made of our competitive problems, and judgments be developed as to what types of programs can be most effective in rebuilding our worldwide productivity advantages and thus in improving our long-term competitiveness. These might be in the areas of education, research and development, retraining, etc. Adequate funding at the federal level must then be factored into future budget projections.

(6) It must then be recognized by the Administration and the Congress that the difference between the deficit target derived from step one, and the expenditure numbers that would be derived from steps three through five, must be made up by revenue increases. In my judgment, there is virtually no way that at least some modest tax increases can be avoided in the years ahead if we are serious about reaching even the modest deficit reduction that I am proposing, while at the same time maintaining a compassionate government, achieving our national priorities and building a stronger economy in the years ahead. In this connection, I strongly urge that any future tax increases be designed in such a way that they do not further shift the tax burden away from upper income groups as in recent years.

In my judgment, it is imperative that the Administration and the Congress work together (a budget summit, if you will) to jointly agree on priorities, on appropriate funding levels, etc. This will require much greater flexibility by the Administration with regard to both defense and taxes than in recent years. A joint approach will also

speed up the process by avoiding the current system, whereby the Administration first formulates a budget, which is then essentially dead on arrival, and then the Congress spends many months responding.

#### THE BUDGET PROCESS

As I mentioned earlier, the current deficit problem is one of arithmetic, stubbornness, the use of unrealistic assumptions, differing priorities and philosophies, etc. rather than the budget process itself. As a result, I believe that none of the often suggested modifications to the budget process will by themselves help much in resolving the current problem. Furthermore, many have been offered as a "smoke screen" to divert attention from, or shift the blame for, the deficit itself. Thus, I would suggest putting budget reform on the back burner until we address the real problem in order to avoid shifting attention away from it. Once federal budget deficits are reduced to acceptable budget levels, it would then be appropriate to find ways to improve the budget process in order to make budget policy a more effective policy tool on a long-term basis. In this regard, I will briefly present my views on some of the major changes that have been advocated:

(1) Gramm-Rudman-Hollings: As I have mentioned earlier, I believe the GRH legislation should be ignored -- an alternative approach would be to modify the targets along the lines I suggested earlier.

(2) Line-Item Veto: I would be strongly against the implementation of a Presidential line-item veto for several reasons. First, it is extremely unlikely that such a veto would have had a significant effect on budget deficits in recent years. Second, it would threaten the balance of power which has been built into our system.

(3) Bi-annual Budgeting: I think a two year budget cycle would represent a dramatic improvement over the current system because it would significantly reduce the amount of time and resources that are devoted to developing a federal budget, and because in so doing, it would provide more time to focus on the effectiveness of key programs, on appropriate national priorities, and on the best solutions for our economic and social problems.

(4) Capital Budgeting: I believe very little useful information would be gained by the use of capital budgeting, primarily because of the difficulty in distinguishing between different types of programs, and the potential for reducing near-term budgets by redefining various expenditures. Specifically, these are the following problems. First, even in the case of many businesses, cash flow statements are often more important and valuable than income statements. Second, upon closer scrutiny, the analogy with private business simply does not hold. Most purchases of assets by private businesses are for items which are believed to be desirable. By contrast, the Federal Government often acquires assets precisely because they are undesirable. Surplus grain, federal loans, marginal cropland, and passenger railroads are certainly examples of assets which are often

acquired despite, rather than because of, their value. A more subtle but extremely important aspect of the problem is that the primary value of many other assets acquired by the Federal Government is to society rather than to the government. Another problem with capital budgeting is that the value and economic life of government assets is often somewhat ephemeral. Private businesses rarely capitalize ephemeral assets, such as advertising and research and development expenditures (except when a sale of the entity turns these into a quantifiable asset). The usefulness of capitalizing ephemeral assets such as federal research and development spending, and employment and training programs is far from clear. Other technical problems result from the government's practice of creating assets to be used by others. For example, grants-in-aid are often used to create structures for use by local governments. To what extent should this be shown as investment on the Federal Government's books? While it is clear that capital budgeting can provide an extremely useful perspective on the federal budget, it would not be a satisfactory replacement for the Total Budget as the primary financial document.

(5) Balanced Budget Amendment: This is the worst idea for budget reform, in my view, for reasons that have been expressed by many over the years. First, it would likely lead to a shifting of various programs to "off-budget" when it suited the purpose of Congress or the Administration. Second, it is too inflexible -- there are times when deficits are desirable, and it would be difficult for the legislation to anticipate all of them. Third, it would probably lead to even more use of phony or unrealistic assumptions in order to achieve projections of a balanced budget. Fourth, it would still leave open the question of how shortfalls are to be made up -- legislated formulas in this regard (as in GRH) are dangerous because they may not adequately reflect underlying conditions and needs.

One reform that should be considered would be to base budget projections on economic assumptions that are produced outside of the political arena. While there are also difficulties with this approach because of the wide range of forecasts that normally exist, this approach would probably lead to more realistic budget estimates.

Mr. BROOKS. I want to thank you for an excellent statement. I guess I feel that way because I agree with you.

Mr. CHIMERINE. I thought you might.

Mr. BROOKS. Well, I have a couple of questions.

Mr. CHIMERINE. Sure.

Mr. BROOKS. And I might submit a couple of others to you for inclusion in the record in the interest of time.

Mr. CHIMERINE. OK.

Mr. BROOKS. And you can do those on the plane.

Mr. CHIMERINE. I will.

Mr. BROOKS. When you read John Rhodes' statement.

Mr. CHIMERINE. OK.

Mr. BROOKS. What changes should be made in the budget process to avoid a repeat of the massive unbalancing of the Federal budget that occurred in 1981?

Mr. CHIMERINE. Well, again, as I said earlier, Mr. Chairman, I think the only way we could have avoided that was if somehow we had in place a process whereby budget projections had to be made based upon some consensus forecast rather than the forecast that the administration had submitted in 1981 that underlied their budget projections. I realize that's difficult because, you know, there were some economists, who agreed with the administration's long-term economic growth projections. Most of us didn't.

But the problem is, unless we require some outside group—unless it's fundamentally required as part of the process that budget projections be made on some kind of consensus forecast, or using economic forecasts that are based upon an average of historical performance, or some process like that, I don't know how you get around it, the problem, because currently nothing prevents the administration from using any projections they want. And as a result, under the current system I'm not sure how we can avoid that problem; and I think that was the source of the problem in 1981. They justified the tax cuts and the military buildup by their claims that we would have a budget deficit even with them. But the assumptions used were flawed from the start, and unless some way can be found to get around that problem, I'm not sure how you can avoid this from happening again.

Mr. BROOKS. Do you think we can have a fiscal and monetary policy developed, not in isolation but in conjunction with the Congress and the White House, and agree on what the indicators would be?

Mr. CHIMERINE. I think that would be a big improvement, Mr. Chairman, because as you—

Mr. BROOKS. I mean, to start with.

Mr. CHIMERINE. Yes. I think that would be a big improvement, because as you know the Congressional Budget Office was more realistic. I think they've turned out to be a little optimistic, too, but not that far off the mark. And had their projections been used in 1981, we would not have been forecasting a balanced budget all these years.

So, perhaps, that's one thing that can be done, to require that the forecast used to underlie the budget represents some average between the congressional estimates and the administration esti-

mates or some process like that. I think that would have helped a lot. That is, at the start, not for Gramm-Rudman-Hollings——

Mr. BROOKS. That's right. All right.

I'll submit some other questions. I think we have the basics, but I will submit some other questions to you.

Mr. CHIMERINE. OK.

[Mr. Chimerine's submissions to Mr. Brooks' questions for the record follow:]

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR LAWRENCE CHIMERINE

**What are the likely economic consequences of implementing Gramm-Rudman-Hollings (GRH) as presently written?**

In my view, cutting spending or raising taxes sufficiently to achieve the GRH target for FY 1988 would likely cause the economy to slide into a recession, especially in view of the already sluggish growth now in place.

**Should the GRH targets be changed?**

I believe that the targets should be changed by:

- a) Making them more realistic and potentially less damaging to the economy in the short run;
- b) Making them more sensitive to economic conditions; and
- c) Making all spending, and revenues, part of the process.

**What happens when fiscal policy and monetary policy are developed in isolation?**

It can make both less effective, and most significantly, reduce available options. For example, large budget deficits make it more difficult for the Federal Reserve to pursue tight monetary policy, even if underlying conditions warrant, because it will produce even larger deficits.

**What effect would a capital budget have on the deficit?**

It would have little effect on the overall deficit, and on the budget's impact on capital markets, investment, etc.

**What effect does the Federal budget deficit have on the general economy?**

I think the enormous budget deficits still in place jeopardize the future of the economy. First, the weakness in investment (especially in longer-lived equipment) which has materialized in the last several years, and is now continuing, in part reflects still high real interest rates that industrial companies and commodity producers still face. This will hold down productivity growth, as well as available capacity, in future years -- both limit potential long-term economic growth. Second, the damage done to the tradable goods sector in recent years will take many years to overcome. In fact, it has become somewhat of a vicious cycle because our foreign competitors are using the enormous profits they earned in U.S. markets in recent years to fund new product development, while many U.S. industries have had to cut back such development because of weak profits; this will only exacerbate our long-term competitive problems. Third, continued large budget deficits will eventually cause an enormous tax burden for future generations because the national debt is continuing to rise -- thus, even in a period of stable interest rates, interest payments will rise at a rapid pace creating the need for large tax increases in

future years. Fourth, any effort by the Federal Reserve to prevent a continuation of high interest rates, or to produce more downward pressure on the dollar to improve our international competitiveness, would be potentially inflationary on a long-term basis. Fifth, large deficits have rendered fiscal policy almost completely useless as a stabilization tool. In particular, the modest declines in the full employment deficit now taking place, plus the fact that a larger fraction of deficits is due to rising interest payments (which have smaller multiplier effects), indicate fiscal policy is actually somewhat less stimulative even though nominal budget deficits have not declined significantly. And, the need to reduce budget deficits on a long-term basis makes it impossible to use fiscal policy to help stimulate the economy in the short run, should conditions so warrant. All of these factors essentially imply slower economic growth, and potentially sharper business cycles, in the decades ahead -- for these and other reasons, it is essential that we put future deficits on a downward trend as soon as possible.

Mr. BROOKS. Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman. I have some questions, too, I'll submit, but I want to commend you on the statement, I think it's an excellent statement.

Mr. CHIMERINE. Thank you.

Mr. HORTON. And certainly, we could stay here all day discussing and talking about some of the suggestions you've made.

I guess, to try to characterize the way I look at it, this budget situation, it's kind of like a maze—like one of those mazes that you put mice in and try to run them through so that they get out some way or another. We find ourselves in that type of a situation. I guess also I'd describe it as a quagmire, we can't seem to get out of it.

I think we've all wrestled with it. I've been here 25 years, and in that 25 years there has been only one time that there's been a balanced budget, where there was a surplus, and that was the last year of President Johnson's regime.

We find ourselves fighting now \$200 billion a year; and it doesn't take long to run up a trillion dollars. I know everybody talks in terms of percent of GNP. But all these problems that we have with regard to competitiveness, international problems, and domestic problems. I don't know just what the answer is. I did vote for Gramm-Rudman. I don't disagree with what Mr. Brooks has said. I don't disagree with what you say. But on the other hand, the Congress was not really looking at the problem realistically. I don't think we faced up to it. I can remember when I first came to Congress there wasn't any such thing as looking at a budget per se in the Congress. The administration sent up a budget, and then we looked at it piecemeal, and we didn't really have any requirements that we look at a budget overall. So, we came up with this so-called budget process.

One of the things I wanted to ask you is, what do you understand as the budget process? I mean, when you talk about that we shouldn't do anything with regard to the budget process until we have brought the deficits down to an acceptable level; what do you understand to be the so-called budget process?

Mr. CHIMERINE. Well, obviously, it's complicated, and I don't know as much—

Mr. HORTON. Well, I mean, just simply what you think—what's your understanding? I'm not arguing with you, I just want to put it on the record as to what you think it is.

Mr. CHIMERINE. I'll describe it in one word, confusion. But I think fundamentally it's a process whereby the administration proposes a budget, and then the Congress takes that budget and goes through, you know, through a whole long process. You're familiar with the specifics of the process better than I am, but it ultimately puts in place a budget that will determine the spending patterns and tax patterns and tax rates and so forth for the following year; and that process starts in January when you receive the administration's budget, and now is extending through, you know, 6, 7, or 8 months during the course of the year.

When I suggest that we don't do anything to change it right now, fundamentally that's the process I'm talking about. I'm really talking specifically about some of the suggestions that have been made,

the ones I referred to earlier. And I think to spend a year studying whether we should put those reforms in place, to alter whatever this current budget process is, and take that time away from really focusing on what programs we want in this country, on how much we want to fund them, and on how much revenues are we going to need to pay for them, I think that would just push that another year into the future, or 2 years into the future. I don't think we can afford to do that right now.

I'm not endorsing the current process. I think it's a mish-mash and very confusing and wastes a lot of time, and it doesn't lead to the best solutions. But I don't think changing the budget process itself is going to address our fundamental problem. And the fundamental problem is real action; what spending programs do we want to cut, what do we want to increase, and how are we going to pay for it all, et cetera? And I don't think—

Mr. HORTON. Well, how we get a handle on that is really the \$64,000 question. The budget process, as I see it, does involve a lot of confusion. But not only have we put in place the study of the budget by the appropriate committees, Budget Committees which we've established, but we also have authorizing committees that authorize programs; and that's important and necessary. And then we also have the appropriating process. And literally, the appropriating process is the real bottom line, because that's where we authorize the spending.

Yet, we end up, like we did last year, with a continuing resolution which I think is a horrible situation. I don't know how we're going to get a handle on that.

So, it is really a very confusing situation. When you have basic disagreements as to how much you're going to put into defense, and how much you're going to put into domestic programs, and where you're going to raise the funds, and whether you're going to have taxes and that sort of thing, we're almost at an impossible situation. That's especially true if you're not going to raise taxes, and you are going to raise the military, and you're going to cut out the domestic programs, there's not enough in the budget to do it.

So, I think your statement in what you've given us today is very helpful to us in approaching this subject; and I think it's a good thing we're having this kind of a hearing, to oversee the entire process. Hopefully, as a result of that and the testimony we'll get, we'll have some way that we can come up with suggestions that can be helpful in trying to resolve this.

Mr. CHIMERINE. Well, if I can make a quick comment, Congressman, the fundamental problem I think is clear to everybody. We have a number of objectives or goals in place. No. 1, now you've got Gramm-Rudman-Hollings.

No. 2, you have the administration's unwillingness to do anything on taxes. And strong feelings about defense. Congress has certain priorities.

There is no way of satisfying all of these objectives and goals simultaneously right now. And that's the fundamental problem. That's why you wind up with continuing resolutions. And that's why you're winding up with an Appropriations Committee studying a particular issue, making recommendations, and then the decision ultimately is made either as part of a continuing resolution or

in the Budget Committee, because, you know, they're undoing all the work they may have done.

I agree with you, that issue has to get wrestled with. But the problem is, until more flexibility exists, and until we admit we have a large budget deficit, that it's not going to go away by itself, and that we're going to have to make some tough decisions to do it, and that we have to put everything back on the table to do it, I think you're going to have this problem forever and ever; and I don't see any change in the budget process that's going to correct that. Because that's the real problem.

There's a tremendous amount of inflexibility, particularly on the part of the administration on taxes, and an unwillingness to admit the magnitude of the problem. Until those perceptions are changed, I don't know how you're going to address the problem.

Mr. HORTON. One of the things you mentioned was that we can't afford the present level of entitlement programs.

Mr. CHIMERINE. Well, that's part of it, too.

Mr. HORTON. And that we ought to convert that to means test. Well, that in and of itself is a pretty big chore. Politically it's almost an impossibility, because you're dealing principally with Social Security. When you start talking about changing the Social Security, thousands of postcards and letters and everything else come in to us, and so it's a very difficult thing. And even with the Gramm-Rudman, that was completely excluded as you know.

Mr. CHIMERINE. Congressman, everything you have to do now is going to be difficult. Nothing is easy. Your ability to cut military spending significantly, particularly in the near term, is very limited right now because of spending already in the pipeline. The political pressures on the entitlement programs, I realize, are very difficult. Even if you put some of these things in place, it will take years before the cost savings amount to anything sizable. You and nobody likes to raise taxes. But if we don't do any of these things we're not going to cut the budget deficit; it's that simple.

Something has to give. And that was one of the problems with enacting the full tax cut program in 1981. I felt strongly at the time that we should have done it on a piecemeal basis. Let's enact part of it, see what the effect is, see what it does to the deficit. If we don't have a large deficit, then we can do more. Because once we put the large tax cut in place, we knew it would be extremely difficult to reverse any of that, and that's exactly the problem we're having.

And there is no easy answer right now. Nothing that is going to be popular; and nothing that is going to be painless. And that's the fundamental crux of the problem.

I can't develop a budget process for you that's going to overcome that problem. I don't—I don't think one exists.

Mr. HORTON. I thank you very much.

[Mr. Chimerine's submissions to Mr. Horton's questions for the record follow:]

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR LAWRENCE CHIMERINE

- 1) Dr Chimerine, you suggest that budget reform should be delayed until deficits are brought down to an acceptable level.  
  
Couldn't some reform be initiated, such as biennial budgeting as you support, before the deficit reaches an "acceptable level", however that is defined?
  
- 2) Dr. Schultze states that most probably the federal government would show no lower deficit under a capital budget than under the current accounting definition.  
  
Do you Agree?  
  
Would a capital budget give a more accurate picture of the government's true financial condition?
  
- 3) Dr. Schultze would base receipts and expenditures on a Budget resolution based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two?

- 4) If Congress continues to fund the government with continuing resolutions, containing appropriations for several if not all of the federal agencies, and include other legislative actions, doesn't this argue for a Presidential veto power of some type--something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?
- 5) Dr. Schick testified (page 13) that in FY 85, barely one quarter of annual outlays came from discretionary appropriations for that year, and argues that multi-year budgeting would have little impact. What are your thoughts on this conclusion?
- 6) What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

## Response to Questions from The Honorable Frank Horton regarding Budget Reform

Lawrence Chimerine

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**#1:** Yes, I think it is possible for some budget reform to be implemented before deficits are reduced. However, my major concern is that the debate on reform will turn into a process which leads to avoidance of deficit reduction, or which takes too much time away from actually focussing on the appropriate national priorities and building a budget around them (which at the same time will reduce deficit levels). The only two reforms that I think that could be addressed simultaneously with deficit reduction would be first, biennial budgeting, and second, a requirement that nongovernment forecasts be used as the basis for deficit calculations and projections.

**#2:** I agree that total deficits under a capital budget approach would not be significantly lower than under the current accounting definitions -- in fact, I think there is some risk that they might actually be higher in total because the reported operating deficit would be lower than the deficit now being shown, which might encourage less spending restraint or willingness to raise taxes. I do not believe a capital budget gives a more accurate picture of the government's financial condition because of the difficulty in defining government programs and because it would not alter the total impact of government borrowing on financial markets.

**#3:** I think it is essential that more realistic assumptions be used as the basis for budget projections as well as, at least beyond the first year or two, that long-term average growth rates be used rather than trying to predict cyclical fluctuations several years in advance. Even in the short term, it is important that projections be made of what the budget deficit would look like under normal or average growth so that policymakers can see the difference between actual deficits and those that would have taken place under a more normal economic environment -- these differences should not be offset by changing budget policies in most cases.

**#4:** Continuing resolutions do make the case for presidential veto power more appealing -- in my judgment, however, it is a poor solution to the problem, especially since the fundamental problem is the difference in priorities between the Congress and the Administration, and the inflexibility on both sides, in recent years. Furthermore, presidential veto power will make only a small dent in reducing current budget deficits.

**#5:** I agree with Dr. Shick that the benefits from of multi-year budgeting will be relatively modest, and will make only a small contribution toward resolving our current budget problems. The main argument for biennial budgeting is that it would reduce the time spent on budget formulation, hopefully freeing Congress to spend more time on some other national problems. This might in fact lead to a stronger consensus about where funds should be allocated in the future, and how these programs should be financed.

**#6:** I support the Quayle proposal which would make Congressional approval of any rescission a requirement. Again, however, I do not believe it will significantly affect the budget because: (a) the president is unlikely to rescind any military appropriations, and (b) interest, entitlements, and the tax side of the equation, are excluded -- the likely rescissions on the remainder of the budget, while perhaps significant for certain individual programs, would add up to very little in terms of overall current budget deficits.

Mr. BROOKS. Mr. Wise.

Mr. WISE. Thank you, Mr. Chairman.

What I'd like to do is to ask a question on process, and then maybe two questions dealing with your testimony. I guess I'm one of the ones who voted for Gramm-Rudman because I thought there was a need to structure the process a little more. In the limited time I've been here, and that's only been 4—5, going on 5 years, I just see this constant tail chasing the dog type thing that you're describing in which we say, well, we've got to really lower the deficit. We go in and we nickel and dime—as I think you implicitly refer in your testimony—you nickel and dime every year and then you find out you didn't cut as much as you thought and the interest rates are higher, and you're back again nickel and diming next year.

But along those lines, did you have a chance to look at the Obey proposals that the Democratic Caucus voted on, I believe it was 2 years ago, in which essentially the proposal was to put all of the budget and appropriation questions in the—up front in the very beginning in which there would be—finally, there was a vote on a budget resolution, and then immediately the Appropriations Committees went to work or the Appropriations subcommittees, and there would then be a vote on, as I recall, on the budget resolution and the 13 appropriation bills. You'd have a chance to vote on each bill. But the thing is, you capsulize. You got it all done at one time.

I just wondered if you had any comment?

Mr. CHIMERINE. Congressman, I think I did. My memory is a little hazy. And again, I have no objection to some of those proposals. And to be honest, I'm not as expert on the budget process as some of those who will follow me here this morning, so I really can't comment as well as they can on some of these specific changes. They may be very, very helpful; and I'm not saying they're not. And if they do expedite the process, and do it in an orderly way, and in a way that it just doesn't try to achieve a specific number of budget cuts or deficit, but at the same time addresses the needs of this country, then I'd be in favor of it.

Right now there's no proposal that I see—that I can see that's doing that. Quite the opposite, Gramm-Rudman is doing exactly the opposite.

Mr. WISE. The President has proposed a budget which has 42 billion dollars' worth of debts or reduction that he says hits the 108 mark. I suspect he is the only person in Washington that truly believes that, on both sides.

The best estimate I've seen is that we are \$60 to \$70 billion off the mark on getting to 108; and you say 190, so that adds another \$10 or \$20 billion. But let's assume 60 or 70.

In your opinion can you—let's beg the question for a second of whether you can get 60 or 70 billion dollars' worth of cuts, but assume you can, do you have some concerns as to what 60 or 70 billion dollars' worth of cuts in 1 year would do to the economy?

Mr. CHIMERINE. Yes, Congressman. And, you know, nobody has argued more about cutting the deficit in recent years than I have; and I still think we have to do it, but I think \$60 billion would be much too much. The economy right now is very sluggish; it's very vulnerable. We should have been cutting these deficits when we

had the opportunity 2 years ago when the economy was a lot stronger. Taking that much fiscal stimulus out of the economy at once now runs the real risk of generating a recession in the near term. I don't think anything the Federal Reserve can do will offset that risk, because right now monetary policy is only sort of pushing on a string.

And the last thing we need right now is a recession, given how fragile the entire financial system is, given the weak worldwide economic environment, given the large debt burden that the economy has to carry right now. So I think that would be too risky. I would suggest half that as an appropriate target.

Mr. WISE. The argument is used that raising taxes is taking money out of the economy, the same as paying interest on the debt. And that, therefore, has a dampening effect on the economy. Would you care to comment on that?

Mr. CHIMERINE. Well, any deficit reduction in the short run, whether it's by cutting spending or raising taxes, will have a dampening effect. It isn't entirely clear that the tax increase will do more in terms of holding down the economy—it might be less dampening. And for people who make that argument that borrowing and tax increases are the same, if they own any Government bonds to tell them that when they bought the Government bonds, just assume it was a tax increase, and let me have their bonds.

There's a tremendous difference between building debt and between modestly raising taxes, because in one case you're creating an asset, and in the other case you're not. It has implications for future interest payments. They are not equivalent. Anybody who says that raising taxes has the same effect on the economy as borrowing the money at the Federal level is just plain wrong, in my judgment. And the argument that it will slow the economy, sure. Some budget reduction, whether it's from the spending side or the tax side, in the short run, probably will slow economic activity a little bit.

We want to design it in such a way as to minimize that effect. One way to do that is to limit the budget reduction in the short term to something that the economy can absorb, maybe \$30 billion, not \$60 billion—\$60 billion.

Second, we should try to design the tax increases in a way that they will have as small a depressing effect on the economy as possible. But there's no way you can avoid it. Right now we have to worry about whether we're going to have an economy here in 20 years. If we have to sacrifice a little bit in the short term to do that, I think we have to.

Mr. WISE. And finally, just to try and get out of the cycle of, we're always dealing with the short term, which is the budget deficit this year, and I just came from a meeting in which the Budget Committee was reporting or members of it, and they hope to have a proposal out in Draconian choices, everything—and everything you do, everyone is going to be worried about that.

I'm just afraid they'll never be focusing on the process. And so, do you think that—do you see the need to change the process, as perhaps being on a parallel track as the same as deficit reduction or do you still—from what I get from your statement, you think

that this Congress and the President ought to deal significantly with deficit reduction then look at the process?

Mr. CHIMERINE. Ideally, I'd like the Congress and the administration to sit down together for the next 3 months and hammer out a realistic budget that addresses the key issues, that provides for the critical needs in this country, that provides for any additional revenues that are necessary; and then next year we can start worrying about changing the budget process.

But again, my real concern is, if we start doing this now we're just going to be shifting attention away from focusing on what the real problem is.

Mr. WISE. Thank you very much.

Mr. BROOKS. Thank you.

Mr. Walker.

Mr. WALKER. Thank you, Mr. Chairman.

It's nice to know there are still some people around who believe in the Jimmy Carter school of economics, and I appreciate the fact that—

Mr. CHIMERINE. I don't know what that means, Congressman, but I will let it pass. Go ahead.

Mr. WALKER. Well, sure, that we cut military and raise taxes, and that somehow the economy blossoms as a result of those economic decisions. I mean, that is—that's the essential point, it seems to me, you make here. I think after 4 years, we found out that that kind of decisionmaking destroyed the economy, and we ended up with high inflation. We ended up with joblessness; we ended up with high interest rates, and it was a total disaster.

And, you know, I find nothing in your statement that indicates that you're for any kind of disciplinary tools in the process. Your criticism is of the administration, at the same time that we have seen such a wave of congressional irresponsibility that it's almost pathetic.

We appropriate around here regularly without even passing the authorization bills. In other words, the system breaks down on a regular basis.

We roll everything into one huge spending bill and send it down to the President and say, "Here. Take it or leave it." When it's convenient for us to waive the Budget Act around here, we simply say, "Well, it doesn't have any meaning for this bill. Let's go ahead and waive it." We did it just last week.

And yet I find nothing in your statement beyond a couple of throwaway lines that indicates that any of the problem rests here on Capitol Hill.

Now I, you know—I have to question that. I mean, don't we have some responsibility here, and doesn't the big spending actually begin right here in Congress?

Mr. CHIMERINE. Yes. That is, I think Congress shares some of the blame. But I think there have been sizable budget cuts implemented by the Congress in recent years. And as I said earlier, I think if you exclude interest, you will find that total Federal expenditures during the last several years have been very close to what the administration has proposed. The mix—

Mr. WALKER. What are we spending in real dollars?

Mr. CHIMERINE. I'm not finished, Congressman.

Mr. WALKER. You said——

Mr. CHIMERINE. The mix is different.

Mr. WALKER. OK. Well, you say we've implemented significant budget cuts. Where are we spending less real dollars?

Mr. CHIMERINE. Oh, nondiscretionary social programs as a percentage of GNP are several percentage points than they were 4 or 5 years ago, most of that proposed by the administration.

Mr. WALKER. We are spending for those programs a larger percentage of the total Federal budget and a larger percentage of GNP. Where have those real cuts taken place?

Mr. CHIMERINE. No, we are not, Congressman, not than we did 5 or 6 years ago.

Mr. WALKER. Well, 5 or 6 years ago, as I explained to you, the economy at that point had 21.5-percent prime, 14-percent inflation.

Are you suggesting that that's the model that we ought to live with?

Mr. CHIMERINE. No.

Mr. WALKER. Oh, well, then, where are the changes that you are willing to bring about?

You say that you're for a biannual budget. How in the world are we going to implement a biannual budget process when you have a Congress which regularly waives the budget?

You know, if you have a biannual budget that everybody ignores, the way we ignore the present budget process, why in the world would that impose any discipline whatsoever?

Mr. CHIMERINE. I didn't say it would. The discipline, Congressman, has to come in facing up to the problems. We are spending too much, relative to what we're taking in. And either we're going to have to cut spending, or we're going to have to raise revenues.

Mr. WALKER. Are we——

Mr. CHIMERINE. Let me finish. And I don't think we have any process, whether it's Gramm-Rudman-Hollings, whether it's the current appropriations process, whether it's the administration's budget projections, that has overcome that problem or that will overcome that problem.

And that is the fundamental nature of the problem. It is not the budget process. As confused as it is, as difficult as it is—and admittedly, the Congress waives it when it's convenient and so forth—but the administration has done a number of things out of convenience, too, like ignoring deficits, like using extremely optimistic projections to get around the problem, like being very inflexible on taxes and military spending, and the blame is shared equally all around.

But I don't think the fundamental problem is the budget process itself, regardless of how confused it is. And, in fact, some of the confusion and some of the appropriations bills and ongoing resolutions reflect the fact that it has virtually been impossible to achieve realistic budget objectives, given the different priorities and the inflexibility, quite frankly, that the administration has shown in recent years.

Mr. WALKER. Are we raising more tax revenue today or less?

Mr. CHIMERINE. Than what?

Mr. WALKER. Than in 1981 when we cut taxes. Are we raising more tax revenues?

Mr. CHIMERINE. We're raising more. But so what? I'm also older than I was in 1980. What does that mean?

Yes, we're raising more taxes than we did in 1980.

Mr. WALKER. So the fact is that we have—over the last 5 years, we have had increased revenues with which to make the changes that we wanted to make as a Congress, if we had had the will to live within those increased revenues; isn't that correct?

Mr. CHIMERINE. Sure.

Mr. WALKER. So the tax cut is really not a problem. The tax cut did not reduce the amount of revenue available to the Federal Government.

Mr. CHIMERINE. No. But in conjunction with the military increase, it put an unrealistic burden on the rest of the budget in order to achieve anywhere near a balanced budget. In my judgment, it was virtually impossible from the start.

Mr. WALKER. We are spending less of a percentage of GNP for the military today than we did 20 years ago.

Mr. CHIMERINE. That's irrelevant, Congressman. What matters is what's happened over the last 5 or 6 years.

I'm not necessarily saying we shouldn't spend what we are for the military. My personal view is, it may be somewhat excessive. All I know is, if we're spending it, Congressman, we have to pay for it. And you either pay for it by cutting other parts of the budget or by raising revenues.

We have not done either of the other two sufficiently.

Mr. WALKER. And your suggestion, as I understand it, is that we raise taxes as a part of that. Doesn't that undercut the economic growth and then have a devastating effect on the ability to raise revenues?

Mr. CHIMERINE. Well, I will offer the following two points, Congressman.

First of all, I suggested sizable cuts in other expenditures. I think it has to be on the entitlements side. We have gone as far as we legitimately can go, in my judgment, in cutting the nondefense discretionary programs. There aren't that many of them to begin with. It's only 25 percent of the budget, perhaps.

On some of them, quite frankly, we may not be spending enough, in view of some of the other serious problems we have in this country. I think the focus should be on the entitlement programs, and I fault the Congress and the administration for not doing that yet.

Second, you talk about economic growth. We've had less economic growth in the last 6 years than we've had in any other decade since World War II.

Mr. WALKER. Now you're going back 20 years.

Mr. CHIMERINE. Well, you're talking about how terrific the economy is. I don't think it's all that terrific.

Mr. WALKER. But let's go back 6 years. We had no economic growth when this administration came to power.

Mr. CHIMERINE. That's not—

Mr. WALKER. The economic growth was—we were on a minus side.

Mr. CHIMERINE. That's not correct.

Mr. WALKER. That is correct.

Mr. CHIMERINE. That is not correct.

Mr. WALKER. We had no economic growth in the economy. The inflation was stripping out the entirety of economic growth at the point that this administration came to office.

Mr. CHIMERINE. That's not—

Mr. WALKER. There was no real economic growth taking place in the economy.

Mr. CHIMERINE. That is not correct. We had faster growth in the 4 years of the Carter administration, despite other economic problems, than we've had in the Reagan administration.

Mr. WALKER. All inflationary. Sure, you can have all kinds of economic growth if you—

Mr. CHIMERINE. No, sir.

Mr. WALKER. If you have massive inflation. And we had massive—we had massive numbers going up because it was all inflationary.

Mr. CHIMERINE. Congressman—

Mr. WALKER. So I guess what you're suggesting to us is that inflation is a good thing for us?

Mr. CHIMERINE. No. I'm saying even after stripping out inflation, we had faster real economic growth in those years than we've had in the 1980's.

I'm not saying the performance of the economy on an overall basis during that period was good. But you're telling me that we didn't have growth. We did.

And, in fact, the recession didn't start until October 1981. I don't know if it was the fault of the Reagan administration. But nonetheless, that's when it started.

Mr. WALKER. The recession—the recession was the result of the Reagan administration policies?

Mr. CHIMERINE. I did not say it was. I said it started after the Reagan administration took office.

Mr. WALKER. Well, but—but what economic policies led to the recession?

Mr. CHIMERINE. A tight monetary policy in order to slow the inflation, which was the appropriate policy at that time.

Mr. WALKER. And when did that policy start? Under the Reagan administration or under the Carter administration?

Mr. CHIMERINE. It started in the latter stages of the Carter administration, and it was accelerated under the Reagan administration.

Mr. WALKER. Well, there were also a few other problems, such as high interest rates that also contributed to that, right? Of course, the tight monetary policy had that, but the interest rates also reflected the fact that you had 14 percent inflation.

Mr. CHIMERINE. Absolutely. I agree with that.

Mr. WALKER. OK. And where did those policies come from?

Mr. CHIMERINE. I think it came mostly from oil prices.

Mr. WALKER. Well, and where did that policy come from, from the regulations that the Carter administration had in place, right?

Mr. CHIMERINE. And that existed prior to the Carter administration.

Mr. WALKER. Well, but they had done nothing to end it, and, as a matter of fact, were willing to pay the price of it in order not to

have to come to Capitol Hill. So, in fact, it was their policy; is that not correct?

Mr. CHIMERINE. Possibly, but I think it's irrelevant for the subject we're discussing.

Mr. WALKER. No, it's not irrelevant, because the fact is that you come up here with a document that suggests that the whole of the economic problem in deficits lies at the doorstep of an administration that has been unrealistic in its economic projections, that raised the military and cut taxes.

I am suggesting that there have been some major pluses that have resulted from those economic policies——

Mr. CHIMERINE. Some major whats?

Mr. WALKER. Some major pluses.

Mr. CHIMERINE. Some.

Mr. WALKER. I would say that cutting interest rates from 21.5 percent to 7.5 percent probably is a help to the economy. I would suggest that cutting the inflation rate from 14 percent down to less than 2 percent is probably a help to the economy.

And yet that doesn't seem to get reflected at all in this diatribe.

Mr. CHIMERINE. Well, because I think budget deficits are a harm to the economy, are already harming the economy, and they will continue to do so. And even with the decline in interest rates and the drop in inflation, we have subpar economic growth in this country. We have, in my judgment, unacceptable unemployment.

Mr. WALKER. Well, I'm still confused by your figures. I think that probably what you're doing is taking figures of the entire Carter administration years, because there was negative growth in terms of the economy in the last year of the Carter administration.

Mr. CHIMERINE. That's correct.

Mr. WALKER. OK. Now that's the result of their policies. So that what you told me just a moment ago was an average of economic policies where they had a high-growth period at the beginning of the administration, largely because Jerry Ford had had the guts to veto a lot of spending bills and thereby bring down the rate of Government spending.

And so you had a period of significant economic growth at the beginning of the Carter years that you are now averaging in to suggest that the whole of the administration was, in fact, the entirety of their policy.

Their policy resulted in negative growth by the end of the administration; is that not correct?

Mr. CHIMERINE. I think the tightening of monetary policy in late 1979 and 1980 to slow the inflation by the Federal Reserve did bring on a recession in 1980. Then they tightened up again in 1981, and that produced the second recession.

Mr. WALKER. But there was negative economic growth in the last year of the Carter administration; isn't that right?

Mr. CHIMERINE. In 1980, correct.

Mr. WALKER. And what I'm contending is that negative economic growth is not a pattern that we can sustain as a nation and hope to do anything about deficits; isn't that correct?

Mr. CHIMERINE. That's correct.

Mr. WALKER. All right, thank you. Thank you, Mr. Chairman.

Mr. BROOKS. Mr. Chimerine, you do remember when we last had a balanced budget, don't you?

Mr. CHIMERINE. Quite frankly, Mr. Chairman, I cannot remember. When was it?

Mr. BROOKS. That's right. You're young. But I'll tell you who was President—Lyndon Baines Johnson. We had a balanced budget, not a \$200 billion deficit.

We thank you.

Mr. CHIMERINE. Thank you.

Mr. BROOKS. Our next witness is John Rhodes, cochairman of the Committee for a Responsible Federal Budget.

Prior to heading this committee, he was a Congressman from Arizona from 1952 until 1983. While in the House of Representatives, Mr. Rhodes served on the Committees on Rules, Interior, Appropriations, and Education and Labor. He was also a member of the Joint Study Committee on Budget Controls, the panel that proposed the current congressional budget process. When Gerald Ford became President in 1973, Mr. Rhodes was elected minority leader of the House of Representatives, a post which he voluntarily left in 1981.

He is accompanied by Susan Clark Joy, vice president of the Committee for a Responsible Federal Budget.

We are delighted to welcome you back here, Mr. Rhodes. We'll be pleased to put your statement in the record and to hear your testimony as you see fit.

**STATEMENT OF JOHN RHODES, COCHAIRMAN, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET, ACCOMPANIED BY SUSAN CLARK JOY, VICE PRESIDENT**

Mr. RHODES. I thank you, Mr. Chairman, and I'm glad that you agree with me that 1952 was a vintage year, and I'm sure you would also agree that we have no reason to be prejudiced about it, but we are.

It's a pleasure to be before this subcommittee and to greet my old friend, Frank Horton. Mr. Horton and I served together on the Republican side for a long time, and he's a very close personal friend.

It's good to be with Bob Walker and Mr. Wise of West Virginia.

And I am particularly pleased to be able to represent this Committee. It's a very interesting Committee. I am the Republican co-chairman and Bob Giaimo of Connecticut is the Democratic co-chairman, and you will remember that Bob was the chairman of the House Budget Committee for many years, and we worked together—well, let me say, we work together better now than we did then, but we do work together very well. We find that our fundamental ideas of what to do about budgets and economies are quite similar, and we do enjoy our association.

Also I think it's worth noting that the members of the board of directors of the Committee for a Responsible Federal Budget include many people that you have known and certainly know by reputation, if not personally. All of the former chairmen of the House and Senate Budget Committees either are or have been members of the board. The late Al Ullman was a charter member

of our board, and Brock Adams, who is now in the Senate, and Henry Bellmon, the newly installed Governor of Oklahoma, left the board this year when they returned to public office.

We also include the former Office of Management and Budget and Congressional Budget Office Directors and leaders of the business community.

I want to share with you our thoughts based on our collective experience.

First, I want to explain a statement which I made in the opening paragraph, and I would bet that the chairman of the committee has already noted the statement and said, "What is this fellow talking about?" I will read it for you: "In our lifetimes, Congress has wrought a revolution in its budget process. That revolution was necessary. It has been surprisingly successful."

Those are the words that I imagine would cause most members to think "compared to what," because if you look at the budget and the deficit now and compare it with the budget and the deficit before the congressional process was evolved by that famous committee that the chairman mentioned, you'd have to agree that the figures don't indicate great success.

But I think in looking at the other side of the picture, we do now have a Congressional Budget Office, and one of the smartest things that any of us ever did was to appoint Alice Rivlin to head it. Alice is in this room and will be testifying later, and she is a member of our board.

That gives us a means of comparison. Mr. Chimérine made some very good points concerning the assumptions which go into making a budget. Prior to the time that we passed the Budget Act, we were not able really to challenge those assumptions or to challenge anything concerning a budget that we got from the White House.

We now do. The Congressional Budget Office makes its own assumptions, makes its own baseline, and there is a basis of comparison, which there never was before.

Frankly, I have always been a little appalled that the figures that OMB comes up with on deficits and expenditures are so different from the CBO figures, and I, having a mind a little bit like the chairman of this committee, I came up with what I think is a rather novel and possibly workable solution. That is to ask each of them to develop two budgets.

One is to be based on their economic assumptions, and the other one is to be based on the economic assumptions of the other body. In other words, ask the OMB to send its budget up, based on its assumptions, and another one based on the CBO assumptions, and ask the CBO also to prepare two budgets based on the two sets of assumptions. And I think if you did that, you might come up with a pretty good halfway point that the Congress could rely upon pretty well.

I want to talk to you really in two chunks. I didn't agree with Mr. Chimérine on everything he said. I didn't have too many violent disagreements, except I think I would agree with the gentleman from Pennsylvania a bit on some of the points that he was making.

But the main item of disagreement would be on whether or not we need to do something about the congressional process. If it were

possible to wave a magic wand and get to a balanced budget next year or even in 2 or 3 years, then I probably would say, yes, let's go ahead and not worry about the process and go directly to the problem, because really the deficit is the problem, and there's no doubt about it.

I would feel as he does, except I do believe that since we have to get to a balance—and I certainly agree with him on this—over a period of years and not try to do it next year, if you're going to try to do it over a period of years, then a healthy change in the budget process now would help you to arrive at that point, rather than hurt you.

So I think that the deliberations of this subcommittee and the full committee are very important, and I am in hope that out of this will come some very needed changes in the budget process.

Let me talk a little bit first, though, about the CBO baseline assumptions. We are quite worried over the probability that the proper assumptions would show us a budget picture which is much worse than we are getting from either CBO or OMB.

We think that the CBO projections are more accurate than OMB's, frankly, but we're not at all sure that they are as accurate as we would like to have them. And I will give you a couple of examples.

The figures which we have from CBO for the next 5 years indicate that there should be—that they forecast, at least, a 59-percent increase in revenues between 1986 and 1992. Now we hope that's accurate, but that indicates that there will be no recession. There will be no real downturn, and there will be real growth of a nature that we haven't seen in this country for quite some time.

The second part of the projection with which we—well, I shan't say we disagree, but we think it needs to get a little fix job—is that the outlays for the years 1986 to 1992 will only increase by 32 percent. Now I will repeat that. CBO projects that revenues will increase 59 percent; outlays increase only 32 percent.

Now I don't know a period in our history when that's happened. Usually the Congress either by design or by accident does a pretty fair job of increasing outlays somewhat parallel to the increase in the income from the tax system. Of course, I hope that the Congress won't do that, but I can't be sure that it won't.

Also I'd like to comment briefly on Gramm-Rudman and on some of the things that the Congress has done to try to discipline itself, and I've got to tell you that as a former Member, I am somewhat disappointed that the Congress feels that it is necessary to discipline itself.

It seems to me that with the deficit the size that it is, and it is disastrous, a majority of the Members of this Congress should be willing to cast the difficult, hard votes that will be necessary to bring it under control.

Now if that isn't so, then, of course, Gramm-Rudman-Hollings probably was necessary, but I was inclined to agree with Senator Rudman's quote—he didn't quote it to me, but I understand that he said it—that the Gramm-Rudman-Hollings legislation was a bad idea whose time had come. And I guess maybe that is just about the way most people looked at it. Something had to be done, and this looked like a mechanism that could be put in order which

would accomplish by an automatic method the things that most of you felt you couldn't find a majority to do.

I understand this. I'm not saying that there isn't a lot of fundamental truth to it. I regret it, but nevertheless right now we are worried about the deficit and the effect that it's having on the trade deficit, on the economy, on the morale of the people, and actually on the whole Western World. The deficit is so difficult and so all pervasive that whatever we need to do to get this Government on the path, a path which will be followed, to balance the budget is extremely important.

Now let me, if I may, turn briefly to the process itself. I have some ideas, some of them I have held since I was on the Study Committee which drafted the budget process. On a couple of them, I tried and didn't prevail, but I'd like to try again.

I have always felt that in disciplining itself, it is necessary for the Congress to have, either in the House Rules or the House and Senate Rules or by some other mechanism, a provision that something must happen on May 15—this was, of course, the date in the original plan for the first concurrent budget resolution to be adopted. I understand it's been changed to April 15, and I'll deal with that a little bit later—but something has to happen on that date, because that is the trigger.

If you don't have a budget resolution adopted by that date, then, as you know, everything stops. You can't bring up legislation. You can't do the things which are necessary to begin the budget process, the 302 and 311 allocations, unless you have a budget.

Now I'm just as well aware as anybody could be that this Congress can't bind future Congresses. You can't do it, because future Congresses can change the rules or change the means of operation at will. But I do maintain that there is a positive way and a negative way to get Congress to act. The positive way, of course, is to say, "You do it." That doesn't work.

The negative way is to have a situation occur, a scenario which is unthinkable to the Members of the Congress. I suggest that something which would be unthinkable would be for the President's budget, whatever it is, to become the congressional budget on May 15 if the Congress has not adopted the first concurrent budget resolution.

Now I wouldn't want to see that happen. You wouldn't want to see it happen. But I think it would be better to have it happen than to go through the months and weeks, as we have, without any budget resolution whatsoever; bringing appropriation bills up with rules waiving points of order which I just don't think are the proper way to legislate and are, very frankly, a means of evading the budget process.

While I certainly realize that the process is somewhat flawed, the main flaw in it is that there's nothing to make it work, and I think you need to have something that might well make it work.

Now also I believe very strongly that there has to be another period in which discipline can be imposed by the majority of the Members of the House and the Senate, and I am referring to the possibility and the probability that there could be recalcitrant legislative or appropriations committees which pay little, if any, attention to the first concurrent budget resolution.

If the House—if a majority of the House and the Senate want to save money, for instance, or do away or to cut down an entitlement or a project, they ought to have a chance to do it by majority vote. That's why I think that a second concurrent budget resolution, which we have provided for and which is not used now, is extremely important, because with that device, it would be possible for the Budget Committee to actually reclaim an order which it had given a committee, and to do it in such a way that the effect would be to actually legislate in the area, rather than to ask the committee to legislate.

You'd already asked the committee. It didn't do it. So let the majority of the House and the Senate do it for them. And I happen to believe that this is something that probably wouldn't have to be done, very often, but it certainly would be a good hammer over the head.

Now I have not said anything about this next point to the members of our board, and so this is just me talking, but I have also always felt that it's important that you not adopt the appropriations bills finally until all of them have been adopted.

Dave Obey's proposal is somewhat similar to that. But I frankly don't like it as well as I do what I'm about to say, because we tried that before. It didn't work, and you can imagine that if you try to bring that whole great appropriations thing up before the House under an open rule, you've got a lot of chaos ensuing, and I don't think that's a good idea.

But if you were to pass the appropriations bills one at a time, get them through conference, get them up to the point where they're ready to be engrossed and then not engross them until all of them had been adopted. Then, you would be able to reconsider them at that particular point.

Mr. BROOKS. Would you yield?

Mr. RHODES. Certainly.

Mr. BROOKS. You know in the House, we had difficulty with the press saying that the Congress hadn't passed the appropriations bills, generally they did say that.

Mr. RHODES. Yes.

Mr. BROOKS. When the facts were in, the House had probably maybe passed 11 of the 13 and sent them to the Senate, which didn't act on them.

Mr. RHODES. That's correct.

Mr. BROOKS. I can blame the Republican controlled Senate last year. But not this year. If the House gets 11 of them passed, we're going to have to get the Senate to act on them. And I don't know whether they'll do better, because it's tough to get the Senate to act on those appropriations bills. They like to wait until the last minute and put their package together. This approach makes the House look bad, and then the press never reports that the House has done 90 percent of its work in pretty good order.

Mr. RHODES. Well, Mr. Chairman, I couldn't agree with you more. What you've said is absolutely true.

But what I'm advocating would be an amendment to the budget process.

Mr. BROOKS. To hold them off.

Mr. RHODES. Yes, absolutely.

Mr. BROOKS. I understand.

Mr. RHODES. I think that if you're going to amend the process, you should do it with a bicameral committee like we did before. As you remember, the committee that set this process up was made up of Members of both bodies, which is the main reason that it was adopted by both bodies.

So in the event that that's possible, and the other body was—well, actually it became necessary for them to act—I'm in hopes that they would. But I just don't like what we're doing and what we've been doing now, which is to have nothing in the way of appropriations bills.

I'm pretty well completed here, Mr. Chairman. Mr. Chairman, I would be glad to yield to questions if you have any. I do hope you will read this beautiful piece of work here that was done mainly by Susan Clark Joy, who does this thing very well, and our staff. There is a lot of good reading there. I just said what was on my mind. I hope that your deliberations will actually bring out some very good points and some very good amendments to the budget process. It does need it.

[Mr. Rhodes' prepared statement follows:]

TESTIMONY

by

John J. Rhodes

on behalf of

The Committee For A Responsible Federal Budget\*

to be delivered before

The Committee on Government Operations

United States House of Representatives

March 12, 1986

- \* The Committee For A Responsible Federal Budget is a bipartisan private nonprofit organization formed to support and strengthen the federal budget process.

The Committee is Co-Chaired by Robert N. Giaimo and John J. Rhodes. Thomas L. Ashley, Roy L. Ash, Richard Bolling, Carol G. Cox, James L. Ferguson, John H. Filer, Alan Greenspan, James R. Jones, Arthur Levitt, Jr., James Lynn, James T. McIntyre, Jr., W. Henson Moore, Howard R. Moskof, Edmund S. Muskie, Rudolph G. Penner, Peter G. Peterson, Leland S. Prussia, Alice M. Rivlin, Elmer Staats, David A. Stockman, Robert Strauss are on the Board of Directors.

TestimonyIntroduction

Mr. Chairman, Mr. Vice Chairman, Members of the Committee. We go back a long way. The Chairman and I came to Congress together 37 years ago. The Vice Chairman and I served together for twenty years. My son is now your colleague. In our lifetimes, Congress has wrought a revolution in its budget process. That revolution was necessary. It has been surprisingly successful.

I am here on behalf of the Committee for a Responsible Federal Budget. I am the Republican Co-Chairman of the Committee. Bob Giaimo is our Democratic Co-Chairman. Bob would like to be here. Unfortunately, he had another commitment. Our Vice President, Susan Clark Joy, is here with me today. You have, in my prepared text before you, a full list of our Directors. They have included all the former Chairmen of the House and Senate Budget Committees. (The late Al Ullman was a charter member of our Board. Brock Adams and Henry Bellmon left the Board this year, when they returned to public office.) They also include the former OMB and CBO Directors and leaders of the business community. I want to share with you our thoughts, based on our collective experience.

Priorities: #1 Cut the Deficit

We recommend some budget process changes to you which we hope will be accomplished. But we recognize that Congress and the President may have all you can do to solve the present deficit problem facing the nation. You have made some progress. Still you face a monumental task, the importance of which cannot be overstated, and which must be number one on your priority list. In other words, the process is a problem, but the problem is the problem itself -- the deficit.

Our staff analysis of the budget outlook is included as an appendix to my prepared testimony. In our view, the CBO baseline deficit projections are optimistic in the extreme.

Both CBO and OMB project the economy will continue to grow through 1992 -- ten uninterrupted years of growth. CBO, which is less optimistic than OMB, projects revenues will grow by 59% by 1992. Their spending projections increase 32% over the same period. Assume for a minute we do enjoy ten years of economic recovery. Assume, however, that spending increases as much as/but no more than revenues: The deficit in 1992 would exceed \$200 billion.

Our purpose here is not to criticize the CBO. Their projections are based on conventions which worked well to predict the future when spending, revenues, and the economy were growing at about the same rate. The past few years, however, have seen substantial restraint in non-defense discretionary spending. The baseline assumes that restraint will continue. We hope they are right, but we fear the CBO methodology compounds and exaggerates the effects of recent spending restraint unrealistically.

Why this numbers lecture in testimony about the budget process? We are concerned that recent projections of declining deficits have decreased Congress' sense of urgency about the need to bring the federal deficit under control. We are concerned that spending restraint does not necessarily breed more spending restraint. On the contrary, there is tremendous pressure to increase spending today. We are concerned that there will remain indefinitely a fundamental imbalance between federal spending and federal revenues.

The deficit problem remains very serious. The budget deficit is a major cause of the trade deficit. Federal intrusion into the credit markets to fund its deficit spending amounted to over 50% of net private savings in this country in 1986. The competition for credit created by massive federal borrowing places a premium on capital and has kept real interest rates high -- even though nominal interest rates have fallen dramatically in the last six years.

High real interest rates and the competition for available capital hinders our domestic industry in the retooling and innovation necessary to maintain competitiveness with foreign imports. It hurts the farmer, whose narrow margins of profit are eroded by the high cost of borrowing for seed and equipment. Further, high real interest rates have inflated the value of the dollar on international exchange markets -- hurting US export sales overseas.

Solving the deficit problem will not solve all our economic problems, but it is a necessary first step toward longterm prosperity and increased competitiveness in a global economy.

The deficit problem will result in economic disaster, if Congress and the President do not agree on a plan to move the budget back toward balance before our economy suffers another recession. Sooner or later there will be another recession. You cannot repeal the business cycle. Deficit reduction must be your priority. You have only so much time.

The Congressional Budget Process: An Historical Perspective

Remember what the world was like before the Congressional Budget Act. The President submitted his budget to Congress. We took it apart. We sent revenue proposals to the Ways and Means Committee. We divided up the spending proposals among thirteen sub-committees of Appropriations and the entitlement committees. The whole budget never came together again. We did not know until sometime after the end of the fiscal year the amount of the deficit (or surplus). Congress had no effective mechanism to formulate an alternative to the President's budget priorities.

From 1967 to 1977 relatively uncontrollable outlays increased from 59% to 77% of total federal spending. Today, relatively uncontrollable spending remains 77% of total outlays. We were alarmed in the mid-seventies because Congress had lost control over Federal spending. We have not really regained control since the Budget Act, but neither have we lost any more ground. No new large entitlement programs have been enacted. That is a major success.

The Congressional Budget Act and process are the result of compromise: compromise on executive impoundment authority; compromise to protect the turf of existing congressional committees; compromises between those who believe the budget process should ensure budget balance and those who believe that the budget process should be neutral as to the outcome of each year's budget debate.

The budget process is not perfect. From the beginning, we knew it had flaws, but it works far better than many of us who wrote the law thought it would. Your Committee has jurisdiction over Title X -- the Impoundment title -- of the Congressional Budget Act. I will talk about impoundment today. I also want to address a broader agenda. This is the first opportunity we have had to share our ideas on the budget process with Congress since late 1985, when you were considering Gramm-Rudman-Hollings.

#### Gramm-Rudman-Hollings (GRH)

In 1985, we were not enthusiastic about GRH. No process can resolve political differences over public priorities.

Some elements of GRH have worked better than we expected. Bottom line deficit limits have had a salutary effect. Though you may not achieve the goal, attention is focused on the bottom line. The requirement that budget, reconciliation, spending and tax amendments be deficit neutral has worked well. Enforcement of Congressional budget decisions at the level of committee and sub-committee allocations was long overdue.

Sequestration per se never was a good idea. Automatic across-the-board cuts are the antithesis of the priority setting which should be at the heart of an effective budget process. Congress and the President need incentives to compromise differences over priorities. If we believed sequestration would produce that result, we would support a new sequester process which would meet constitutional objectives. It may come to that. But we shudder to think what would result, even from cuts across the board in all federal programs, to balance the budget. If you include defense and social security in a sequester process, they will take the biggest dollar hits. They are by far the biggest federal programs. If you exempt any program in any way from any sequester process, the axe falls that much heavier on everything left to cut.

#### Balanced Budget Constitutional Amendment

We oppose a balanced budget constitutional amendment. We believe the budget should be in balance over a reasonable time -- perhaps over the business cycle. Deficits sometimes are necessary: to fight wars, to alleviate depressions, famines or other emergencies. We also should run surpluses at times, so our accounts eventually balance out.

The Federal budget is very sensitive to economic assumptions. Look at the difference between Administration and Congressional Budget Office estimates of the deficit and the cuts needed to achieve the GRH goals this year. No constitutional constraint successfully could address these realities. Balanced budget amendments could do nothing constitutionally to constrain spending or tax policy. Budget resolutions contain no spending or taxes. Budget resolutions are plans for spending and taxing which must be legislatively enacted. It is the budget resolution -- the plan -- that the balanced budget constitutional amendment addresses. We need politically effective incentives to balance spending and revenues, not a balanced budget amendment. What we really need is a majority of Members of Congress who will put budget balance at or near the top of their personal list of priorities.

#### Line Item Veto

Every President since Eisenhower has asked Congress for line item veto. You are not going to give any President that power, and we believe you should not. The recent trend toward large continuing resolutions and omnibus appropriations actions, however, argues persuasively for a process to permit the President to single out spending he believes is unnecessary or excessive -- and ensure Congress will vote on proposed rescissions.

We support Senator Quayle's proposal. It would alter existing law with regard to rescissions in one important respect: any Member of Congress could force a vote in either House on any proposed rescission. If Congress agreed with the proposed rescission, by a simple majority vote in both Houses, one assumes the President would sign the legislation and it would become law. If a proposed rescission failed, by simple majority vote in either House, it would die. That is the bottom line effect of the Quayle proposal. It is a modest and positive change, worthy of your serious consideration.

### Credit Reform

You should consider carefully the credit reform proposed by the President in his budget this year which would charge the cost of credit -- the present value of the subsidy provided to borrowers -- to any agency making or guaranteeing loans. We have succeeded in restraining the growth of new entitlements, but loan and loan guarantee programs have grown at an alarming rate. Some system is sorely needed to disclose and to force us to budget for the subsidy value of federal lending activities and to consider more closely the allocation of resources between credit and other spending.

There are alternatives to the President's proposal for credit reform. You may prefer an alternative mechanism to the President's proposed "market pricing" strategy to identify and account for the subsidy cost of loan and loan guarantee programs. But the cost of credit programs should be put on an expenditure basis equivalent to other Federal spending. Identifying the subsidy cost of federal loan programs would also enable informed debate and decision-making about the most appropriate means of delivering federal benefits (credit vs. noncredit expenditure programs). Whatever process you prefer to achieve these objectives, however, you should put credit reform high on your process reform agenda.

Our federal budget process would be improved greatly by our developing a system to compare the costs/benefits of direct spending, loans and loan guarantees, and tax incentives to achieve a stated public policy objective. Cross-cut analysis, of course, would require that we know the cost as well as the benefit of each possible approach. We know the cost of direct spending and tax incentives. Now we need to account for the cost of credit activities.

Incentives for Action

Congress needs a compelling incentive to adopt a budget on time. It is a mistake to permit Congress to consider spending and/or tax legislation before you adopt a budget. The §311 point of order is meaningless if there are no §302 allocations. The §302 allocations are your yardstick, to ensure Congress lives within its own budget. The §311 point of order is the basic tool, to permit Congress to enforce your budget. There can be no yardstick, no effective enforcement mechanism until Congress adopts a budget resolution.

But Congress often does not want to vote on a budget. Budget votes can be tough. Experience has taught us: voting for a budget can prove so difficult Congressmen and Senators are tempted to delay. This delay undermines your own budget process. You need a mechanism to force yourselves to act.

If Congress does not adopt a budget by the deadline in the law, you could deem the President's budget to have been adopted and issue §302 allocations on that basis; or you could deem the most recently agreed to congressional budget resolution to have been adopted for the upcoming year and issue §302 allocations on that basis.

If necessary you could reduce either of the above budgets pro rata, using the sequester formula contained in GRH, to achieve the target deficit in the law. In either case, Committees and subcommittees would have \$302 allocations, the \$311 point of order would apply, and the budget would be enforceable. No one would like it, but that is the point. Congress would have a compelling reason to pass a budget on time, because the alternative would be unthinkable to most members.

### Biennial Budgeting

We support the concept of biennial budgeting. Everyone in government spends too much time every year going over the entire budget. A biennial budget and appropriations process would save time. It would free up time for oversight, program evaluation and careful consideration of authorizing legislation.

A biennial budget cycle makes no sense unless you also move to a biennial process for the consideration of appropriations and revenue legislation. Therein lies the difficulty: how to ensure the executive and the legislature do not spend non-budget years revisiting the budget, spending and tax legislation?

Many beneficial changes in the budget process have come about through evolution. We tried things out, then we codified changes that worked. We think you should try biennial budgeting before you change the law.

You could start with defense. You required the President to submit a two-year defense budget this year. Even if you want to reserve judgment on a few controversial weapons systems, you could budget and appropriate for most of the defense function for two years.

You would need to invent serious procedural impediments to re-opening the two-year appropriations bill, once it was adopted. Biennial budgeting can have beneficial results only if you solve this problem. Toward that objective, you might examine the mechanism contained in last year's budget governing consideration of the funds which were "fenced" in the resolution.

#### Waiving Points of Order

We believe that rules waiving points of order under the Budget Act should require a two-thirds vote. This includes points of order under section 302(b) for appropriations bills in excess of their 302(b) allocations, points of order under section 311 for legislation which breaches the spending ceiling and/or revenue floor of a budget resolution, and points of order under section 303 for the consideration of appropriations (up to May 15 of each year) and entitlement legislation in advance of a conference report on the budget resolution.

## The House Budget Committee

We believe the budget process would be more effective if the House Budget Committee and the House Budget Committee Chairman were appointed in the same fashion as other standing committees and chairmen -- on a permanent basis.

Budgeting is a leadership function, and it may be appointments to the Budget Committee should be Leadership appointments.

The House and the budget process sacrifice a great deal under the current system. Many Members gain knowledge of the process, but your Budget Committee cannot make maximum use of that knowledge.

House Budget Committee Members' first allegiance, under the current system, always will be to their Permanent Committees. When the system was adopted, this structure was necessary to blunt the opposition of many powerful senior members of both parties. I doubt that this opposition now exists to the degree it formerly did.

You may now be able to correct that mistake. We are well aware many members dislike the budget process. But if it did not exist you would have to re-invent it. The nation needs a viable, effective budget process.

### A Process for Budget Process Reform

Dick Bolling reminds us, when we designed the Congressional budget process we began with a bicameral, bipartisan task force. Any attempt to reform the process should begin once again in such a forum.

The budget process is unique. It belongs to the whole Congress. If the House and Senate begin budget process reform on separate tracks, you likely will devise different systems. If the House and Senate wind up with different systems, Congress will have no effective budget process.

A bicameral group should decide first the outlines of any revised budget process, then each House should write whatever rules are necessary to implement the agreed upon process in its chamber.

### Conclusion

In conclusion let me say: I may have gone beyond your agenda today in these remarks. We believe, however, that the budget process is at the heart of the legislative process.

Our Constitution is unique. It vests exclusively in Congress, and specifically in the House, responsibility for and authority over federal fiscal policy. Congress cannot expect to carry out its responsibilities, you cannot expect to regain effective control over fiscal policy, unless you have an effective system within which to make fiscal policy decisions.

There are no decisions you will make about Congress' own institutional arrangements that are more important than those you make about your own budget processes. We thank you for this opportunity to share our Committees' views with you. We will do anything we can to assist you in this important undertaking. Please call on us. Thank you.

ATTACHMENT

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Memo to: Board and Members  
 From: Carol G. Cox and  
 Susan Clark Joy  
 Date: March 4, 1987

Subject: Baseline Budget Estimates and the Federal Budgetary Crisis

There is attached an analysis of the current policy baseline budget projections. We are very concerned that the baseline projections tend to understate the difficulty Congress and the Administration face as they attempt to cut the deficit to the GRH limits -- or even to move the budget back toward balance anytime in the reasonable future.

This is not a criticism of the Congressional Budget Office and/or the Office of Management and Budget. We reference the CBO estimates, because they are the less optimistic of the two. Even the CBO estimates, however, are based on conventions which tend to compound and exaggerate the effect in future years of recent spending restraint.

This analysis suggests Congress and the President, the media and all of us outside government concerned with budget issues are approaching this year's budget debate wearing rose colored glasses.

The choices to move the budget back toward balance, taking the CBO baseline as the point of departure, appear very difficult. Many in Congress have suggested that, using the CBO baseline, Congress and the President cannot reach agreement on a package to cut the deficit to the GRH limit in FY88.

If our analysis of the baseline estimates is correct, the problem is much greater -- the choices are much more difficult than they appear. Does this mean that Congress and the Administration should give up on deficit reduction? No. A bipartisan agreement to cut the deficit as much and as soon as possible is truly critical, especially if the problem is worse than the baseline makes it appear.

## The Federal Budgetary Crisis

The Budget Outlook  
Congressional Budget Office Estimates  
(\$ in Billions - totals may not add due to rounding)

	1986	1987	Projections				
	Actual	Base	1988	1989	1990	1991	1992
Revenues	769	834	901	962	1051	1139	1223
Outlays	990	1010	1071	1126	1188	1249	1306
Deficit	221	176	171	164	137	110	84
GRH Limits	172	144	108	72	36	-0-	---
Debt Held by the Public	1746	1913	2081	2244	2378	2485	2567
			As a Percent of GNP				
Revenues	18.5	19.0	19.2	19.1	19.4	19.7	19.8
Outlays	23.8	23.0	22.8	22.4	22.0	21.6	21.1
Deficit	5.3	4.0	3.6	3.3	2.5	1.9	1.4
Debt Held by the Public	41.9	43.5	44.3	44.6	44.0	42.9	41.5
Reference: GNP (\$ in billions)	4163	4399	4698	5033	5406	5792	6186

SOURCE: Congressional Budget Office, The Economic and Budget Outlook, January 1987. Projections for FY87 from An Analysis of the President's Budget for Fiscal Year 1988, February 1987, where CBO published their updated baseline.

There is something unreal about these projections: They assume 10 years' uninterrupted economic growth 1982 -- 1992. Revenue projections grow with the economy -- by nearly 59% between 1986 and 1992; but spending projections grow only 32% over the same period.

The projections of continued restraint in non-defense spending are unbelievable. Consider the following historical data and projections:

	Percent of GNP		
	1976	1986	1992
Total Non-Defense Outlays	16.6	17.0	15.5
Social Security Trust Fund Outlays (Medicare and OASDI)	5.1	6.8	6.8
Agriculture	0.3	0.7	0.4
Net Interest Outlays	1.6	3.4	2.5
Remaining Non-Defense Discretionary	9.6	6.1	5.8

Source: Historical Tables, Budget of the United States Government Fiscal Year 1987; and CBO Baseline projections for FY88.

### The Federal Budgetary Crisis

- The CBO baseline concept provided a pretty accurate basis for predicting the future when appropriations were growing more or less with the economy.

In the last few years, however, there has been substantial restraint in non-defense discretionary spending. The baseline assumes that restraint will continue -- and the compounded effect of projecting restraint year after year produces what I believe really is a very distorted picture of what the budget will look.

Between 1976 and 1986 total non-defense outlays remained about constant as a percent of GNP; but spending for social security and interest increased; so spending for all other domestic programs declined by an amount equal to 2.5% of GNP.

These projections assume total non-defense outlays will decline by 2.5% of GNP between 1986 and 1992; and that outlays for all domestic programs except social security, medicare and interest will decline by a further 1.1% of GNP.

That is looking only at the non-defense side of the budget. These projections also assume 0% real growth for defense throughout the forecast period.

- CBO projects that the deficit will decline 62% on a current policy basis by 1992. Therefore interest costs are projected to decline substantially.

If defense goes up -- if non-defense discretionary spending does not continue to fall -- if we suffer an economic downturn -- if interest rates rise -- absent major policy change the deficit and interest costs will be substantially higher than the CBO projections.

Unless we cut spending and raise taxes, frankly, I think that is a far more likely outcome.

The Deficit as a Percent of Net Private Savings  
(\$ in billions)

FY86* Deficit	Net Savings			Deficit as % of Net Savings	
	Domestic	Foreign	Total	Domestic	Total
\$221	\$275.3	\$130.5	\$405.8	80.3	54.5

\* FY86 is the most recent year for which data are available.  
Source: The Federal Reserve.

The table above illustrates two things: the extent to which the Federal deficit diverts capital away from private investment which could lead to higher productivity and increased competitiveness; and the extent to which we are dependent on foreign investment to finance these record high deficits at relatively reasonable rates of interest.

Mr. Brooks. We deeply appreciate your coming down and making this presentation. We enjoyed hearing your personal comments, which as usual are balanced and reasonable. We appreciate your contribution to this hearing.

I have some questions for you, and with your permission, I will submit them to you for inclusion in the record.

Mr. RHODES. Certainly, Mr. Chairman. I'd be glad to.

[Mr. Rhodes' submissions to Mr. Brooks' questions for the record follow:]

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR JOHN RHODES

1. One of the main reasons for enacting the Congressional Budget and Impoundment Control Act in 1974 was to control deficits. How do you explain the fact that since the passage of this act, we have logged the highest deficits in history?

Answer. The Budget Act is outcome neutral. It contains no intrinsic preference for deficit restraint. The Budget Act established a process to develop a Congressional budget through a timetable for Congressional action on a budget resolution containing aggregate spending and revenue levels and the allocation of the aggregates among major functional categories for a fiscal year.

Prior to Gramm-Rudman-Hollings the Act contained no guidance to Congress on appropriate levels for spending, revenues or deficits. Congress could choose to restrain spending and/or increase taxes to reduce the deficit, or it could choose to allow the deficit to grow. Now, of course, if Congress chooses to permit the deficit to grow, they will violate the deficit limit in Gramm-Rudman-Hollings.

The Budget Act and the process it established, force Congress to consider the aggregate impact of all spending and revenue decisions in one document and all at once. That is a major improvement over the non-process we had prior to 1974. This has increased awareness of fiscal policy and encourages Congress to develop policies in response to bottom line deficit projections. Our Committee would argue that this has been the greatest success of the budget process and has led to much of the deficit restraint that we have witnessed in the last five years.

In point of fact, Congress has cut the deficit \$100 billion below what it would have been through a series of deficit reduction measures over the last five years.

I may have wanted to curb spending and balance the budget. Dick Bolling may have wanted to alter the internal balance of power within the House. There probably were as many agendas as there were participants, when we wrote the Budget Act.

Congress, however, had three principal objectives when we passed the Act: to establish a system within which we could develop a budget to articulate an alternative to the policies contained in the President's budget; to set up an independent source of budgetary expertise answerable to Congress (CBO); and to restrict Presidential impoundment authority.

In the absence of the Act, Congress would have to invent a process to produce, package and pass deficit reduction legislation. The process has not produced the outcomes I would prefer; but no process on earth can substitute for political will.

2. How would a line-item veto most likely be used in the budget process if it were instituted?

Answer. The line-item veto generally is considered to be a much more potent spending restraint mechanism than we believe it would be in fact. If a line-item veto were enacted, a President would be able to veto no more than 14% of annual spending, in the most liberal of estimates. Ultimately, Congress will have to make the hard choices to reform entitlement spending and/or raise taxes to control the deficit. The deficit cannot be significantly reduced through line-item veto.

3. What problems are created when automatic mechanisms like Gramm-Rudman-Hollings are adopted to try to bring discipline to the budget process?

Answer. The threat of automatic across-the-board cuts in the absence of agreement on an alternative package to cut the deficit would seem to be a compelling incentive for action. However, very large across-the-board cuts could produce terrible fiscal policy. Across-the-board cuts, by their very nature, are the antithesis of setting priorities, which should be at the heart of any budget process. Ultimately, such cuts could leave you with federal programs operating below effective or efficient levels. They allow no room for new initiatives. Congress and the President should review all government spending and tax policies and decide what functions will be continued, and at what level, what we can do without, then raise revenues to pay for that level of spending.

4. What steps can be taken to force the President and his Office of Management and Budget to use more realistic economic assumptions when preparing the budget?

Answer. The President's economic assumptions and technical estimates are post policy estimates, i.e., they assume all of his proposed policies and legislation will be enacted and that they will succeed.

The President's budget really is much more and much less than a budget. It is more, because the President's budget is the most complete statement we see each year of his program and legislative agenda. It is less, because it tells us very little about the world as it would be if the President's program is not adopted.

Realistically, Congress cannot and should not deny the President the opportunity to propose his agenda. Nor should you attempt to tell him to assume Congress will reject his program -- or that it will fail.

The CBO re-estimate of the President's budget tells Congress what would be the result of enacting the President's policies, substituting the CBO economic forecast and technical estimates for OMB's.

The longer we work with these estimates, the more we are tempted to ask: Is the real problem one of different baselines; or is it that the baseline concept is confusing?

There is real value to having estimates of the cost of continuing existing levels of government services; but you could arrive at those estimates using actual spending levels for the previous year -- displaying the added cost of changes due to demographics, legislated cost of living increases, etc.

Similarly, you need to know how much revenue will be available if you do not change the law; but you might be better served by looking first at last year's revenues, adding the increases projected from economic growth and increases or decreases due to changes in law scheduled to take effect in the upcoming year.

Using the previous year's spending and revenues as the base would not eliminate the differences due to different economic assumptions and technical estimates; but it would highlight the source and magnitude of those differences; and it might provide a more "neutral" starting point.

Further, using this approach would make it clear that we seldom contemplate cuts in federal spending -- as most families and business understand cuts. What we most often debate is: how large shall be the increase in a specific program or in total federal spending. If those increases are less than the baseline, we describe them as cuts. That terminology is confusing. This approach might mitigate the confusion.

We should say, our Committee does not have a position on this suggestion. It is offered as one possible alternative to the current debate about baselines.

We do feel that it is important to make the budget debate more understandable; and anything you can do toward that end deserves debate and exploration.

5. What is the relationship between our current budget deficits and the growing national debt?

Answer. Deficits are financed through borrowing and government borrowing adds to the national debt.

As the attached chart demonstrates, from the end of World War II until the late 1970s our national debt declined as a percent of Gross National Product (GNP) on almost a straight line trend.

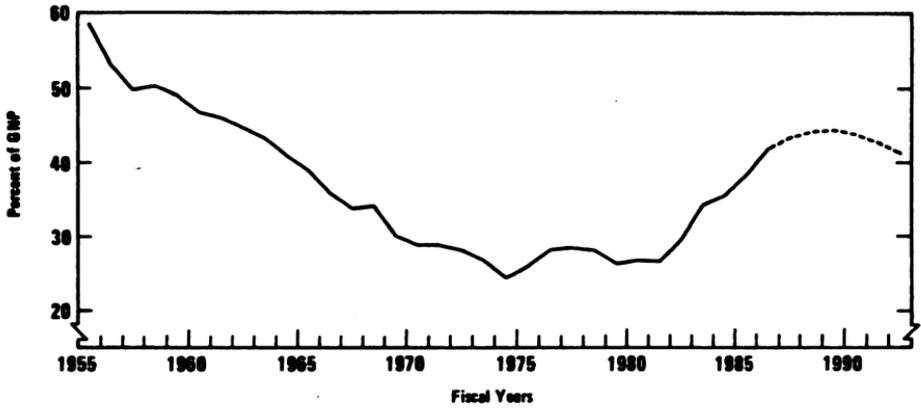
Much has been said in recent years about our potential to "grow our way out of the deficit." But economic growth has fallen short of expectations even as we have run up record high peacetime deficits in a period of economic recovery.

Consequently, our debt has grown at a faster rate than our economy. The price for this folly is easy to isolate: interest on the national debt has increased \$100 billion per year 1976-1986.

We all learn about the miracles of compound interest when we open our first savings account. Record high deficits, and the resulting record high compound cost of interest on our national debt force Congress to cut programs -- just to keep the deficit from increasing year after year. Clearly, this cannot continue. The only question is: when will we put the budget on a path toward balance, so economic growth can overtake the rate of growth in our national debt?

Already we are the largest debtor in the world. A few short years ago we were the world's largest creditor. This explosion of debt and debt service cost may be the most troublesome single aspect of the deficit problem facing the United States.

## Federal Debt Held by the Public



SOURCES: Congressional Budget Office; Office of Management and Budget; Department of the Treasury; Department of Commerce, Bureau of Economic Analysis.

NOTE: The values shown for the 1987-1992 fiscal years are consistent with the CBO baseline.

Mr. BROOKS. I want to thank you again for coming down, you and Ms. Joy, for contributing to this hearing.

Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman. I want to thank you, John, for your statement and the time that you have put into this. I know when you were in the Congress, you were very much interested in this whole subject and you probably have as good a background as anybody that is presently in the Congress. Not only were you involved in the committee that set up the budget process, but you were also on the Appropriations Committee for many years and then you also served on authorizing committees. In a sense, you know where the bodies are.

I would agree with you 100 percent that there is a problem with the budget process. I do think it has to be corrected some way or another. I'm not sure that I can totally agree with you. I think it is a good suggestion that we look at all the appropriation bills at one time, but I think it's fairly impractical in the atmosphere in which we operate today, because it's hard to get any of them passed by both Houses let alone pass, what is it, 13 of them? To get all 13 of them in one package passed by both Houses would almost be an impossible situation.

They have problems with timing. I think those are very critical problems of getting the budget, acting on the budget, doing it in time so that we can get on with the business. The May 15 date, as you know, has been pretty well put aside. It never really has functioned or operated. The September date, we passed that one, too, without in many instances having arrived at a point where the budget is really in place.

The theory is good but in practice, it just hasn't worked. I think these hearings are important to get as much information that we can as to what we can do, perhaps, to suggest some of these kind of changes and some of the things you have suggested, I think, are very helpful for us in how we go about looking at this problem.

Mr. RHODES. May I suggest two things?

Mr. HORTON. Yes.

Mr. RHODES. One is the reason that I think the date hasn't worked is because nothing had to happen on that date and that's what I'm suggesting, that if the date comes, something happens that nobody wants to have happen, then maybe the happening will occur prior to the date.

The second thing, the Democratic Caucus has done something which I had hoped they would do a long time ago and they didn't. About the time we started to bring the new Members back for orientation in December, we did this hoping that then we could go ahead and decide what the committee structure was to look like, actually make the committee assignments so that you could begin to operate in the first of January. Well, as you will remember, the Democratic Caucus never did do that except I think they did it this year. That's one reason I guess that you could cut the date of the first concurrent budget resolution back to April 15.

Now, that may work, and it will work if the Democratic Caucus will continue or the majority caucus, whatever it may be, will continue to allow the organizing to occur in December and to get the

committees organized. That has always been the bottleneck as far as getting the whole process started.

Mr. HORTON. I would agree with you. As a matter of fact, as you know, I served and still serve on the Executive Committee on Committees on the Republican side, and as a matter of fact, with the marching orders that we had this year, we filled out those Budget Committees and the key committees, Ways and Means and Appropriations, so we were ready to move.

As a matter of fact, we authorized the Public Works and a couple of other committees so that we were in place so we could actually pass legislation the first couple of weeks after the Congress adjourned. That is a very important element.

Mr. RHODES. Extremely important.

Mr. HORTON. If we could do it for all the committees, and have them in place, it would help us to get off to a running start, because as you know, if you don't get organized, it's a ripple effect. You not only have to put people on the committees but then the committees have to be organized and then they have to in turn set up their subcommittee structures and that sort of thing. That usually takes until March before you can really get your committees set up and really get going.

This year, we did move faster and that could help if we could get that in place.

Mr. RHODES. As you know, the Speaker and the minority leader used to have the authority to set the ratios of the committees but the caucus some years ago took that authority away from the Speaker. I would hope they would return it.

Mr. HORTON. Yes. Thank you for the time you have spent and thanks for your comments. I have read your statement. It's an excellent statement.

One point. Was your statement approved by the board of directors?

Mr. RHODES. I have not sent the statement around to the board of directors, but if there is anything in there that any of them disapprove of, I would be very surprised.

Mr. HORTON. Thank you.

[Mr. Rhodes' submissions to Mr. Horton's questions for the record follow:]

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR JOHN RHODES

1. Dr. Chimerine suggested that budget reform should be delayed until deficits are brought down to an acceptable level. Couldn't some reform be initiated, such as biennial budgeting, as you support, before the deficit reaches an "acceptable level", however that is defined?

Answer. The Committee is anxious that the Congress not be deflected from its effort at real deficit reduction by focusing on process changes. Ultimately, process changes cannot substitute for the hard choices that must be made to put the deficit on a downward track.

However, that is not to say that some changes could not be made in the context of the budget resolution, debt limit legislation, or reconciliation in concert with deficit reduction. As you note, one of the changes which we think is worth exploring is the two-year budget cycle. A number of proposals have been introduced which would establish a two-year budget cycle. These legislative proposals are lengthy and highly detailed as to how the process would function. We think it would be a mistake for Congress to spend a great deal of time at this point enacting a two-year budget cycle. Rather, we think it would be more practical to initiate a trial two-year budget for one or more government departments to see how the process works before you enact such a process. One of the strengths of our current budget process is its flexibility. It is possible for the House and Senate Budget Committees to include language in a budget resolution for a trial two-year budget in one or more departments of the government. Then, after seeing how the process worked, Congress could move to statutory two-year budgeting with the benefit of experience.

Another budget process change which Congress could enact on a trial basis as part of the debt limit, reconciliation or appropriations acts this year and which we think has merit, is the enhanced rescission proposal offered by Senator Quayle. Under this proposal, the President could submit a rescission proposal within three days of signing an appropriations bill. A Member of either House could force a vote on the rescission. If either House of Congress failed by simple majority to support the rescission, the rescission would be defeated. However, if both Houses, by simple majority, voted for the rescission, the funds would be rescinded. In a time of massive omnibus continuing resolutions, we think it appropriate to consider this enhanced rescission authority for the President to require Congress to vote on proposed rescissions. At best, this would enhance Congressional accountability and demonstrate vividly the limited extent to which rescissions or even line-item veto can cut the deficit. At worst, it could conceivably heighten tensions between the Executive and Congress. But it seems to us well worth a trial.

2. Dr. Schultze stated that most probably the federal government would show no lower deficit under a capital budget than under the current accounting definition. Do you agree? Would a capital budget give a more accurate picture of the government's true financial condition?

Answer. It may be true that under a capital budget the federal deficit would not vary much from what it currently appears to be in the unified budget. However, we are concerned Congress and the President might attempt to define capital spending to create an illusion of lower deficits.

We also are concerned that proponents of capital budgeting tend to view this as a change only on the spending side of the budget. Any meaningful approach to capital budgeting also should take into account the revenues required to liquidate capital expenditures: how and when they would be raised; how to account for such revenues, etc. This suggests a further emphasis on earmarked revenues in the federal budget -- a trend which we believe creates serious problems in the federal budget today.

3. Dr. Schultze would base receipts and expenditures in a budget resolution based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two?

Answer. The Congressional Budget Office has in fact assumed a steady sustainable growth rate of GNP in its February forecasts of economic and budget policy over the last five years. Such assumptions repeatedly have understated current policy deficits by billions of dollars (\$76 billion in FY 82; \$59 billion in FY 83; \$2.7 billion in FY 84; \$15 billion in FY 85; and \$11 billion in FY 86). This occurrence is difficult to explain to the American people when in each of those years legislation was enacted to reduce the deficit and yet the deficit continued to grow. Rosy economic assumptions understate the seriousness of the deficit crisis before us and reduce the political imperative for substantial actions to put the deficit on a downward track.

Further, to use a steady growth line for GNP rather than what actual projections would suggest understates the impact of federal deficit spending on the economy -- demand for credit, interest rate pressures, export trade impacts, etc.

4. If Congress continues to fund the government with continuing resolutions, containing appropriations for several if not all of the federal agencies, and include other legislative actions, doesn't this argue for a Presidential veto power of some type -- something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?

Answer. It is true that Congressional enactment of omnibus continuing resolutions for government spending has denied the President some of his authority to veto legislation. The Committee believes that the proposal offered by Senator Quayle for enhanced rescission authority (discussed in the response to Question #1, above) addresses this imbalance. In fact, the Quayle proposal allows the President a more specific veto tool than exists today, even if Congress passes individual appropriations bill.

5. Dr. Schick testified that in FY 85, barely one quarter of annual outlays came from discretionary appropriations for that year, and argues that multi-year budgeting would have little impact. What are your thoughts on this conclusion.

Answer. According to CBO historical data, nondefense discretionary spending for FY 85 comprised 18% of all federal outlays. As recently as FY 80, however, nondefense discretionary spending represented 26% of total federal outlays. This reduction was the result of successive deficit reduction initiatives in 1980, 1982, and 1984, each of which caused serious political pain.

Largely as a result of recent pressure to reduce the deficit, today there is tremendous pressure for spending increases: for the homeless, for catastrophic health insurance, for the war on drugs, and for any number of smaller programs -- most of them in the nondefense discretionary portion of the budget.

If Congress considers the budget and appropriations legislation less often, you will spend less money. Look at supplemental appropriations bills for evidence that added opportunities to move spending legislation add to total federal outlays. In our opinion, two-year budgeting would reduce the pressure for higher federal spending.

Additionally, biennial budgets and appropriations could reduce the time (and cost) subsumed by these activities. It could lead to better, more efficient planning. It could increase the time available for (and hopefully the quality of) Congressional oversight activities. Two-year budgeting will not solve the budget deficit problem, but it would be an improvement over the current one-year cycle.

6. What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

Answer. As noted above, we support the Quayle concept. It could do much to restore balance between the legislative and executive branches, a balance that has been upset by the advent of government-wide continuing resolutions and other omnibus appropriations actions. But enhanced rescission will not solve the deficit problem.

Enhanced rescission, however, may increase accountability in Congress and in the Executive. It would demonstrate how little can be saved in this manner, and/or through line-item veto. If it does promote a better balance of power between the legislature and the executive, if it does increase accountability for marginal spending initiatives, it could enhance the potential for compromise on a substantial deficit reduction package.

Mr. BROOKS. Mr. Wise.

Mr. WISE. Thank you very much. Thank you very much also for your suggestions. I wasn't here when you served. I have heard a lot about you.

Mr. RHODES. Just believe the good things.

Mr. WISE. I guess my frustration with the process and why I did support Gramm-Rudman is this whole budget process seems to me to be like watching wrestling live from the Omni in Atlanta on cable TV and you just can't keep the fellows in the ring. Hulk Hogan is always bouncing out to do an interview or someone gets thrown out of the ring. The tag team races out. You just can't keep all the players, the President, the House and the Senate, in the ring at the same time. It just seems to me that instead of having ropes that they can crawl through, you have to build a wall.

Your suggestions—Gramm-Rudman attempted to do that and I think your suggestions try to provide a little more structure, too, particularly dealing with the adoption of the President's budget.

The question I would ask is, and I have not thought this through, would that lead—would there be merit then for one group or another within the House and the Senate to stall, simply to get—would it be to someone's advantage not to work constructively for a budget in order to just simply have this thing triggered?

Mr. RHODES. Yes. I think that's a good point. It could happen that way. I really don't believe that a majority of the House and the Senate would feel that way. I think that there would be such—well, after all, we have an institutional love for the place. I just don't think you would find a majority of the Members want to just roll over and play dead and say, OK, we can't do it, we will take the President's budget.

Mr. WISE. That was the thought on Gramm-Rudman, too. I'm not sure it is going to work out that way but we will see. We are all trying to test the strength of the ropes in the ring right now.

Also, I was looking to see whether you had in your statement made any reference to the so-called budget summit that many have suggested. I just wondered, from your experience and observations, would such a thing be worthwhile or is it as some have charged, simply wimping out by the Congress, not willing to make the tough decisions but to turn it all over to a so-called summit that comes out with a proposal?

Mr. RHODES. Actually, I think, was it in 1981 that the group of 17 got together? I don't know whether or not that result was good or bad but at least it has happened. These were people from the leadership of the House and the Senate on both sides and people who were in the administration. They did, I guess, come up with some compromises.

Personally, I'm a creature of the Congress. I think that when the administration wants to do things that the first thing they should do is to get their chips in order and then come down here and talk to the committee chairmen, ranking minority members, and the members of the committees and try very hard to reach some accommodations.

There will always be tension between the two bodies. The founding fathers intended it to be that way and it is always going to be that way. But sometimes it is helpful, sometimes it is not. When it

is not, is when one body tries to ram something down the throat of the other and this is when you get absolutely no progress whatsoever.

Mr. WISE. Thank you very much.

Mr. BROOKS. Mr. Walker.

Mr. WALKER. Thank you, Mr. Chairman. I, too, appreciated your statement. You know, the one thing that concerns me a little bit about your idea of having the presidential budget enacted, if we don't do it, seems to be that you then have action by inaction by the Congress. I question whether or not that would stand up to constitutional scrutiny, because it's one of those problems that we have right now that people are suing right now over the congressional pay increase because we acted by inaction on that particular thing, and there are people who are contending that does not pass constitutional muster.

Mr. RHODES. You could be right. I hate to have you compare it to that mechanism.

Mr. WALKER. That's true.

Mr. RHODES. As to the congressional pay raise, to me, that is the worse thing that I ever saw a legislative body do to itself. You ought to vote on your own pay raise. I won't moralize about it. I've done it too many times already.

Mr. WALKER. I will say to you that in line with another suggestion, there is a kind of unique suggestion around here that has been done recently that says that Congress should be forced to pass all 13 of its appropriation bills before it passes the legislative appropriation bill. That would be the last one, and that would be the one in line and that the congressional pay would be included in that appropriations bill, so that we would only get paid after we had done our work.

It seems to me, you know, that might have as much pressure on us as nearly any other thing we could do around here.

I also appreciated, John, what you had to say about waiving the Budget Act. One of the things that really does concern me and I raise Cain on it out on the floor and it doesn't do a bit of good, I know, but at least it makes me feel good. We are really in a process around here of saying that we are above the law. We pass laws. We pass our own rules. Constantly, we simply waive them when they become inconvenient.

I will tell you that it seems to me that any reform in the budget process, no matter how good it may be, will ultimately get waived on the House floor by a Congress that regards any decision that has been made as something where they are simply above the law. When it becomes inconvenient for us to obey the law, we simply ignore it, even when it is the law of the land, and particularly our own rules. We waive our own rules on such a regular basis that our rules have become meaningless.

You know, I would appreciate some comment or a little expansion on the point. You do get into the business of waiving the budget rules in here and I think until we correct our own habits, that we are not very likely to be able to do a thing about making tough decisions.

Mr. RHODES. If the gentleman will yield, in the statement, and I didn't make it as part of my oral statement but it is there, I recom-

mended that any rule waiving points of order be adopted by a super majority. I think maybe two-thirds or three-fourths. I agree with you. Having served for 2 years on the Rules Committee, I saw the facility with which rules waiving points of order come out or rules which make only certain amendments in order come out.

I know that from time to time those things are necessary but I do believe that at least when I was on the Rules Committee, we did it too much.

Mr. WALKER. We very seldom have any rule on the floor today that does not either waive our own rules or waive the Budget Act. It is very, very seldom that we bring a rule to the floor any more where we are not in some way saying that we are about to declare ourselves above the law.

One final point, and that is with regard to the balanced budget amendment of the Constitution. There is a lot of controversy about that. The one thing that seems to many of us to be of some advantage is that it is the one thing that we can do that transcends Congresses. It is the one mandate that you can put in place that ensures that one Congress can't change the mandate of a previous Congress, that in fact once you have such an amendment in place, you do have an obligation.

Now, you may change the way in which you meet that obligation. Congresses can change the procedures. You do have the mandate that transcends the various Congresses and thereby it does provide a discipline that can be provided in no other way under our system and which is the reason why Jefferson was for it.

Mr. RHODES. Well, I don't know why Jefferson was for it but Rhodes isn't.

Congressman Walker, the main reason I am not is because I used to think of myself as a pretty good legal draftsman but I sat down and spent a whole day trying to draft a constitutional amendment for a balanced budget that I thought would make any sense in 50 years and I couldn't do it. There is just no way.

The main stumbling block is that a budget is not a word of art. Nobody knows what a budget is. It is what any Congress thinks it is at any given time. I thought the 18th amendment was really pretty silly, because you are trying to legislate morals, and I think that probably a balanced budget amendment would have just about as little meaning as the 18th amendment and very likely would do damage to the sanctity which I feel for the Constitution rather than get the job done.

Mr. WALKER. I would simply point out that State legislatures have to wrestle with exactly that point. They have to wrestle with that language and so on. A number of our States have found it to be a very valuable disciplinary tool. They have found all kinds of ways around it. We have all kinds of mechanisms that have been developed but nevertheless, most legislatures do take it seriously. It may be the only device that will ever be taken seriously around here because we certainly don't take the law seriously and we certainly don't take our own rules seriously.

Mr. BROOKS. Let me make one comment. Before I was in Congress, I was in the State legislature where I introduced a State constitutional amendment to abolish the automatic balanced budget—the pay as you go operation—because I thought it was a rotten deal

and was administered in the worse possible way. I ought to get you the quotes on what I said about the comptroller of the Texas currency, and you would have a clear understanding of what I thought then and what I think now about a balanced budget amendment.

Mr. WALKER. Does the State still have it?

Mr. BROOKS. They still have it. It's still rotten.

Mr. WALKER. But they do manage at the end of the year to have something that at least on paper is in balance instead of what we have in the Federal Government?

Mr. BROOKS. No, they've got a pretty good deficit right now. They have some problems. The oil crisis has really hurt them.

Mr. RHODES. Of course, one very, I think, cogent difference between the States and the Federal Government is that the Federal Government coins the money, it has charge of the monetary system and the States do not. The States have a constraint that the Federal Government does not and cannot have.

Mr. BROOKS. I want to thank you very much. You have been most gracious with your time. We appreciate your coming down, Mr. Rhodes and Ms. Joy.

Mr. RHODES. Thank you, Mr. Chairman. Thank you, gentlemen.

Mr. BROOKS. Our next witness is Dr. Allen Schick, professor of public policy at the University of Maryland. He is also currently an adjunct scholar at the American Enterprise Institute. Prior to joining the University of Maryland faculty, he spent 7 years at the Congressional Research Service as a senior specialist on the Federal budget. He has been a senior fellow at the Brookings Institute and a member of the research staff at the Urban Institute. He was the founding editor of the Journal of Public Budgeting and Finance.

We thank you for coming. We accept for the record your entire statement, and I hope that you would point out the more significant conclusions that you reached.

#### STATEMENT OF ALLEN SCHICK, PROFESSOR OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Mr. SCHICK. Thank you, Mr. Chairman.

There is much concern about the deficit and whether it was caused by the budget process. Perhaps a better way to think of the problem is, the process didn't cause the deficit, but the deficit has unraveled the budget process.

There is no reasonable scenario of changes in the procedures of Federal budgeting, executive or legislative, that could have averted the situation that led to big deficits in the 1980's. However, once we got the deficit, it became exceedingly difficult for Congress and the President, individually and without joint agreement, to find means of coping with it. Breakdowns, failure to meet deadlines, continuing resolutions, are in my judgment, a direct result of large, overbearing deficits.

In terms of the process itself, it is more useful to think of the changes that have occurred without reform than of the reforms that have been proposed. The changes are more important than the reforms, much more far-reaching and fundamental.

One fundamental change has been in the composition of Federal expenditure, expressed by the rising share of entitlements, up from somewhat more than 20 percent in the 1960's, 46 percent now, and the CBO baseline carrying entitlements to over 50 percent in the early 1990's. Together with interest payments, entitlements and other mandatory spending account for almost two-thirds of the Federal budget.

The budget process, as we have in the executive and legislative branches, was not made for entitlements. If we were designing a budget process for a government of entitlements from scratch, we would not install the appropriations process in Congress or the budget request procedures in the executive branch that we have today.

The second change of quite great importance has been the rise in omnibus legislation. This development is a product entirely of the 1980's. There is no precedent prior to the 1980's for legislation of this size or sprawl. In 1981, four measures covered 865 pages. In 1982, 573 pages. In 1983, 336 pages. In 1984, three measures covered 1,136 pages; in 1986, four measures added up to 1,792 pages in the statutes.

These legislative vehicles have overridden virtually every aspect of budgetary procedure and order in Congress. They are the means not only of making virtually all the budget decisions for the year, but also of making a great number of authorizing and substantive legislative decisions that have little or no relationship to the budget.

A third change has been Presidential/congressional negotiations on the budgets. These three changes have occurred without adoption of the perennial budget reforms which have been proposed in the past and continue to be proposed, such as the item veto.

The item veto has very little to do with the control of spending, and very much to do with the distribution of power between Congress and the executive branch. The item veto would have no effect whatsoever on entitlements, which are the main problem in terms of spending growth and budgetary control. To the extent that it would be effective, the item veto would relate to that part of the budget which poses the least problems of financial control and has been declining as a percentage of total spending.

The capital budget idea also has been attenuated, I believe, by the changing character of Federal budgeting. If we take the strictest definition of capital expenditure, comparable to what is used in the States, all we would have in the fiscal 1988 budget would be about \$13 billion. The deficit, if we subtracted this amount without adjustment for depreciation, would still be \$94 billion. But if we adopted the most expansive definition of capital investments, we would find that they total not \$13 billion, but \$210 billion, and that rather than the Federal Government having a \$94 billion deficit, it would have a \$102 billion surplus.

When you can ping-pong from a \$94 billion deficit to a \$102 billion surplus, the capital budget offers great leeway for manipulation and would add to confusion.

There are two other reforms which I would allude to, which have been proposed from time to time. They are still on the agenda because we think they haven't happened, but they are substantially

underway, though not necessarily in the form that has been proposed by reformers.

One is multiyear budgeting. The Congress does not now have an annual process. It only thinks it has an annual process. Well over half of each year's spending is derived from permanent appropriation. More than half of the remaining portion is derived from decisions made in preceding Congresses. When the Defense Department has carryover balances in excess of \$250 billion, and the Federal Government, as a whole, has carryovers in excess of \$1 trillion, it is misleading to think that the 1987 session of Congress will control 1988 spending decisions—which is what we mean by an annual budget. It just isn't so.

We have a multiyear budget process without the form or procedures of multiyear budgeting.

The same is true with respect to the relationship of authorizations and appropriations. Proposals made by Dr. Rivlin a number of years ago to meld these two processes together have not been accepted formally by Congress, but it has been moving in that direction. For example, permanent appropriations which account for more than half of total spending always have permanent authorizations, in which the authorization and the appropriation decisions are made in the same measure.

The omnibus measures sprawling over hundreds of pages, which I mentioned a little while ago, often combine authorization and appropriation decisions in the same action. The continuing resolution will authorize a program and it will also make the appropriations for the program. We do not really have separate processes, other than on paper.

The main area where we still have separate, parallel processes is defense programs. It could be that if the Armed Services Committees were to take biennial authorizations seriously, we would have a significant division of labor between what they do and what the Appropriations Committees do.

I will conclude by mentioning two areas of the budget process which need fixing.

One is deficit reduction. Gramm-Rudman has produced modest deficit reduction. It has produced, however, perverse side effects, such as more gimmickry than ever before, less genuine reduction by Congress than in any previous election year in the 1980's, and a substantial shortening of the time framework of congressional decisions.

One of the advances in budgeting prior to Gramm-Rudman was that Congress looked at deficit reduction over a 3-year period. It now looks at a snapshot of 1 year at a time; any gimmick that handles that year's problem is welcome by Congress, regardless of what the impact is on the outyears.

Finally, with respect to omnibus legislation, the trends mentioned before have created enormous problems with respect to the reliability, responsibility, and order of the legislative process. When just four bills total 1,800 pages and comprise hundreds of unrelated items are considered under a closed or restricted rule in the House, that is not an orderly process. The Obey procedure, despite its laudable intentions, would only worsen matters. The Obey omnibus procedure can be described as H.R. one-and-only. It might be the only

bill enacted by Congress in that session; it would be an enormous vehicle carrying into law numerous items that Congress itself would not know what it's doing.

These seem to be the trends and problems in congressional budgeting. In conclusion, I would urge, Mr. Chairman, this committee and Congress as a whole, if they set about the task of reforming the budget process, they reform the process which actually exists, rather than the process which simply seems to exist on paper.

Thank you.

[Mr. Schick's prepared statement follows:]

Statement of Allen Schick  
Before the  
Legislation and National Security Subcommittee  
House Committee on Government Operations  
March 12, 1987

Mr. Chairman, I welcome this opportunity to discuss possible improvements in the federal budget process. Budgeting has always been fertile ground for reform proposals. The presidential budget process was established in a tidal wave of reform more than 60 years ago. In the decades since the Budget and Accounting Act of 1921, enthusiastic reformers have promoted a succession of innovations: performance budgeting, program budgeting, PPB, ZBB, and others. Though it has been in operation for barely a dozen years, the congressional budget process set up in 1974 has already been reformed a number of times. Multiyear budgeting was introduced one year, the reconciliation process another, credit budgeting a third, and so on. It appears that congressional budgeting has not been precisely the same process two years in a row.

Now we have a fresh batch of reforms, some perennials which crop up every few years, some new versions of old ideas. The perennials include the item veto and capital budgeting; the new ideas include enhanced impoundment power and omnibus budgeting. In assessing the old and new ideas, it is worth reflecting on why reform is a constant in federal budgeting. Reform is so satisfying because the process and often the outcomes as well are

inherently unsatisfying. Budgeting are made in haste, laced with conflict, decided with less-than-desired information under time pressures that preclude the delays common in other areas of public decision, and with results that often displease key participants. The budgeter's old adage, "budgeting is the uniform distribution of discontent", has a great deal to do with the unending search for a better process. Reform is a way of recognizing existing inadequacies while striving to make the next cycle more rational and satisfying. For reformers, a better process is one that generates less friction and more information, operates on schedule without glitches, and produces the intended results. These ambitious objectives are never quite within reach, which is why budgeting is perennially beset by proposed changes. I am certain that if federal budgeting is flourishing a century from now, that generation's reformers will still be tinkering with its machinery.

In budgeting, the process gets blamed for the results. This tendency has been especially pronounced in an age of mega-deficits. It is more expedient to fault the process than to blame the results on shortcomings in political will. But because American politics suffers from a congenital anti-Congress bias, the lion's share of the blame converges on the East end of Pennsylvania Avenue. It is the 1974 Act, not the 1921 legislation that is seen as inadequate. The "blame Congress" syndrome is skillfully exploited by the White House to aggrandize its budgetary power. In the name of fiscal prudence, the President campaigns for an item veto, enhanced impoundment power,

a statutory budget resolution, and other means of shifting budgetary capacity from legislative chambers to executive suites.

It seems ironic that while budget reform has often fallen short of the mark in the past it is so eagerly sought for the future. I suggest that reformers put their pet ideas to a simple test: would a change in budgetary procedure have averted the deficit problems and legislative gridlock of the 1980s? My own assessment is that the huge deficits have resulted from the extraordinary political circumstances of 1981, so revealingly chronicled in David Stockman's memoirs. In that exciting year, neither congressional budgeting nor economic reasoning could withstand President Reagan's determination to cut taxes while building up defense. When Congress went along with these demands but made more limited domestic cutbacks than had been sought by the White House, horrendous deficits became unavoidable.

Congress' chronic failure to meet its budgetary deadlines is partly a function of the deficits and conflict with the President over budget policies. But it is also due to the extraordinary complexity of the congressional budget machinery. I doubt that anyone would design what now passes for Congress' multiple budget processes from scratch; the question of whether reform can undo 200 years of accretion remains to be seen.

There is a niche for reform in budgetary improvement, but I urge the Committee not to mistake procedural fixes for substantive policy. Reform would make Congress a more workable institution; it would not ensure better budgetary results.

### Three Non-Reforms That Have Changed Federal Budgeting

With the exception of Gramm-Rudman-Hollings, about which some comments will be offered later, Congress has not made significant statutory changes in the budget process since 1974. But three trends have transformed federal budgeting in ways that must be taken into account by would-be reformers. The changes are related to one another, but are discussed serially in the paragraphs that follow.

(1) The changed composition of federal expenditure. The mix of federal spending has been altered by the steady growth in entitlements. As shown in the following table, entitlements have increased their share in total spending from less than 30% in 1962 to more than 45% in the 1986 fiscal year. CBO's baseline

COMPOSITION OF FEDERAL EXPENDITURE  
(as % of total expenditure)\*

Fiscal Year	Entitlements**	National Defense	Net Interest	Discretionary Domestic
1962	29.3%	49.0%	6.5%	21.1%
1972	41.4	34.3	6.7	23.8
1986	46.2	27.6	13.7	17.2
1992 Baseline	50.6	26.5	11.8	15.3

\*Percentages add to more than 100% because offsetting receipts are not included.

\*\*Entitlements include other items classified as mandatory by CBO.

projections show entitlements accounting for more than half of total spending in 1992. With interest (which has many of the

same characteristics as entitlements) added in, mandated expenditures will account for almost two thirds of the total if current policy remains unchanged into the 1990s.

The growth in entitlements has a number of implications for the process of budgeting. For one thing, most of the established routines of executive budget preparation are irrelevant to estimating the costs of entitlements or making decisions about them. The procedures of agency requests and OMB review were designed for discretionary decisions concerning program size and agency operations. They are a clumsy and inefficient means of budgeting for entitlements. Second, the prominence of entitlements has transformed the bulk of the President's budget from recommendations requiring congressional action into estimates that take effect with congressional inaction. Third, in many years, the key role of the budget process in allocating incremental resources has been pre-empted by the built-in rise in entitlement payments. It is not uncommon for increases in these payments to exceed the total year-to-year increase in federal spending. Fourth, the growth in entitlements has shrunk the scope of the appropriations process in Congress. Less than half of the budget is allocated through the appropriations process each year. Fifth, entitlements have eroded the principle of annuality in federal budgeting. Entitlements are typically mandated in permanent law that continues in effect unless changed by Congress. Finally, entitlements have rendered some perennial reforms, such as the item veto, less relevant to the control of federal spending.

In sum, much of the machinery of presidential and congressional budgeting is ill suited for decisions on entitlements.

(2) The changed composition of congressional budget decisions. Congress has adapted to the growth in entitlements (and other developments not discussed here) by changing the character of its budget decisions. When most federal spending was determined by discretionary appropriations, Congress acted in a fragmented manner. It passed more than a dozen appropriation bills each year and made numerous other budget-related decisions in separate legislative measures. Fragmented budgeting worked reasonably well, as Aaron Wildavsky argued in his famous work on The Politics of the Budgetary Process when incremental resources were allocated through annual discretionary decisions. But fragmentation is less reasonable when one half of the budget takes effect and grows by inaction and the other half depends on annual action.

The Congressional Budget Act of 1974 was one means of permitting legislative fragmentation to coexist with budgetary coordination. In 1980, Congress took a big step toward integrating entitlements into the budget process by using the reconciliation procedures provided in the 1974 Budget Act to align existing law with current budget decisions. Reconciliation opened the door to the enactment of omnibus measures that span numerous (often unrelated) areas of federal policy. The table belows shows that a number of different "vehicles" have been used by Congress for the enactment of omnibus measures. In addition

to reconciliation bills, these include continuing resolutions and supplemental appropriations, tax legislation, and deficit reduction bills.

MAJOR OMNIBUS MEASURES, 1981-86

Year	Measure	Number of Pages in Statutes	% Total Number of Statute Pages
1981	Supplemental Appropriation	83	
	Tax Legislation	184	
	Reconciliation Bill	577	
	Continuing Resolution	21	
	Total	865	50%
1982	Reconciliation Bill	45	
	Tax/Deficit Reduction	374	
	Supplemental Appropriation	59	
	Continuing Resolution	95	
	Total	573	22%
1983	Supplemental Appropriation	147	
	Supplemental Appropriation	64	
	Continuing Resolution	19	
	Social Security Amendments	106	
	Total	336	23%
1984	Deficit Reduction	717	
	Supplemental Appropriation	56	
	Continuing Resolution	363	
	Total	1136	33%
1986	Reconciliation Act	310	
	Reconciliation Act	215	
	Continuing Resolution	389	
	Tax Legislation	878	
	Total	1792	not available

Continuing resolutions (CRs) provide dramatic evidence of how budget-related measures have been transformed. Before the 1980s, the typical CR was only two pages long; now they sprawl over hundreds of Statute pages. The old continuing resolution was a temporary measure that was in effect for only part of the fiscal year; the new CR is effective for the entire fiscal year. The old continuing resolution provided interim funding

until the regular appropriation bills were enacted; the new CR has become the means of enacting the regular appropriations. The old continuing resolution provided funds at a "continuing" rate; the new CR funds each appropriation account at the level specified in the measure (or in a measure referenced to it). The old continuing resolution rarely contained significant amount of substantive legislation; the new CR is a principal vehicle for the enactment of substantive provisions, including some that have no relation whatsoever to the budget.

Omnibus measures have a number of important implications for presidential and congressional budgeting. On the executive side, these measures weaken the capacity of the President to pick and choose from among the spending items passed by Congress. An omnibus measure gives the President an all-or-nothing choice: veto the CR and federal agencies will have to shut down; veto the supplemental and the items that you want in it are lost; veto the reconciliation bill and deficit reduction is aborted. President Reagan, who has been on the receiving end of most of the omnibus measures passed by Congress, has signed almost all of them into law, though he has often railed against the process and the results ensuing from it.

On the congressional side, omnibus measures bypass normal authorizations and appropriations procedures, "grease" the passage of nongermane matters, change the political relationship between committees and the floor, and strengthen the role of party leaders and other brokers of the budget process.

(3) The changed presidential-congressional relationship.

The President has traditionally had a limited, mostly behind-the-scenes, role in the fragmented appropriations process. Agencies took the lead in justifying their requests before cognizant subcommittees, yet the President could usually expect the final outcome to adhere closely to his recommendations. Now, however, that Congress has become adept at packaging a large number of budget items along with substantive legislation in omnibus measures, the President often has to take an earlier and more active role in shaping the results.

The congressional budget process which was intended to give Congress independence has given the White House more direct means than before to influence budget decisions in Congress. For its part, Congress now has a more direct and coordinated means of opposing and altering the President's budget policies. As a consequence, the legislative and executive branches have become more interdependent; each is more vulnerable to having its budget preferences blocked by the other. Interdependence has led the two branches to superimpose high-level budget negotiations on the fragmented processes. Because of policy and partisan differences, the negotiations are not always successful. These negotiations deal with the "macro" framework of budgeting; tax and spending totals and decisions on a handful of major categories that reflect the changed composition of expenditure: defense programs, discretionary spending, means-tested entitlements, and other entitlements. Omnibus measures are

efficient vehicles for carrying out the macro decisions in specific revenue and spending actions.

The advent of negotiated budgets has affected both executive and legislative behavior. Nowadays, the budget submitted by the President is less likely than was the case in the past to represent his actual preferences; rather, it serves as an opening position in a bargaining process. It is for this reason that DOA (dead on arrival) Reagan budgets have exercised considerable influence over congressional decisions.

Negotiated budgeting has bolstered the role of party leaders in Congress and has made them active shapers of budget policy. It wasn't long ago--in the era of House Speaker Albert and Senate Majority Leader Mansfield--that leaders eschewed substantive issues and focused on scheduling and other procedural matters. In the last Congress, by contrast, Speaker O'Neill and Majority Leader Dole were active in developing Democratic and Republican budget positions.

Two Reforms That Have Been Made Less Potent by the  
Transformations in Federal Budgeting.

Proposals to reform federal budgeting often seek to change the process that existed in the past. They are ill suited for the transformed process now in operation. The item veto and capital budgeting are two perennials in budgeting. The former has more to do with the distribution of political power than with the control of expenditures; the latter would not--unless the definition of capital investments was exceedingly broad--make much difference in budgetary practice.

The Item Veto. Ronald Reagan has argued that an item veto would restrain the growth in federal spending and deficits by enabling the President to delete (or reduce) funds added by Congress. The President points to the fact that the governors of more than 40 states can veto items in appropriation bills. But governors face appropriations structures and spending patterns that differ greatly from the federal situation.

Despite the steep rise in federal spending, the number of appropriation accounts has declined over the years. As annual expenditures cross the trillion dollar mark, the federal government has fewer distinct appropriation items than it had early in this century when spending reached one billion dollars a year. The bulk of expenditures is crammed into a few hundred accounts. "Items" appear in supporting documents such as justification books and committee reports, but rarely in the text of appropriation bills.

If item vetoes were applied to the text of appropriations, they probably would have limited impact on federal spending. Congress could constrict the President's veto power by consolidating programs into fewer accounts while still controlling the details of expenditure through report language, reprogramming procedures, and other methods beyond the reach of the veto.

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The utility of the item veto has also been attenuated by the changing composition of federal expenditures. Because of the growth of entitlements, only about half of total spending is funded in appropriation bills. Appropriated entitlements (such

as veterans' compensation) would not be effectively controlled by an item veto. An item veto over discretionary appropriations might strengthen the President's hand in budgetary disputes with Congress, but it would not produce much expenditure control.

A Capital budget. Concern over deterioration of the nation's infrastructure has revived interest in a capital budget that would allocate resources to investments that contribute to the future wellbeing of the United States. Capital budgeting is an appealing idea that raises complex policy and technical questions: What would be the effect of a dual budget on the government's capacity to stabilize the economy? Is it practicable to devise and enforce accounting rules that would preclude manipulation of capital accounts to show lower operating deficits? Would a separate capital budget distort budget priorities in favor of, or against, investment in physical assets? Would federal debt practices have to be altered to show the continuing costs--through depreciation or other charges--of financing capital projects?

In assessing whether a capital budget would aid the rebuilding of the nation's roads and public facilities, it should be noted that the federal government owns less than 15 percent of the civilian capital stock (structures and equipment) of American governments; more than 85 percent is state-local owned. If there is an infrastructure crisis--and I am not convinced that there is one--it is primarily because state and local governments (most of which do have separate capital budgets) underinvest in capital improvement.

The impact of capital budgeting would depend on the definition of capital outlays. One conception of capital outlays is of investments that produce benefits in future years, whether or not a physical asset is acquired. A more restrictive definition would limit the capital budget to the acquisition of fixed assets. If the first definition were used, the capital budget would be very large; if the second were applied, federal capital spending would be much smaller. The following table adapted from the fiscal 1988 budget shows how different definitions of capital outlay would affect the size of the operating budget deficit. Note that investment in federally owned, nondefense physical assets amounts to barely one percent of total federal spending, not enough to warrant a separate capital budget. But cumulative capital outlays would grow and

CAPITAL OUTLAYS UNDER DIFFERENT DEFINITIONS, 1988 FISCAL YEAR  
(in billions of dollars)

Type of Capital Investment	Outlays	Cumulative Outlays	Deficit(-) Surplus(+)*
Federally-Owned Nondefense Physical Assets	\$13.4	\$ 13.4	-\$ 94.4
Defense Physical Assets	90.0	103.4	- 4.4
Grants to States-Localities for Physical Assets	22.9	126.3	+ 18.5
Research and Development	59.5	185.8	+ 78.0
Education and Training	22.2	208.0	+ 100.2
Loans & Financial Investments	2.0	210.0	+ 102.2

\*The surplus or deficit in an actual capital budget would vary from these amounts because no adjustment has been made in the table for depreciation or for capital receipts.

the deficit would correspondingly shrink as the capital budget is expanded to military investments, assets financed by the federal government but owned by states and localities, and investments in human capital such as education and training. If all types of investments were included in the capital budget, the federal government might now have an operating surplus rather than the substantial deficit reported in the unified budget.

In my view, the wide range of definitions would open the capital budget to misunderstanding and manipulation. A capital budget would not necessarily improve the nation's infrastructure or the government's planning capacity. It might diminish the potency of fiscal policy and would open up difficult conceptual and technical issues. I share the OMB view that

The true net worth of the Federal Government is based on the strength of the American economy, not on what the Government owns as physical or financial assets...The primary financial asset of the Government is an asset not available to any private business; the ability to tax.

#### Two Reforms That Are Underway But Have Not Been Adopted

If the efficacy of the item veto and the capital budget has been weakened by the transformation in federal budgeting discussed earlier, two other proposed reforms have been significantly advanced by these developments. One is multiyear budgeting, the other is the fusion of the authorizations and appropriations processes. Neither of these reforms has been formally adopted by Congress, but both are practiced in a substantial portion of the federal budget.

Multiyear budgeting. Before entitlements, virtually all appropriations were voted each year by Congress. Annual

appropriations were an effective means of controlling annual expenditures. This is no longer the case. Although regular appropriations are still made one year at a time, only a small portion of a year's outlays derives from that year's appropriations. The table below is based on fiscal 1985 OMB budget tapes, but the pattern is even more pronounced in the current fiscal year.

FUNDING SOURCE OF FISCAL 1985 OUTLAYS  
(in billions of dollars)

Source	Amount
Permanent budget authority that became available for fiscal 1985	\$ 526.5
Permanent budget authority carried over from prior years	100.7
Discretionary funds in fiscal 1985 appropriations	245.6
Appropriated entitlements	100.3
Carryover budget authority from prior-year appropriations	163.3
Offsetting receipts and intragovernmental transactions	-177.3
<b>Total estimated outlays</b>	<b>959.1</b>

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According to this table, barely one quarter of annual outlays derive from discretionary appropriations for that year. More than half come from permanent appropriations that do not entail congressional action. Sizable amounts are carried over from appropriations enacted in prior years. These obligated and unobligated balances exceed one trillion dollars and are a pool of funds that will be spent without new congressional

decisions. Approximately \$100 billion in current spending comes from appropriated entitlements that are not effectively controlled on an annual basis.

These data show a disparity between the form and reality of the annual appropriations process. Most federal spending is part of a flow of policies and actions that cannot be compartmentalized into fiscal years. Retired workers and bondholders cannot rely on the uncertainties of annual appropriations for their money; procurement contracts and construction projects extend over a number of years that cannot be efficiently chopped up into annual installments.

In effect, the federal government now has an annual budget process for discretionary spending that is appropriated and outlayed in the same fiscal year and a multiyear process for all the rest. It turns out that the annual process is used for the portion of expenditure that poses few budget control problems, while the multiyear process is used for spending--such as for entitlements--that is difficult to control. To me, this is a somewhat perverse division of budgetary labor.

I do not think, however, that Congress is ready for multiyear appropriations. The myth of annual control is branded into the behavior and outlook of the Appropriations Committees and they would surely resist any formal raid on their turf. Instead, I foresee the transformations in budgeting progressively eroding the scope of annual appropriations.

The authorizations-appropriations processes. The authorizations process is another area where change has evolved

without formal adjustment in the rules. While it is hard to generalize about authorizations because they come in many different forms, it appears that the notion of separate authorizations and appropriations processes has been overtaken by developments in many--but not all--parts of the budget. Congress still has distinct processes when it prefers it that way, most notably in making decisions about defense programs. But in the following two areas of the budget, Congress fuses authorizations and appropriations decisions in the same measure:

- Permanent appropriations are established in authorizing legislation. The rise in entitlements has made these appropriations a larger part of total spending. Moreover, as has been noted, decisions on appropriated entitlements are effectively made in authorizing legislation, not in appropriations.
- Authorizations enacted in omnibus measures such as continuing resolutions and reconciliation or deficit-reduction bills. In these cases, the normal authorizations process is bypassed, either by enacting the authorization and appropriation in a single measure, or by combining many authorizations and other budget actions in an omnibus bill.

Because of these developments, the notion of separate authorizations and appropriations process is eroding. But I believe it would be as futile to try to formally merge these processes as it would be to end annual appropriations. Change

will have to occur in an evolutionary manner, not by uprooting long-established House and Senate rules.

Two Developments That Need Reform

The transformations discussed in this statement have occurred because Congress is an adaptive, self-correcting institution. But not all adjustments are sound. I would like to briefly comment on two recent developments that need improvement. One is the deficit reduction process, the other is reliance on omnibus measures. The two developments are closely related because pressure to cut the deficit has led Congress to devise the comprehensive legislative packages discussed earlier.

Deficit reduction. As a skeptic when Gramm-Rudman-Hollings was cooked up in 1985, I must admit tht it has contributed modestly to deficit reduction. The fiscal 1987 deficit would have been a bit higher were it not for GRH. This law has directed constant attention to the need to reduce the deficit and has fostered deficit-neutral behavior in Congress.

But this is not the whole GRH story. In the year of Gramm-Rudman-Hollings there has been more gimmickry and less genuine reduction (other than through sequestration) than in any previous election year during the 1980s. Without GRH, Congress reduced the deficit more in 1980, 1982, and 1984 than it did in 1986. The accounting tricks used in the last session to show more deficit reduction than was actually achieved surpass anything I've seen in 25 years of budget watching.

I applaud the willingness of House and Senate Budget Committee chairmen to accept a fiscal 1988 deficit above the GFH

target. The only way to meet the \$108 billion deficit level set in GRH would be to devise more and bolder tricks than were invented last year.

While it's not worth trying to fix Gramm-Rudman-Hollings--to do so would invite a great deal of posturing on the deficit--I would urge improvements in the arithmetic of deficit reduction. Not only does current practice encourage legerdemain, it also spawns a great deal of confusion as to the amount of reduction that is actually being achieved. While I understand why deficit reduction is computed against a current policy baseline, this method makes it possible to show spending increases as deficit reductions. Medicare is a good example of how the political arithmetic of deficit reduction impairs congressional and public understanding. According to the data used in computing deficit reduction, more than \$30 billion has been trimmed from Medicare in the 1980s. During this same period of time, Medicare costs have risen by more than this amount. Nobody really knows how much has been pruned from Medicare. My own view is that the savings have been substantially overstated, that behavioral changes in the health care industry have either countered or adapted to the changes sought in legislation or administrative action, and that the public believes that a lot more has been taken from Medicare than is actually the case.

To discourage accounting tricks, Congress could count revenue from loan asset sales as means of financing the deficit rather than as deficit reduction. And it should revert to the 3-year deficit reduction calendar in use before Gramm-Rudman-

Hollings narrowed Congress to one-year-at-a-time behavior.

Omnibus measures. These measures are usually legislated by stealth, under rules and time pressures that preclude reasonable consideration in committee or on the floor. Under the guise of reducing the deficit, last year's COBRA and OBRA enacted dozens of provisions that had nothing to do with the deficit or with the budget. Some of these provisions were enacted without due legislative process: no opportunity for floor amendment and without affected interests even knowing what was in the measure. It is one thing to impose a closed or limited rule on a bill that covers a single topic; quite another to foreclose floor change on a measure that sprawls across numerous unrelated matters.

I would urge this committee to consider an automatic continuing resolution to take effect when regular appropriations have not been enacted by the start of the fiscal year, and to consider changes in the budget process that would curtail recourse to omnibus measures.

Mr. Chairman, we do not now live in an age of reform. Compare the great reorganizations implemented in the past with today's inattention to matters of government organization. Perhaps we should be more oriented to reform, but the business of innovation depends on confidence that the changes being sought will be beneficial and will work out as intended. Lacking confidence, Congress either turns to straitjackets such as Gramm-Rudman-Hollings or chooses to do nothing. Perhaps the latter course is to be preferred, for it at least would allow the transformation of budgeting to proceed in evolutionary fashion.

Mr. BROOKS. I want to thank you very much for discussing a most interesting facet of this budget problem. I think it's very well done. It's shocking on page 4, the simple analysis that entitlement spending accounts for 46 percent of the annual budget, the national defense is 27, the net interest is 13, and discretionary domestic is 17. It just points out the problem that it's almost impossible to take \$60-\$70 billion out of 17 percent of the annual budget.

Mr. SCHICK. Mr. Chairman, if we closed down domestic government——

Mr. BROOKS. Altogether.

Mr. SCHICK. We would still have a deficit.

Mr. BROOKS. Altogether.

Mr. SCHICK. For a whole year; yes, sir.

Mr. BROOKS. Just close it off.

Mr. SCHICK. That's right.

Mr. BROOKS. I have some questions that I am going to submit to you in the interest of getting this record put together.

Mr. SCHICK. Thank you, Mr. Chairman.

[Mr. Schick's submissions to Mr. Brooks' questions for the record follow:]

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR ALLEN SCHICK

1. WHAT PROBLEMS DO YOU SEE WITH REQUIRING CONGRESS TO ACT ON OMNIBUS BUDGET BILLS?
2. HOW DO WE GET PRESIDENTIAL AND CONGRESSIONAL ACCOUNTABILITY BACK INTO THE BUDGET PROCESS?
3. WHAT EFFECT HAS THE GRAMM-RUDMAN PROCESS HAD ON THE ABILITY OF CONGRESS TO FULFILL ITS STATUTORY MANDATES UNDER THE REGULAR BUDGET PROCESS, SUCH AS PASSING INDIVIDUAL APPROPRIATIONS BILLS?
4. HOW WOULD AUTOMATIC CONTINUING RESOLUTIONS AFFECT OUR CURRENT BUDGETARY PROBLEMS?
5. HOW CAN WE COMBINE SPENDING AND REVENUE GENERATING DECISIONS TO MAKE BETTER ECONOMIC DECISIONS AND IMPROVE THE BUDGET PROCESS?

Allen Schick

Responses to Questions Submitted by Rep. Jack Brooks

1. I foresee two serious problems in the use of omnibus budget bills. (a) The whole bill would be hostage to agreement on all of its parts, so that dispute on a particular provision might block enactment of the overall budget; and (b) an omnibus bill would be a vehicle for nongermane matters that have little or nothing to do with the budget. In my view, these problems would negate the benefits of omnibus budgeting.
- (a) One of the virtues of fragmented budgeting is that Congress can act on those measures on which agreement has been reached while deferring action on matters in disagreement. Historically, this was the way the authorizations and appropriations processes operated. Congress considered dozens of separate authorizing measures and appropriation bills each year. A few of these measures were stalled by impasse, but most were acted on in the course of the session, as committees completed their work and floor time became available.
- In recent years, however, Congress has enacted a number of massive budget measures, including reconciliation bills and continuing resolutions. It is not surprising that some of these bills have been enacted near the end of the session, after months of protracted conflict. Consideration of an omnibus measure can be stalled by disagreement over any of its provisions. The prospect for conflict is increased by the tendency of these measures to contain extraneous provisions, such as whole authorizations. Thus, in addition to conflict over budget policy, omnibus measures are likely to be stalled by fighting over substantive provisions.
- (b) The rules of the House envision a clearcut distinction between different types of measures. Financing decisions are to be made in appropriations act, substantive policy in authorizing legislation. These distinctions collapse when Congress devises omnibus measures. It is tempting to emplace in these measures matters that could not be enacted on their own. As "the last train out of the station," the continuing resolution has become a haven for nongermane matters. One recent continuing resolution, for example, recodified the entire criminal code of the United States. The main continuing resolution for the 1987 fiscal year contains dozens of provisions that have nothing to do with the appropriation of funds. Many of these provisions are enacted with little or no consideration in committee and under floor rules that bar amendments. Legislation by stealth has displaced orderly process in Congress.

An omnibus budget bill would be far broader than a continuing resolution and would, therefore, invite even greater abuse of the legislative process.

2. In order to improve presidential and congressional accountability in budgeting, we must first understand why and how these branches of government have behaved in an unrealistic (some would say, irresponsible) manner in recent years. One part of the explanation is that politicians behave responsibly when the choices are easy, for example, when the economy is vigorous, resources are abundant, and opportunities are ripe for program expansion. In these circumstances, they can issue reasonably accurate assessments of the economy and be realistic about the options facing them.

But when the economy is weak and abundance turns into deficits, politicians have two unpleasant choices: to make cutback budgets or to make escapist budgets. Clearly, the latter path is the easier of the two. Yet, it should be acknowledged that the President has proposed cutbacks and Congress has enacted some. But the President has also issued rosy scenarios on the economy and has vastly underestimated the size of the deficit. For its part, Congress has resorted to "blue smoke and mirrors" when genuine deficit reduction has been beyond reach.

I would note that the Gramm-Rudman-Hollings process, with its rigid emphasis on deficit targets, has provided added incentive for gimmickry and escapism in both branches.

The first step in the restoration of accountability might be to repeal the GRH targets or at least modify them so that each year's installment of deficit reduction is within reach. As a substitute for GRH, Congress might be required to liquidate a certain percentage of the deficit each year.

A second step would be to develop more objective economic forecasts. Studies have shown forecasts tend to be wider of the mark for each successive outyear. The economic projections are fairly accurate for the year in progress, a bit less so for the next year, and much less so for later years. As a result, long-term projections usually show the deficit dropping and the country moving toward a balanced budget. I would urge use of more conservative forecasting tools, though I would be reluctant to tamper with the discretion of elected officials to use the forecasts that they want to use.

Ultimately, therefore, the key correction to fiscal irresponsibility must be through the political process rather than through reform of the machinery of budgeting.

3. The Gramm-Rudman-Hollings process has complicated the task of adopting the budget resolution and enacting appropriation bills, but it is not the main cause of Congress' failure to act on these measures in a timely manner. Congress had difficulty meeting its budget deadlines before GRH, because it is the deficit--not the deficit-reduction process--that makes it difficult to obtain agreement on budget matters.

Big deficits pose two problems for congressional budgeting. First, Members are required to vote for cutbacks rather than for increases; second, to pass a budget resolution, a majority must vote in favor of the deficits. It is much easier for Members to vote against cutbacks and deficits than for either of these undesirable conditions.

Delay is Congress' characteristic means of coping with conflict. Inasmuch as big deficits have intensified budgetary conflict within Congress and between it and the White House, they have also delayed action on appropriation bills and budget resolutions.

The GRH process has made matters a bit worse, however. Because all the appropriation bills have to be "shoehorned" into tight GRH targets, Congress has to see each of these bills in relation to all of the rest before it can act on any of them. It is convenient for Congress to package all of the regular appropriations in an omnibus continuing resolution so that it can determine--and negotiate with the White House over--total spending for the fiscal year.

If deficits and cutbacks are the principal obstacles to orderly budget procedure, it is unlikely that reform of the budget process would significantly accelerate congressional action. It also follows from this argument that if deficits were to abate and Congress were to once again make incremental appropriations each year, budget decisions would be made more expeditiously, even if no changes were made in the process.

4. The impact of an automatic continuing resolution would depend on the level at which spending was set for appropriations not enacted by the start of the fiscal year. While I generally favor an automatic continuing resolution (to avert use of the CR as a vehicle for unrelated legislation and to end the uncertainty and bickering that occurs each year), I would urge that spending be pegged at levels that (a) would not give either the President or Congress undue advantage in disputes over budget priorities, and (b) would not deter Congress from moving ahead on the regular appropriation bills. In other words, an automatic continuing resolution should set spending at levels unsatisfactory to both the President and Congress. If this were the case, the automatic provision would be viewed as a stopgap device and Congress

would have a strong incentive to act on the regular appropriations.

In line with my suggestion that the continuing resolution be a temporary measure, I would envision the following arrangement:

- The automatic continuing resolution would be effective until Congress adopted regular appropriations or until Congress adjourned sine die, whichever came earlier.
- Spending should be set at the lower of (a) the previous year's rate, (b) the President's budget recommendation, or (c) House or Senate passed appropriations for the next fiscal year.

An automatic continuing resolution would not significantly alter other features of congressional budgeting. It would not, therefore, remedy other problems in the budget process, such as the failure to enact authorizations or to adopt the budget resolution on schedule.

5. The budget resolution and the reconciliation process provide a means of coordinating revenue and spending decisions. For example, the budget resolution for the 1988 fiscal year combines revenue increases and spending cuts to reduce the deficit.

Congress, however, does a better job planning revenue and spending decisions than in carrying them into effect. One reason--not always the main one-- for the gap between plans and results is that the budget resolution is only advisory; it does not have statutory effect. No money can be raised or spent pursuant to the decisions made in a budget resolution.

Congress should explore the possibility of establishing a statutory budget process in which it would adopt a joint budget resolution to be signed or vetoed by the President. I would stop short of combining a statutory budget resolution with appropriations and revenues in an omnibus measure of the sort proposed by Rep. Obey.

I advise exploration rather than implementation of a statutory resolution because this change has ramifications that go well beyond the integration of revenue and spending policies. A statutory resolution would alter the budgetary relationship between Capitol Hill and the White House; it would escalate the danger and costs of deadlock; and might generate troublesome problems if the statutory levels were breached by changing economic conditions or by faulty estimates.

Despite these difficulties, I think the current advisory resolution has too much symbolism and too little impact; it

invites grandstanding and cheap-shotting by Members and does not encourage responsible budgetary behavior. Members are never quite sure of what they are doing when they adopt a budget resolution. The resolution, in its present form is something more than a plan but a lot less than a binding decision. A statutory resolution would invest the budget process with real, rather than symbolic, meaning. And it would narrow the gap between budget plans and results.

**Mr. HORTON.** I will do the same, Mr. Chairman.

**Mr. BROOKS.** Without objection.

[Mr. Schick's submissions to Mr. Horton's questions for the record follow:]

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR ~~ALLEN SCHICK~~  
FOR ALLEN SCHICK

- 1) Dr Chimerine suggested that budget reform should be delayed until deficits are brought down to an acceptable level.  
Couldn't some reform be initiated, such as biennial budgeting as you support, before the deficit reaches an "acceptable level", however that is defined?
  
- 2) Dr. Schultze stated that most probably the federal government would show no lower deficit under a capital budget than under the current accounting definition.  
Do you Agree?  
Would a capital budget give a more accurate picture of the government's true financial condition?
  
- 3) Dr. Schultze would base receipts and expenditures on a Budget resolution based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two?

- 4) If Congress continues to fund the government with continuing resolutions, containing appropriations for several if not all of the federal agencies, and include other legislative actions, doesn't this argue for a Presidential veto power of some type--something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?
- 5) What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

Responses to Questions of Rep. Frank Horton

1. Budget reform should not be promoted as a substitute for genuine deficit reduction, nor should it divert attention from substantive policy issues. But I see no reason for deferring review of the budget process until the deficit is lowered to acceptable levels. Congress can move ahead on biennial budgeting or other changes while it is grappling with the deficit.

In one area, deficit reduction is dependent on improving the budget process. That is in the Gramm-Rudman-Hollings rules for reducing the deficit in annual installments until a balanced budget is reached in a few years. As I argued in my prepared statement, GRH has spurred more gimmickry and less deficit reduction than in the past. It impels Congress to rely on unrealistic economic assumptions and to shorten the time horizon of budgeting. GRH is broken and it should be fixed--not abandoned--before it does even greater damage to congressional budget creditability and accountability.

2. The effect of a capital budget on the size of the deficit would depend on the definition used for capital investment and on the accounting adjustments made in association with this method of budgeting.

A narrow definition of capital investment, limited to physical assets financed and owned by the federal government, would probably show little change in the reported size of the deficit. But an expansive definition, extended to human investment in training and research as well as to assets owned by state and local governments, would produce a big drop in the reported deficit.

Insofar as accounting changes were concerned, before a capital budget were installed, Congress would have to address depreciation charges, write offs for wartime and other losses, the treatment of capital receipts such as those earmarked to the highway trust fund, and various credit budgeting practices.

If these accounting changes were made, a capital budget might provide a more accurate picture of the government's financial condition. But if Congress adopted capital budgeting with these accounting adjustments, it would have an even more misleading picture of financial condition than is currently the case.

3. A budget resolution based on the trend in GNP or on moderate growth would eliminate bias in economic forecasts but would not necessarily produce more accurate budget resolutions than is now the case. Moreover, pegging the resolution to "steady and sustainable" growth in GNP would open the door to

political problems. If, for example, the steady and sustainable rate were assumed to be 2% real growth, Members of Congress would be confronted with a budget resolution showing high deficits and high unemployment. It would be hard to corral a majority in behalf of that type of resolution.

If I understand Dr. Schultze's proposal correctly, its aim is not more accurate budget resolutions, but budget decisions based on the potential rather than the performance of the economy. The resolution would not make any assumptions concerning cyclical conditions in the economy.

This is a variant of the "full employment budget" concept used in the 1960s and 1970s. The budgeted deficit would be the structural rather than the cyclical deficit, and the purpose of the budget would be to stimulate the economy (in weak times) toward realization of its potential.

Regardless of the virtues of this approach, I am not sure that Congress can get away with voting on hypothetical rather than on actual or expected deficits.

4. The solution to the recent practice of packaging all regular appropriation bills and numerous legislative provisions in the continuing resolution is for the President to vigorously exercise his existing veto power, not to give him an item veto. If the President feels disadvantaged--as he should--by omnibus measures, he can veto them and rally his party in the House and Senate to sustain the veto.

I have three problems with the item veto: (a) It would unduly favor the President in budget battles with Congress; (b) it would not significantly improve spending control; and (c) it might not be effective against omnibus legislation.

An item veto would be targeted at congressional add-ons. But I see no justification for giving the President's budget priorities a preferred position over those of Congress.

An item veto would not be effective against entitlements and other mandatory spending, the main sources of expenditure increase in recent years. Rather, it would be targetted at discretionary domestic spending, the least troublesome sector of the budget in recent years.

Finally, Congress could diminish the potency of the item veto by packaging numerous spending items along with legislative provisions in a single appropriation account. If each account is deemed to be an item for purposes of the item veto, the President would not be in a much stronger position than he is today.

5: The impoundment control process is in need of repair: The deferral part of this process has been called into question by court rulings; the rescission process by Congress' unwillingness in recent years to seriously consider rescissions proposed by the President.

As a general rule, I do not like arrangements that compel or prevent Congress from acting according to its will. The Quayle proposal would force Congress to vote on rescissions, thereby enabling the President to reopen issues previously decided in the appropriations process. The manner in which the Quayle procedure would work might have a bearing on its feasibility and budgetary impact. Would Congress be compelled to vote separately on each proposed rescission or would it be permitted to package numerous rescissions into a single vote. If the former, Congress might be overloaded by rescissions and exposed to presidential pressure on particular projects; if the latter, Congress might be able to blunt the President's enhanced rescission power by skillfully combining various rescissions together.

On balance, I would endorse the Quayle concept but would not expect it to have a significant impact on the budget. When Congress is inclined to go along with the President, it would vote for rescission (as it did in 1981) even if it were not forced to do so. When congressional support is lacking (as has been the situation the past 5 years), most rescissions would likely be rejected.

Mr. BROOKS. Mr. Wise.

Mr. WISE. I want to thank you for your testimony.

Mr. SCHICK. Thank you, sir.

Mr. BROOKS. Mr. Schick, we appreciate your statement. I've got to study it a little more. I just read it hastily last night, but I've got to study it a little more. You're pretty tough.

Mr. SCHICK. Thank you, sir.

Mr. BROOKS. Our next witness is Alice Rivlin, program director for economics at the Brookings Institution. She has been on the staff at Brookings, with two notable exceptions, since 1957. In the early 1960's, she left to become Deputy Assistant Secretary and then an Assistant Secretary in the Department of HEW. And in 1975, she became the first Director of the Congressional Budget Office, a post which she left in 1983. She is also the immediate past president of the American Economics Association.

We are delighted to have you here again, Mrs. Rivlin. We will put your statement in the record and ask for your comments as you see fit.

#### STATEMENT OF ALICE RIVLIN, PROGRAM DIRECTOR FOR ECONOMICS, BROOKINGS INSTITUTION

Ms. RIVLIN. Thank you very much, Mr. Chairman. I am delighted to be here.

Mr. BROOKS. It's good to see you again.

Ms. RIVLIN. I am delighted to be back here again, and I would like to commend you, Mr. Chairman, and the committee for this effort to sort out the reasons for the budget problem. Is it a process problem, or is it a real problem?

Clearly, you have to have a good fix on that to know what to do.

I would like to make a few very simple points. The first is that the deficit is a very serious problem. You have to keep that in mind all the time. It's the most serious economic problem facing the United States that I know about, but the nice thing is, it's the most fixable. We know what to do about it.

The deficit is a problem because it is a profligate use of national saving. We are not a high saving country. We need savings for investment and to modernize the economy. If we go on using more than two-thirds of our net national saving to finance the Government, we're just going to have less left over for productive investment, unless we borrow from other people, and right now that's what we're doing. We're borrowing from overseas.

That's what a trade deficit means. It means we're buying more than we're selling, and we're borrowing the difference. We need to get the trade deficit down and borrow less from abroad, and that means releasing domestic saving for active duty. It means stopping the Government dissaving. The problem is that there are only two ways to do that—less spending or more revenues. I happen to favor some of each.

The second point is that the deficit wasn't caused by process failure, and I don't think it will be fixed by process changes. The deficit was just a major policy mistake; it was a real whopper. We cut taxes, and we didn't cut spending to match. That reflected economic wishful thinking and political miscalculation, and I don't think

we need to go into "who struck John," but it's always harder to correct a mistake than not to make one in the first place, and that's where we are at the moment.

The only ways of reducing the deficit are painful, cutting spending or raising taxes. It will take political will and leadership to accomplish that. I happen to believe that the American people will make sacrifices if they understand the problem. The job of leaders, especially the President, but also the Congress, is to be there explaining how important it is to reduce the deficit, why the sacrifices are necessary. And absent that kind of leadership, no process change is going to help you.

Nevertheless, the difficulties of the process are contributing to the problem. I wouldn't focus on process change first, I'd get the job done, the deficit job. But it is true that the budget process has become overcomplicated. It's become layered; it's become time-consuming, and it's become, frankly, incomprehensible.

That arises, I think, out of our tendency as a nation to keep adding new institutions and procedures without eliminating or restructuring the old ones. For example, in the executive branch, in the old days, the really old days, we had the Treasury Department and each spending agency going directly to the Congress for money.

Then we created what is now the Office of Management and Budget to help the President get a handle on priorities and put his budget together. We created the Council of Economic Advisers to help him get a fix on what was happening to the economy and projections. Each contributed to improving the ability of the President to understand what was going on and make proposals to the Congress. But now they compete with each other, and we have three—at least three—centers of economic advice to the President, which puts the President in the job of being his own economist.

We need a single, responsible Cabinet-level Department of Economic Affairs to be responsible for fiscal policy, spending, and taxing.

Similarly, in the Congress, in the pre-1974 days, there was enormous fragmentation. No one acted on the budget. Congress acted on the budget only in fragments and in no coherent way. There was no way to look at fiscal policy as a whole, and there was no source of credible estimates for the Congress of what the economy might do or what the budget might look like.

Then the Congress created the budget process by the Reform Act of 1974. It created Budget Committees and the Congressional Budget Office.

I share Mr. Rhodes' view that that process has worked. It's been successful in its major mission which was to force the Congress to focus on the budget as a whole. Now the Congress argues very tentatively about what to do about the whole budget, and the size of the deficit in particular.

You also have better information than you had before. The CBO provides independent estimates, and the administration, knowing that the CBO is there, is more honest and forthcoming with its information than it was in the past.

That's progress. But there have been heavy costs of adding these new institutions, because the Congress simply added them. It didn't

restructure the committees. It added the new process on top. So now we have authorizing committees and appropriating committees and Ways and Means which does both tax and some spending, and then the Budget Committees, not to mention the JEC.

And we also have competing forecasts coming out of the OMB and the CBO, and that adds to the confusion and the difficulty of understanding what is going on. And all of this is in addition to the other complication, which is that we run monetary policy and fiscal policy entirely separately in this country and with different institutions, and that's a problem both for the executive branch and for the Congress.

Does all of this matter? I think it does. The process is too time consuming and energy consuming. It takes time away in the executive branch from running the Government, and it takes time away in the Congress from focusing on a lot of other important issues, and, believe it or not, there are some things that are important besides the budget.

The excessive number of stages and layers means it's hard to finish on schedule, and everybody has a sense of failure.

And the worst problem is that the complexity of the process obscures the real issues from the public and from the Congress itself. It leads to the understandable tendency to focus on details, and it makes it difficult to get across to the country what the big problems are and what the big choices are.

So I think that after you have made major progress on the deficit, you need to simplify the process and streamline it both in the executive branch and in the Congress, make it less confusing and less time consuming, so it's easier to understand—easier for the Congress to understand what it is doing, explain it to the public, and finish on time.

Let me make just a few suggestions. One thing would be to make budget decisions less often. Every 2 years would be quite often enough. It would give the executive branch and recipients of Federal money more planning time, and it would give the Congress more time to focus on other things in the year that it was not making the budget.

Let me be clear, this wouldn't make the decisions any easier. They would be just as hard, but at least you wouldn't have to do them as often.

I think you should consolidate the institutions that deal with fiscal policy in the executive branch, create a Department of Economic Affairs in charge of fiscal policy, spending, and taxing, which would subsume the Treasury, the OMB, and the CEA.

Then—and this is, of course, the hard part—I believe you should consolidate the committee structure in Congress. There are a lot of different ways of doing that. I've certainly heard Appropriations Committee members suggest abolishing the Budget Committees. That's one possibility.

I think it would make more sense to consolidate the authorizing and appropriating functions, to have one set of spending committees that dealt with areas of spending in the budget, including entitlements.

You would also need tax committees, but they would deal only with taxes, and you would need a Budget Committee to put the two sides, spending and taxing, together.

And finally, I would work out or find a way of working out a common forecast for the Government, worked out by the Congressional Budget Office, the Office of Management and Budget, and the Federal Reserve. It should be updated on a periodic basis, but everybody would then be working from the same set of numbers. People could, of course, say they disagree with those numbers, but at least you'd all be starting from the same base.

Now none of this would make the decision easier. There's just no way to do that. Budget decisions are hard. But these suggestions would at least make it less confusing for yourselves and for the public and restore some trust in the Congress.

Finally, let me mention three ideas which I think are not much help, but which are part of the current conversation: item veto, constitutional amendment, and capital budget.

None of these would be disasters, although on balance I think I would reject them. But neither would they improve the process nor solve the deficit problem.

The item veto would tip the balance of power between the Congress and the President slightly toward the President. But the President still needs the Congress to accomplish his programs, so I would suspect he would use the item veto sparingly. A conservative President might use it to cut spending; a liberal President might use it to get his bigger spending programs through. But I think it's easy to overestimate what it would do in either direction.

As for a constitutional amendment, I think I agree with former Congressman Rhodes, it's just not the way to go. We need to get the deficit down, but that's not the right way. We shouldn't tie ourselves to a particular number in any given year, even if that number is zero. It can lead to the wrong fiscal policy for the state of the economy, and it can lead to phoniness in budget decision-making.

I think we're seeing that right now with Gramm-Rudman-Hollings. Getting from where we are on the budget deficit to the target for fiscal 1988 of \$108 billion would be simply taking too much out of the economy in 1 year. The economy is growing slowly. To reduce the budget deficit by over \$60 billion in 1 year, it seems to me, is too much. It's risking this fragile growth.

I would suggest, it leaves you with two choices, then, either revise the targets or use phony means of getting there, and neither is very attractive. In my opinion, it would be much more helpful to revise the target to some doable number, like \$135 billion, and then really do it—say, a package of half tax increase and half spending cut, but with items in the spending cut that are real, continuing cuts, not one-shot deals or phoniness.

The constitutional amendment is, as my colleague, Charlie Schultze has said, "writing algebra into the Constitution," and it's not addressing the current problem, because it would take much too long to get there.

To the extent that a capital budget would provide more information on the capital spending of the Federal Government, it would certainly be a good thing to have. Budgeteers are always for more

information. But converting the Federal Government to a capital budget system would be extremely difficult. The Federal Government does very little investing in the business sense. And most of what one would put into a capital budget is not easily categorized. For instance, most of the hardware that the Federal Government buys is military, and it's hard to say whether military spending is investment in the business sense. Further, much of the investment that increases the future growth of the economy is human investment, not hardware. Yet defining Government investment in human capital would be difficult.

So the Government would have a very great deal of difficulty deciding what to put in a capital budget, and when there is uncertainty like that, there's a lot of room for monkeying around.

And furthermore, there is good reason for sticking with our present system, which lumps current and capital spending all together in calculating the Federal deficit. The Federal Government's borrowing has such a big impact on the economy and on national saving that it has to be considered on its own, irrespective of what the Federal Government is borrowing for. Right now, the massive deficits are bad for the economy, now and in the future, irrespective of what the Government is borrowing the money for.

So let me come back finally to the basic question. It seems to me that we have to solve the basic problem, the budget deficit, soon, in the interests of ourselves and future generations, and we have to do that by combining a spending cut with a tax increase. That's the real priority.

After you've solved that, I would commend you to focus on the budget problem—the budget process problem—which is also contributing to the difficulties and where simplification would make things much better, not only for the Congress, but for the rest of the country as well.

Thank you, Mr. Chairman.

[Ms. Rivlin's prepared statement follows:]

Testimony of

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before

Legislation and National Security Subcommittee

Committee on Government Operations

United States House of Representatives

Washington, D.C.

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## THE NEED FOR A BETTER BUDGET PROCESS\*

Alice M. Rivlin

Mr. Chairman and Members of the Committee, the time has come to simplify the budget process. Hardly anyone likes the complicated and arcane procedure the U.S. government uses to arrive at a budget. The process consumes enormous amounts of executive branch and congressional time and even then is rarely completed. Deadlines are missed, and government agencies frequently run on "continuing resolutions" rather than regular appropriations. Occasionally a president makes a show of closing down the government for a few hours because agreement has not been reached on further funding.

Frustrated with continuing budget deficits and their inability to reduce them, Congress and the president agreed in the fall of 1985 on the Balanced Budget and Emergency Deficit Control Act, better known as the Gramm-Rudman-Hollings law. The law, which set up a mechanism to balance the budget in five years, was enacted in desperation to break the deadlock between Congress and the president and reduce the deficit, but not even its staunchest defenders regard it as a desirable process for making a budget. Whether or not this desperate gamble will work to cut the deficit, the question remains: what can be done to improve the

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budget process?

A drastic simplification is in order. Most spending decisions should be made for two or more years at a time, and possibly the whole budget should be shifted to a biennial basis. Congressional committees should be restructured to combine the authorization and appropriation functions. The budget itself should be simplified and the number of line items greatly reduced, actions that would help shift congressional attention toward major policy issues and away from detailed micro-management. As for the Gramm-Rudman-Hollings law, I share the hope that it will hasten agreement on deficit reduction but regard it as a bad budget process. Constraining the budget deficit to a particular number--whether by law or constitutional amendment--risks destabilizing the economy.

#### Why Making a Federal Budget Is So Hard

Making the budget process simpler and more comprehensible, however, would not make the decisions easier. Budget-making is inherently difficult for any organization whether it be a family, a business, a university, or a government. There are never enough resources to carry out all desired activities. Choices have to be made, and these choices often bring to the surface deeply divergent views about the organization's purpose, how that purpose should be carried out, and who should bear the burdens or reap the benefits. Nevertheless, most organizations do manage to make budgets and live with them. Why is the U.S. government experiencing such agonizing difficulty?

Four conditions can make it especially difficult for an organization to agree on a budget. First, it is harder to make a budget when there are lots of choices regarding both income and spending. Poor families have to eat and pay rent; poor governments have to defend the borders and deliver the mail. Neither has many choices. Life is easier for families and governments with more earnings and sources of revenue, but budget choices get more complicated.

Second, budget-making is more complex when the organization has access to credit. Without credit, families would be far less adequately housed and equipped, business would find it hard to function, states and localities would forgo building needed facilities. If it were unable to borrow, the federal government would be forced to raise taxes or cut spending during recessions, making swings in the economy much wider. But governments, like families and businesses, can over-borrow, and the question of how much to borrow or pay back makes budgeting more complicated and contentious.

Third, variations in prices, employment, incomes, and responsibilities make it difficult for any organization to estimate future costs and revenues and reach decisions about them. Finally, and most important, budget-making is hard when the organization has multiple decision-makers with different convictions about what the organization ought to do and how it ought to do it. The situation requires a budget process--a procedure for arraying choices, debating what should be done, and making decisions.

The U.S. government is subject to all of these budget-complicating conditions in extreme form. It has the taxing capacity of a wealthy country and faces a high level of world and domestic responsibilities. It has apparently unlimited access to credit and has experienced the uncertainties about costs and revenues associated with wide swings in prices and economic activity and with unexpected world events. But most important is the decision-making complexity inherent in the constitutional separation of powers between Congress and the president. The president can propose changes in budgetary priorities, but the ultimate power to levy taxes and authorize spending of public funds is lodged in Congress, subject only to presidential veto. This divided rule works well when the president and the Congress are in broad agreement or are willing to compromise their differences. It leads to deadlock and frustration when congressional and presidential views differ and one or both are unwilling to strike a bargain. Recent deficits have reflected the collision between the president's unwillingness to increase taxes or reduce defense growth and Congress's refusal to cut domestic spending by the amounts or in the ways proposed by the president.

One can imagine a contentious family with differing views on how to reduce its budget deficit arriving at a procedure like Gramm-Rudman-Hollings. First, some members might argue that the deficit is temporary and the family will "grow out of it"; others that the deficit does not matter. Gradually all realize that they are facing a permanent and potentially damaging gap between expected spending and expected revenues and that debt and interest payments are rising rapidly. Members of the family propose different plans for

adjusting spending and revenues and are unwilling to compromise. Finally, some suggest that all spending be cut by a fixed percentage until balance is restored. But some expenditures--the mortgage, car payments--cannot feasibly be reduced, so these are exempted. The percentage by which the remaining items must be cut to meet the target then rises. Everyone recognizes that this is an undesirable way to make budget decisions, but they are so desperate to reduce the deficit that they agree that the formula cuts will automatically come into effect on a specific date if they cannot settle on a more satisfactory way of reducing the deficit in the interim. This is how the U.S. "family" adopted Gramm-Rudman-Hollings.

#### Evolution of the Process

Surprisingly, despite all the talk about the budget and the budget process, no budget for the U.S. government is every actually enacted as such. Government spending and revenue in any one year result from the application of a large number of separate laws enacted at different times that specify how the government can raise and spend money. The elaborate set of documents labeled The Budget of the United States Government, which the president issues with such fanfare each year, is really a set of proposals, detailed estimates of what will be spent and collected in the next year if the president's recommendations for spending and taxing laws are accepted by Congress and the economy behaves as the administration assumes (or hopes) it will.

Because of the separation of powers, the history of budget-making in the U.S. government is two separate histories; that of executive branch efforts to evolve a procedure for crafting the president's

budget proposals and that of congressional efforts to make spending and taxing decisions in a more orderly way. Gramm-Rudman-Hollings is unique because it tries for the first time to deal with the efforts simultaneously and create a procedure for forcing the president and Congress to attain an agreed budget deficit target together. It is not yet clear whether this objective can be achieved in a way that does not violate the constitutional separation of powers.

The President's Budget. The U.S. government had no budget decisions process at all until after World War I. Throughout the nineteenth and early twentieth centuries, the central government had few budget responsibilities, and government agencies took their requests for funds directly to Congress.

The Budget and Accounting Act of 1921 represented a major departure from these practices: it was the first in a series of institutional changes designed to make sure the president controlled requests for funds and proposed a budget that reflected the views and priorities of his administration. The act created a new staff, now called the Office of Management and Budget, charged with examining the requests of agencies and providing the president with the information on which to base budget proposals.

Subsequently, the Employment Act of 1946 charged the newly created Council of Economic Advisers with responsibility for forecasting economic developments, assisting the president in formulating fiscal policy, and making an annual economic report to Congress. In the 1960s and 1970s the executive branch attempted to improve the systematic evaluation of government programs, to look further into the future at needs for government action, to estimate the costs, benefits, and

distributional effects of alternative spending or taxing programs, and to put the budget decision-making process on a firm schedule.

Thus by the early 1970s the executive branch of the government had institutionalized budget-making. The president was well equipped to translate his political predilections into budget proposals. But the result of all this executive activity was just a set of proposals. Congress was responsible for making the ultimate budget decisions.

The Congressional Process. Unlike the executive branch, by the 1970s Congress had evolved no comparably centralized institutions. Before 1974 no committee had legislative responsibility for budget policy as a whole. Many spending decisions were made in two stages. First, legislative committees worked on bills authorizing spending for particular programs. Even after such bills were passed by both houses and signed by the president, no money could be spent until separate appropriations bills made their way through another set of committees in both houses and were approved and signed into law. More than a dozen major appropriations bills were voted on at different times of the year. Relative priorities, such as defense as opposed to education or health, were never explicitly considered.

Spending for social insurance and other entitlement programs, which was growing rapidly in the 1960s and 1970s, remained outside the normal appropriations process. Amounts spent on these programs were determined automatically once the characteristics of beneficiaries and the level of their benefits were defined by legislation.

Revenue bills came out of different committees and were voted on separately from spending measures. Because the spending and taxing sides were never brought together, Congress never voted on the

questions whether revenues and expenditures were in appropriate relationship to each other. Congressional budget policy was the accidental result of spending and revenue decisions influenced by different committees and made at different times.

Spurred by feelings of frustration and impotence in confronting President Nixon, whose priorities differed from their own, members of Congress finally took a long overdue step and passed the Congressional Budget Act of 1974. The act created budget committees in each house charged with formulating an overall budget policy that, when passed by Congress in the form of a budget resolution, would serve as a controlling framework within which individual taxing and spending measures could be fitted. It also created the Congressional Budget Office to give Congress an objective, nonpartisan source of budget analysis and information.

The budget act provided for an elaborate three-stage process spread over a nine-month period between January, when the president's budget proposal is made, and October 1, when the new fiscal year begins. In the first stage, the budget committees would produce a first concurrent resolution on the budget that would specify the aggregate level of federal spending for the next year, break down that spending by major categories (but not by detailed line items), and indicate revenues to be available and the resulting deficit or surplus. After this resolution was agreed upon, specific appropriations and tax bills would be passed in line with the aggregate numbers specified in the resolution. The figures in the first resolution, however, were regarded as targets and were not absolutely binding. In the final stage Congress would reconsider whether the targets were still

appropriate and, if necessary, reconcile specific bills with the desired aggregates. A second concurrent resolution on the budget--this time a binding one--would then be passed.

The 1974 law gave Congress a much needed mechanism for making overall budget decisions. Unfortunately, it also made an already complex and lengthy decision process still more complicated and time-consuming. The new procedure retained all the existing authorizing, appropriating, and tax writing committees and added yet another layer: the budget committees. The resulting schedule of detailed and difficult decisions to be made in sequence each year was impossibly demanding, even if reasonable agreement existed on overall budget policy.

For example, it soon became apparent that two budget resolutions were too many. The compromises on budget priorities needed to pass a first budget resolution were difficult to achieve and often occurred later than the May 15 deadline. Once an agreement was reached, no one wanted to reopen the arguments. Hence the second resolution quickly became a formality, then was officially folded into the first.

The new decision process established by the Congressional Budget Act of 1974 accomplished its major purpose. It gave Congress a forum for deciding fiscal policy. The new procedures were expected to strengthen congressional power at the expense of the president's. However, in 1981 President Reagan, aided by his aggressive budget director David A. Stockman, used the centralized features of the congressional budget process effectively to obtain congressional approval of drastic changes in the federal budget. The major elements of the Reagan program--tax cuts, increases in defense spending, and

reductions in domestic spending--were embodied in a three-year budget resolution and passed by Congress as a package.

The events of 1981 showed that a president with strong views on the budget priorities and a recent election mandate could use the congressional budget process to obtain rapid ratification of dramatic changes in the budget as a whole. The fragmented decision process that existed before the 1974 reforms would have made these instant, simultaneous changes in many parts of the budget much less feasible. President Reagan's use of the reconciliation process for wholesale alteration of detailed spending legislation, however, left many congressional committees, especially in the Democratic House of Representatives, bruised and determined to reassert their traditional powers.

The budget decisions made in 1981 resulted in enormous deficits in subsequent years. The tax cuts reduced federal revenues as a percent of gross national product while spending continued to increase. The future deficits were not anticipated in 1981, in part because the budget resolution assumed unspecified future cuts in domestic spending that never materialized. More important, however, the budget resolution was based on optimistic economic assumptions that soon proved totally unrealistic. The recession precipitated by high interest rates in 1981 caused a rapid surge in deficits. Financing an escalating debt at high interest rates led to unprecedented increases in federal spending for interest payments. As a result, increases in spending for defense and interest substantially exceeded cuts in domestic spending, leaving a growing deficit even as the economy recovered.

Beginning in 1982, rapidly escalating deficits subjected the entire federal budget process to extreme stress. Under this stress two weaknesses of the decision process stood out clearly: the basic problem, built into the Constitution, of resolving any difficult problem when the president and Congress disagree, and the layering of the process that made it unwieldy and time-consuming in normal times and close to nonfunctional under stress.

Difficulties of Divided Power. The debate over each successive budget since 1981 has been dominated by clashes of views over the deficit. Between 1982 and 1984 President Reagan vacillated on the seriousness of the deficit, sometimes alleging that it would disappear as the economy grew and sometimes deploring it and calling for reduced domestic spending. Presidential budget proposals reflected a consistent budget strategy that continued the defense buildup, rejected both tax increases and cuts in social security, and proposed substantial reductions in many domestic activities. Congressional leaders generally made stronger statements about the necessity of getting the annual deficits down, but differed with the president and with each other on how to do it. Actual budget actions reflected painfully engineered compromises that generally pared back the president's defense increases, accepted some but by no means all of the proposed domestic cuts, and raised revenues somewhat, most notably in 1982 when aspects of the generous tax cuts of the previous year were rescinded. The result was to reduce anticipated further increases in the deficits but to leave them still at unprecedented levels even though the economy began recovering rapidly in 1983.

By 1985 both the administration and Congress had come to realize that the deficits would not disappear with economic growth and were a threat to the long-run health of the economy. But views on what to do about them had not converged. The battle over the fiscal 1986 budget was long and bitter. It resulted in congressional rejection of further defense increases in that year and of most of the deep domestic spending cuts proposed by the president. The president first accepted and then pulled away from a Senate-passed proposal to suspend the social security cost-of-living adjustment and similarly rejected all efforts to reduce the deficit by increasing revenues. Although final budget actions made inroads on future deficits, the conflict left all parties feeling frustrated, discouraged, and helpless.

In this atmosphere the Gramm-Rudman-Hollings proposal was offered in the fall of 1985 as an amendment to a necessary increase in the debt ceiling. Unexpectedly, it gained wide support. Although members of his administration expressed reservations about the approach, especially about the possible impact on defense spending, the president endorsed the proposal and it passed quickly.

The law sets annual targets that reduce the budget deficit to zero in fiscal 1991. If in any year agreement cannot be reached on the specific measure needed to achieve those targets, the law provides a mechanical formula that cuts defense and civilian spending in approximately equal amounts sufficient to meet the goal.

The impact of the new law was felt immediately. Application of the law's mechanical formula on a limited basis in fiscal 1986 cut \$11.7 billion from spending in that year and reduced the spending base by substantially more than that for future years. Reaching the targets

by applying the formula in 1987 and beyond, however, would seriously impair the effectiveness of both civilian and defense programs. It is hard to believe Congress and the president would ever allow this to occur. The hope was that the desire to avoid this outcome would bring about agreement on a more sensible way of reaching the targets.

The current situation has been complicated, however, by the Supreme Court ruling that the automatic formula is unconstitutional because it involves having an officer of Congress (the comptroller general) certify what cuts are to be made by the president. The court held this to be a violation of the constitutional separation of powers. Congress can still use a procedure in the law that involves voting to withhold the funds specified by the formula. It might be reluctant to do this, however, and if it did, the president could veto.

Even if Gramm-Rudman-Hollings forces agreement on a deficit reduction plan, it is an undesirable budget process. First, the procedure, which requires cutting every unexempted line item in the budget by a fixed percentage, allows no reconsideration of priorities and could lead to absurd and unintended results. Second, the adoption of a fixed dollar target for the deficit can destabilize fiscal policy.

Finally, Gramm-Rudman-Hollings does nothing to reduce the layering and complexity of the current budget process. The law does strengthen enforcement of the budget resolution, which should improve congressional self-discipline, but it also adds to congressional workloads and accelerates deadlines that were already proving impossible to meet. For example, the law requires Congress to pass the budget resolution by April 15, although the current deadline of May 15 has not been met in some years. Deadlines are missed in large part

because the process itself is overly complicated. Congress will not solve this problem merely by exhorting itself to try harder to finish on time.

#### Ways to Simplify the Process

Even before it was subjected to the stress of dealing with large deficits and divergent views among House, Senate, and president, the budget process was showing signs of breaking down of its own weight. Participants complained about the length of time spent on each budget--at least six months for preparation of the president's proposal and at least nine months for congressional decisions. Deadlines were missed regularly, and continuing resolutions became more and more frequent because agreement often could not be reached on regular appropriations. Participants also complained about the multiplicity of congressional committees with overlapping jurisdictions. Testifying on the same issues before several committees on both sides of the Hill consumed the time of executive branch officials and members of Congress alike.

Moreover, the frequency with which the same issues came up for consideration meant that many decisions were never final. Crucial votes on major weapons systems, such as the MX missile, were occurring in each house three or more times in a single year in the context of authorization, appropriation, and budget action. Congress seemed more and more immersed in the details of federal programs and less and less concerned with the overall directions of federal policy. A growing number of members and observers of Congress have come to believe that drastic change is needed to improve the effectiveness of the

congressional budget process. But the deficit crisis itself has delayed serious consideration of procedural change.

Three types of reform would make effective decision-making more feasible: making decisions less often by moving to a multiyear budget, reducing the number of committees by consolidating the authorizing and appropriating processes, and simplifying the budget itself by reducing the number of accounts and line items.

Multiyear Budgeting. An obvious way to reduce the time spent on the budget process would be to go through the process less often, perhaps every other year. Less frequent budgeting has many clear benefits. The managers of federal programs and the recipients of federal grants could plan programs more effectively if they could assume funding for a longer period. They could spend more time managing and less time preparing and defending budgets and adjusting to funding changes. And Congress, relieved of annual budget battles could devote more attention to long-run issues and more careful oversight of federal programs.

Spending levels for some programs are, of course, affected by unpredictable cataclysmic events, such as the outbreak of war. But such events have to be dealt with on an emergency basis even with an annual budget process. It is hard to imagine that most federal programs benefit more from hasty annual review than from more thorough, better prepared evaluation at longer intervals.

It is true that budgeting depends on economic assumptions about the future and that longer-run forecasts are more uncertain. But only a few programs are greatly affected by the state of the economy, and many of these are entitlement programs that adjust automatically. If

the economy suffered an unexpected recession in the middle of the multiyear budget period, Congress might well want to consider changing tax rates or accelerating some spending programs. But this could be done--as it is now--without reconsidering the whole budget.

Numerous bills proposing multiyear budgets have been introduced--most calling for biennial budgeting, which is used by many state governments--and some hearings have been held. Some biennial budget bills envision Congress spending the first year of each session on program oversight and other matters and handling the two-year budget in the second year of the session. Under this arrangement a newly elected president who wanted to alter his predecessor's budget either could use the first year of his term to build support and understanding for the changes or could move ahead more rapidly to amend the existing budget. Other bills would have each Congress make a two-year budget in its first session and use the second to consider other legislation.

Even if the whole budget were not moved to a multiyear basis, Congress could get many of the same advantages by shifting to multiyear authorization or appropriation or both in major areas of the budget. Defense seems an especially good area for such a change. Indeed, recently enacted legislation requires the Department of Defense to submit a two-year budget beginning with fiscal 1988 and 1989.

While legislators sometimes argue that they would have less control over federal activities if budgeting were done less often, they actually would be better able to make significant changes. Major shifts in direction, such as bringing down the deficit or modernizing the armed forces, cannot be accomplished in a single year. A longer budgeting period would give greater scope for such major shifts to be

designed and carried out. Indeed, in the last several years Congress has of necessity moved to a multiyear budget resolution with accompanying reconciliation measures. The dramatic changes of 1981 involved a three-year budget resolution as well as a three-year tax bill. Subsequent efforts to bring down the deficit necessarily involved more than one year, so three-year budget resolutions have become standard. Nevertheless, appropriations and many authorizations are still done one year at a time. It is time to move the whole process to a two-year cycle.

Consolidating the Authorizing and Appropriating Functions. In principle the legislative or authorizing committees write the basic legislation that governs how federal programs function, and the appropriations committees budget specific sums to carry them out. In practice the distinction between the two has often blurred in recent years, perhaps because of the intensity of interest in the budget and the small number of new programs being considered. In working out the defense budget, for example, the authorizing committees and appropriations subcommittees often appear to be doing exactly the same thing--subjecting the budget to line-by-line scrutiny with special attention to procuring weapons systems. Such duplication wastes the time and energy of Congress and executive branch alike.

On the other hand, spending for entitlements, now two-fifths of the budget, is outside the appropriations process. The bulk of entitlement spending is handled by the tax committees, sometimes creating logjams for these overworked committees.

Restructuring the committees would improve the budget process. Ideally each major area of federal activity--defense, income security, national resources, and so forth--should have a program committee responsible both for drafting basic legislation and for reviewing budgets in its area. Each would handle both entitlement programs and discretionary appropriations. Revenue committees would handle only revenue, not spending, programs. The budget committees would be charged with putting together an overall budget strategy that would include both revenue and spending. They would also consider relative priorities among programs and recommend appropriate fiscal policy.

A further step, one with considerable appeal, would be to hold all spending and tax bills for final vote at the same time. Indeed, they could be put into a single bill. Congress would then be voting on a budget for the whole government and sending it to the president in one package. This type of budget action is standard in many governments, but the U.S. government has never had a budget voted this way.

Reducing Micromanagement. Under present procedures a single omnibus appropriations bill would be an appallingly long document. This length is symptomatic of a basic problem of the budget process: the tendency of Congress to budget in too much detail. The current budget is divided into thousands of budget accounts and subaccounts. The executive branch is given very detailed line item budgets with little authority to shift money from one item to another as conditions change. This detail makes the budget process an arcane business and focuses congressional time and energy on minutiae rather than on overriding issues of policy.

Drastically cutting the number of line items in the budget would be desirable but would make a real difference only if accompanied by a genuine change in the way Congress perceives its own role. Congress would have to begin functioning more like a board of directors making major policy decisions for the country and less like a group of 535 managers specifying detailed operations for the executive branch.

None of the changes suggested here would require amending the Constitution. Each could be accomplished by legislation or changes in House and Senate rules and customary practice. All the recommendations, however, would meet with strong opposition in Congress (and to some extent in the executive branch) because each threatens the existing power structure. Multiyear budgeting would deprive Congress of the annual chance to impose its will in appropriations and other budget legislation. Consolidating the authorizing and appropriating process would reduce the number of committee and subcommittee chairmanships.

Budgeting in less detail is perhaps the most threatening of all, because Congress has a long tradition of making itself felt and protecting constituent interests through tinkering with line items. Nevertheless, Congress is highly frustrated with the current system, which imposes an exhausting workload but yields little satisfaction of accomplishment. Once the deficit crisis is at least partially resolved, but before memories of this stressful period recede, the chance for substantial reform of the budget process seems high.

Other Possible Reforms. President Reagan favors two major changes in budget procedures that he believes would work to hold down federal spending and deficits: a constitutional amendment to require a

balanced budget and a line item presidential veto. Both proposals are troublesome.

Requiring balance in the budget regardless of the state of the economy could force the federal government to adopt an inappropriate fiscal policy. Drafts of constitutional amendments usually have escape clauses, but it is difficult to foresee the variety of special circumstances that could affect future fiscal policy. Such amendments usually empower a super majority (two-thirds or three-fifths of Congress) to override a requirement to balance the budget. Such a clause, however, might create an incentive for legislators with favorite spending projects to trade the inclusion of these projects for their agreement to join the super majority. Spending and deficits might actually end up larger than without the amendment. To the extent that an amendment to balance the budget holds down federal spending, however, it may lead the government to substitute additional regulation for spending and to achieve goals by requiring business or state and local governments to make certain kinds of expenditures. Such amendments also provide a strong incentive to create off-budget agencies or engage in "creative" accounting. All in all, the risk of trying to handle a complex issue like fiscal policy by amendment to the Constitution, whose greatest virtue is its brevity and flexibility, seems far greater than the benefits.

The proposed line item veto also presents problems. While the president may use his veto power only to reject a whole bill, many state governors have the power to veto individual line items without rejecting the whole bill. Numerous presidents have asked for a line item veto, a power that they hoped would forestall the congressional

tendency to insert spending items with which the president disagrees into bills he needs and does not want to veto.

The line item veto would enhance the power of the president and diminish that of Congress, but it is easy to exaggerate its impact. The president needs congressional support for his programs and is unlikely to risk antagonizing many members, especially chairmen of important committees and subcommittees. Moreover, the latter could doubtless find ingenious alternative ways of protecting favorite line items, such as military bases or other federal installations, from presidential veto. A committee could hide a threatened line item in a larger total, for example, but add language stating that none of the funds are to be used to close the specified installation. Moreover, while a conservative president might use a line item veto to cut pork barrel spending projects, a big-spending president might use the threat of a line item veto to garner votes for spending he favored.

In any case it is not realistic to think that the line item veto would reduce the current deficits appreciably. President Reagan is unlikely to use a line item veto to reduce defense spending. Interest payments cannot be vetoed, and entitlement programs generally do not come to the president in a form in which such a veto would be possible. The president might use the line item veto to kill a few domestic spending items of largely local interest, but the spending impact of such actions would be small.

### Conclusion

Simplifying the budget process along the lines discussed would make the process more understandable and less exhausting and would probably lead to more thoughtful decision. It is important, however, not to claim too much for procedural change. A well-designed budget process can, at best, do three things. It can reduce but not eliminate uncertainty by making sure that participants have the best available projections and analyses of budget options in intelligible form. It can also put the sequence of decisions in a logical order so that participants have a chance to make the most important decisions, not just the subsidiary ones. This lack of order was the weakness in the congressional budget process corrected by the reforms of 1974. Finally, a well-designed budget process can save time for decision-makers so that budget affairs do not overwhelm other activities of government. The current process fails miserably on this last criterion.

No set of procedures, however, can force participants to make choices that they do not want to make or do not regard as necessary. Reforms to the process cannot substitute for political will or for the exercise of leadership in working out compromises among warring parties. As long as the government sticks with a system under which power is divided between the president and Congress--and separation of powers should be maintained--the priorities of the president and Congress will occasionally conflict. Changes in the budget process are unlikely to cure this situation. Resolution of the conflict will still require statesmanship and the willingness of both sides to compromise.

Mr. BROOKS. Thank you very much, Ms. Rivlin. And I have a series of questions I hope we can submit for your consideration, if you would answer them for the record, please.

Ms. RIVLIN. Certainly.

[Ms. Rivlin's submissions to Mr. Brooks' questions for the record follow:]

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR ALICE RIVLIN

1. WHEN YOU TALK OF BIENNIAL BUDGETING, ARE YOU REFERRING TO A TWO-YEAR APPROPRIATIONS CYCLE, A TWO-YEAR AUTHORIZATION CYCLE, OR A TWO-YEAR BUDGET RESOLUTION?
2. HOW WOULD A BIENNIAL BUDGET CONTROL DEFICITS?
3. SINCE ANNUAL BUDGETING ALLOWS CONGRESS TO EXERT MORE CONTROL OVER EXECUTIVE AGENCIES, HOW WILL CONGRESS RETAIN THIS CONTROL UNDER A BIENNIAL BUDGET?
4. HOW CAN WE ELIMINATE THE STRUCTURAL DEFICIT?
5. HOW WOULD A CHANGE IN THE MANNER IN WHICH THE GOVERNMENT'S CREDIT OBLIGATIONS ARE REFLECTED IN THE BUDGET AFFECT THE DEFICIT?
6. DO YOU BELIEVE THE GRAMM-RUDMAN AUTOMATIC TRIGGER SHOULD BE RESTORED? IF YES, IN WHAT MANNER (OMB FINAL ARBITER, ETC.)?
7. DO YOU FEEL THE FALLBACK PROCEDURES IN GRAMM-RUDMAN ARE EFFECTIVE UNDER THE GUISE OF SEQUESTRATION? HOW WOULD YOU LIKE TO SEE THE PROCEDURES MODIFIED?
8. YOU HAVE ADVOCATED CHANGING THE GRAMM-RUDMAN DEFICIT TARGETS. AS A POLITICAL REALIST, DO YOU FEEL RESTORING THE AUTOMATIC TRIGGER IS A NECESSARY TRADE-OFF TO GETTING SUCH A MODIFICATION PASSED INTO LAW?

Alice M. Rivlin  
The Brookings Institution

ANSWERS TO THE BROOKS QUESTIONS

1. When I speak of biennial budgeting I envision putting all parts of the process on a two year basis. Biennial budgeting would require a two-year budget resolution, two-year appropriations, and authorizations for two (or possibly four) years.

2. If biennial budgeting were rigidly enforced it might tend to hold down spending slightly, because agencies would be required to absorb unexpected cost increases in the second year. However, I do not believe biennial budgeting would make a substantial contribution to controlling deficits. The arguments for biennial budgeting are that it would free up both Congressional and executive branch time for other activities in the intervening year and that it would give agencies more certainty about their funding--not that it would make deficit control any easier.

3. I do not believe that annual budgeting allows Congress more control over executive agencies. Spending is always hard to control in the short run. Mandating spending changes over two years would give Congress more real control.

4. The structural deficit can, of course, be eliminated in only two ways: cutting spending or raising revenues. I believe we should do some of each.

5. I do not believe that changing the manner in which credit obligations are reflected would affect the deficit substantially.

6. I believe it is far more important for Congress and the president to reach an agreement on how to cut the deficit than to restore the automatic trigger. If the Congress feels the automatic trigger is necessary to reach the agreement, then I do not see much short run cost in making OMB the final arbiter. If OMB were to abuse the privilege, the privilege could be withdrawn by subsequent legislation.

7. The fallback procedures are effective only if the Congress wants them to be effective. If Congress has the will to act, no modification is necessary. If it does not, no modification will help.

8. I believe that modification of the Gramm-Rudman target for fiscal '88 would be desirable. The modification should insure that a deficit of about \$135 billion is achieved for fiscal 1988 by means of real continuing cuts in expenditures or increases in revenues. I would hope that restoring the automatic trigger would not be a necessary tradeoff to getting such a modification.

Mr. BROOKS. Mr. Horton.

Mr. HORTON. Ms. Rivlin, I have a high regard and respect for your ability. You did an excellent job in serving in the Congressional Budget Office. I think most Members of the Congress are greatly indebted to you for those years of service.

Ms. RIVLIN. Thank you.

Mr. HORTON. I thought your statement was very succinct. You put your finger right on many of the problems, and you probably heard my exchange earlier with the first witness, concerning the process itself. I think you very clearly pointed out what the process is and what the problems are, and I thought your suggestions are very succinct and very good.

As a matter of fact, I think that we ought to look carefully at this idea, not so much appropriating funds for a 2-year period, but the idea of a budget on a 2-year basis would certainly ease a lot of the problems that we have and would save a lot of time. There's a tremendous amount of time that goes into adopting this budget every year, not only in the executive, but also in the legislature. Because of the time constraints, it's almost an impossible situation, and if it could be done on the basis of a Congress—for example, in the beginning of the 100th, you adopt it for the whole 100th Congress, and then the 101st does the same thing—it would seem to me that that would ease our time problems and perhaps help a lot in the budget process in saving some time, especially in the second year.

You also supported the idea—and I agree, that there is a need to change and reform the committees of the Congress. I went through that exercise some years back. I was on the committee—I think it was headed by Dick Boland. It was very frustrating. Dave Martin was the ranking Republican member, and I served as well. We had some excellent recommendations. We spent a lot of time, but we really couldn't put anything together. Nobody listened to it. It's all on the floor. They just threw it down and nothing happened with it.

I do think that there is a time for that, and if there's a bullet-biting process, that probably is the place where you could really bite and do something about it. There is a need to look at the structure of the committees and make some changes. I'm not saying this in a partisan way, but whatever party is in control could probably cause that to happen, just as it can cause to happen the requirement that we fill the committees early before the Congress starts, so that we have the same advantages in the first session that we have in the second session, which we don't do now.

We did a better job on it this time, but I think the majority party in its caucuses could streamline and consolidate some of these committees that you talk about. That's a pretty tough thing to do, though. The turf problem is a very serious one.

But if the majority party were so inclined, it could really make some great headway, I think, and there's a real need for that. Perhaps we might even adopt some of that by way of a suggestion for recommendations that when we get finished with this, it could be helpful.

So thank you very much for the thoughts that you've expressed here, and it was a very succinct presentation.

Ms. RIVLIN. Thank you, Mr. Horton.  
[Ms. Rivlin's submissions to Mr. Horton's questions for the record follow:]

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR ALICE RIVLIN

- 1) Dr Chimerine suggested that budget reform should be delayed until deficits are brought down to an acceptable level.  
Couldn't some reform be initiated, such as biennial budgeting as you support, before the deficit reaches an "acceptable level", however that is defined?
- 2) Dr. Schultze stated that most probably the federal government would show no lower deficit under a capital budget than under the current accounting definition.  
Do you Agree?  
Would a capital budget give a more accurate picture of the government's true financial condition?
- 3) Dr. Schultze would base receipts and expenditures on a Budget resolution based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two?

- 4) If Congress continues to fund the government with continuing resolutions, containing appropriations for several if not all of the federal agencies, and include other legislative actions, doesn't this argue for a Presidential veto power of some type--something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?
- 5) Dr. Schick testified that in FY 85, barely one quarter of annual outlays came from discretionary appropriations for that year, and argues that multi-year budgeting would have little impact. What are your thoughts on this conclusion?
- 6) What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

## ANSWERS TO THE HORTON QUESTIONS

1. I agree with Dr. Chimerine that the most important objective is to bring the deficit down and that budget reform could be a diversion from that objective. Nevertheless, I believe that some steps toward reform, especially biennial budgeting, would be desirable and compatible with deficit reduction.

2. An attempt to make a capital budget for the federal government would be interesting and instructive to all concerned. But I do not believe it would be very useful. There is no obvious definition of "capital" for the federal government. One could define buildings and other physical assets with multi-year useful lives as capital items. Under this definition, government capital would be heavily weighted with military hardware. Alternatively, one could define as capital those government expenditures contributing to the future income of the nation. Under this definition, most government capital would be investments in health, education, and transportation. Both calculations would be informative, but neither would give "a more accurate picture of the government's true financial condition." It would still be important to know how much the government was going to have to borrow to finance the difference between revenues and spending, since this borrowing requirement has an enormous effect on the nation's capital markets.

3. Yes, I think the Schultze suggestion is a useful one, even if the economy is temporarily varying from the growth path assumed.

4. Even if the Congress retains the thirteen traditional appropriations bills, it would seem to me sensible for the Congress to grant the president the authority to point out specific items with which he disagrees and ask for a second majority vote. This seems to me preferable to the line item veto and other special veto suggestions.

5. Dr. Schick is correct that the Congress can affect only a small part of the budget in any one year. This seems to me an argument for multi-year budgeting, to give the Congress more control.

6. While I doubt that the Quayle proposal would have a major effect on the size of the budget, it seems to me a good idea.

Mr. BROOKS. Our final witness for today will be Charles Schultze, the senior fellow for economics for the Brookings Institution.

Prior to joining Brookings he served as Chairman of the President's Council of Economic Advisers for 4 years. He has been a professor of economics at several universities, and has also served as Assistant Director of the U.S. Bureau of the Budget.

We're delighted to have you back with us again, Professor. We look forward to hearing your remarks. We'll put them all in the record, and hear what you have to say.

**STATEMENT OF CHARLES SCHULTZE, SENIOR FELLOW FOR  
ECONOMICS, BROOKINGS INSTITUTION**

Mr. SCHULTZE. Thank you, Mr. Chairman, Mr. Horton. It's good to be here with no official responsibilities.

If I may, I will submit my testimony and summarize it here, exercising liberally, keeping it short.

My letter of invitation to testify asks, and I quote: "Whether the current problems with the Federal budget are the result of a flawed budget process or simply the product of inaccurate or unrealistic budget numbers." I think that's exactly the right way to begin your inquiry.

I strongly believe that today's huge budget deficits are the result neither of bad process nor bad numbers. They stem really from two sources, our current deficits.

First, the 1981 decision to launch a very large defense buildup while simultaneously enacting a large tax cut was based on two key assumptions: A huge speedup in economic growth and the enactment of a massive and partly unspecified list of civilian budget cuts. It quickly became clear that neither of these assumptions was being borne out. But then the Congress and the President got at loggerheads over what to do about the problem, and the impasse has continued for 5 years.

The Congress, Democrats and Republicans, will not give the President the steep cuts in civilian spending that he wants. And even if they did, those cuts wouldn't be enough to solve the problem. And the President has adamantly and successfully opposed the tax increase which most informed people, deep down, realize will be necessary to break the deadlock. Under these circumstances, neither improved budget procedures nor better economic forecasts over the last 5 years would have fundamentally altered the situation.

But even if budget procedures aren't the basic cause of our deficit problem, those procedures do have some flaws and need improvement. A number of proposals have been floating around which seek to address these issues. Some are worthwhile; some are useless; and some are dangerous. Let me comment briefly on the more important ones of them.

I will start with the balanced budget amendment. Unfortunately, this proposal refuses either to die or to fade away. The issues involved have been extensively debated, and I will only hit a few highlights.

First, the U.S. economy in the years after the Second World War has been far more stable than it was in earlier years. And this is

true even when we exclude the Great Depression of the 1930's. Since the Second World War, the annual fluctuations in national output have been less than half as large as they had been between the Civil War and the First World War. An important reason for the improved stability of the modern American economy has been the automatic stabilizing force of the modern Federal budget. As the economy starts into recessions, budget revenues and unemployment insurance rise. The Federal Government bears part of the burden of the recession, and that helps stabilize the rest of the economy.

A balanced budget amendment would throw away that stabilizing force. And trying to write into a constitutional amendment some kind of exemption formula for recessions would be technically so difficult and cumbersome as to make a mockery of the constitutional amendment process.

Second, we have to remember that constitutional amendments should be designed to last for centuries. If budget deficits are forbidden, and in most versions of the amendment Federal expenditures limited, clever and imaginative Presidents, OMB Directors, and congressional committees will gradually invent countless ways to substitute Government regulation and other devices for budget expenditures. Mandatory employer-provided health insurance in place of Medicaid, mandated private unemployment compensation, gimmicky loan guarantees, and all sorts of other devices to minimize direct Federal expenditures will multiply. To the extent there is a burden of excess government, it will thereby be made worse rather than better.

Let me turn to the capital budget. Lately, there's been much talk about the desirability of converting the current Federal budget into a capital budget. Under a capital budget outlays for capital formation would be excluded from Federal expenditures. But an allowance for depreciation of the existing capital stock owned or financed by the Federal Government would be included in operating expenditures. Clearly, information about the Federal Government's capital expenditures ought to be provided. In fact, that information is provided, and has been for over 20 years in great detail in special analysis D of the annual budget documents, which apparently nobody looks at.

It would still be useful for the OMB to go further, and make estimates of depreciation of the Federal capital stock and provide, for the information of the Congress and the public, a capital budget as a supplement to existing budget measures. But the mere provision of additional information is not what proponents of capital budgets really have in mind. All of us realize that what counts is the bottom line deficit—the one that appears in the headlines, the one to which the Budget Committees address their attention.

The proponents of a capital budget usually seek not merely new information, but a new rule of thumb for budget decisions. On this rule, budget expenditures and the bottom line budget deficit would exclude the effect of capital outlays. The operating budget, including depreciation, would be balanced, and the Government would borrow funds for capital outlays. This is a bad idea.

Large Federal budget deficits in periods of normal prosperity will put upward pressure on prices or interest rates, regardless of

whether the expenditures are for operating or for capital purposes. And conversely in a recession it makes no economic sense either to raise revenues or to slash expenditures so as to balance the operating budget.

Unlike State and local governments, which do extensively employ capital budgets, the Federal Government has a responsibility for using its budget in a way that helps stabilize the overall economy. And the rule, borrow for capital spending, tax to cover operating expenditures, gets squarely in the way of that economic responsibility.

There is another problem with applying rules derived principally from business operations to the Federal Government. In business, capital expenditures are designed to yield a stream of returns in the future. They're designed to pay for themselves, including the cost of borrowing. For practical reasons business accounting rules have tended to restrict the definition of capital mainly to durable physical assets. But many of the Federal Government's most important investments in the Nation's future consist of outlays which under the normal rules of business accounting wouldn't qualify as capital. Health, education, training and R&D are the most obvious.

Granted these facts, three undesirable consequences would flow from a shift to a capital budget by the Federal Government.

First, in periods of budget stringency, expenditures that qualify under the usual accounting conventions as capital would tend to be favored over those that didn't. Outlays for physical investment would fair better than outlays for human resources.

Second, imaginative OMB Directors and congressional committees would begin to find ways of converting operating expenditures to capital expenditures.

And third, there would be a continuing political struggle to get one's favorite program defined as a capital item, preferably with a very long life and a low depreciation rate. Over the years, this possibility would offer a wide scope for political bargaining that ultimately could make a mockery of the whole budget process.

While I don't think, Mr. Chairman, that the current problems of a large Federal budget deficit can be solved by changes in budget procedures, and I don't think they can be solved by a capital budget or a balanced budget amendment, there is nevertheless room for improvement, and there are some reasonable suggestions. You've heard some already this morning. But let me start with one that isn't usually proposed, as far as I know. And that has to do with the economic assumptions underlying the budget.

One major problem in current budget procedures has been the politicizing, at least occasionally, of the economic estimates underlying the budget. Some years ago, for example, the chairman of the House Budget Committee presented a budget resolution that relied on a more conservative set of economic forecasts than those presented by the administration. He was, if I remember correctly, defeated on the House floor with the argument that he was asking House Members to vote for a higher deficit. In fact, of course, he wasn't asking the House to increase Government spending, only to recognize economic reality.

From the standpoint of economic logic, a weakening economy that produces larger budget deficits ought not to lead the Congress

to make larger budget cuts. And conversely, a surprisingly strong economy producing an unexpectedly lower deficit, ought not to be an excuse to relax any budget cutting which otherwise would have been voted.

Ideally, the budget receipts and expenditures which go into the budget resolution ought to be based on the assumption of a reasonably steady and sustainable growth of our economy. They should not reflect the temporary variations which occur as the economy cycles above and below that steady trend. Adopting such a convention for the economic assumptions underlying the budget would not only make economic sense, but very importantly, it would eliminate the political temptation in either the administration or in the Congress to use excessively optimistic economic forecasts simply to show a better set of budget estimates.

What about biennial appropriations, which is another frequently heard suggestion. My colleague, Mrs. Rivlin, has given the case for that this morning, and I won't repeat them. Let me suggest a few modifications.

While converting the Federal budget to biennial appropriations wouldn't eliminate the problem of budget deficits or some of the problems that annual deficits—annual budget cause, they would alleviate those problems. But several difficulties have to be overcome in moving to a biennial budget.

First, there will always be exceptions that require supplemental appropriations. But the Congress must adopt rules of procedure that discourage the number and the scope of supplementals from growing and thereby restoring the annual budget through the back door.

Second, with a 2-year budget it may be necessary in the off years when no budget is enacted to have a separate vote specifying an across-the-board adjustment for inflation. If you're going to go 2 years without any budget adjustments, this may be needed. The adjustment, of course, could be less than inflation in order to save money, if you want.

And third, in the case of defense procurement, the testing and evaluation of weapons systems often suggests, or at least should suggest the need for prompt and radical reassessment. And so some provision would have to be made for reprogramming procurement funds within the 2-year cycle. But all of these matters could, I think, be settled satisfactorily.

We turn to another matter, committee structure, on which Mrs. Rivlin has again spoken, and I won't repeat the argument she has made, with which I agree, for consolidating Budget and Appropriations Committees.

Let me, however, add a footnote. I recognize, perhaps with less immediate poignancy than you would, but I still recognize the fact that consolidation of committees along the lines that have been suggested would eliminate approximately 13 existing committees or subcommittee chairmanships. One might indeed worry that such a prospect would threaten the feasibility of consolidation.

And so I would reluctantly suggest the creation of a larger number of functional committees or subcommittees in the new structure. So you consolidate appropriations and legislation, but you create more subcommittees within that structure.

My proposition is, there is a way that you can tell people they are not going to lose a lot of committee chairmanships. That's the only point I wanted to make.

Line item veto. Again, you've heard from a number of witnesses, and you've read, and you've talked, I'm sure, about the pros and cons of this issue for some time. Let me again only call your attention to several points.

First, the line item veto, whatever its other merits, wouldn't contribute significantly to the solution of the current deficit problem. I think we have to assume that Social Security and other major entitlement programs wouldn't be subject to the line item veto. And we can also assume that President Reagan is not about to use the line item veto to cut the defense budget. A study by the House Budget Committee in 1984 showed that under these reasonable assumptions only 9 percent of budget spending would be subject to the line item veto.

On the other hand, a limited form of a line item veto might help improve the efficiency of government. The President often can afford politically to make sharp reductions in some sacred cows which logrolling makes impossible for the Congress to touch. But an unlimited grant of the line item veto would transfer a very substantial and probably excessive degree of power to the President, that he could use for bargaining about all kinds of programs. And so I think the line item veto could be limited in two ways.

First, the President could be allowed to exercise it with respect only to a limited percent, say, 3 or 4 percent of the spending in any appropriation bill.

And second, the Congress should be able to override the veto with a 60-percent vote or perhaps the majority of the whole membership in both Houses.

With these limitations, a change in budgetary rules along this line might improve the budget process without granting the President an excessive increase in power. Such an approach may be worth trying for an experimental period.

Mr. Chairman, I close my testimony by trying to point out two problems that I think exist with respect to budget procedure for which frankly I don't have any answer. And I can only point them out and hope that somebody with more imagination than mine can find the answer.

The first one has to do with the defense budget. In a period in which the Congress—

Mr. HORTON. Charlie, let me just interrupt you. I'm going to have to leave, I've got some folks over on the Capitol steps, it's cold out there. But I did want to thank you for your testimony. I'm really appreciative of the work that you've done, and I admire your work. I remember when you did come in here and had to testify before us. You're a great person, I have a lot of respect and regard for you.

Mr. SCHULTZE. Thank you, Mr. Horton.

Let me just make these points very quickly. One has to do with the defense budget during a period when, as now, the President and the Congress are in strong disagreement about its overall size. On the one hand, Congress, in my judgment anyway, has played a major and constructive role in the last several years in curbing

what was the prospect of a continued, and I think excessively rapid growth in the defense budget.

On the other hand, when the Congress decides to cut the administration's defense budget by a large amount, it does so not by enforcing a set of priorities and eliminating the least cost-effective weapon system that the administration is proposing; rather it tends to keep almost all of the weapon systems in the budget and reach a lower dollar total by cutting operation and maintenance spending, reducing the total numbers of each weapon procured, and stretching out procurement schedules. This failure to bite the bullet in establishing priorities results in a less effective defense establishment, higher unit cost for weapons and less capability of using them.

The same reluctance to enforce strict priorities shows up in budgeting for civilian programs. Between them the Congress and the President have made substantial inroads over the past 5 or 6 years into the overall size of the civilian budget. In that sense, there has indeed been a Reagan revolution. Even with no further cuts, total civilian spending, outside of Social Security, Medicare, and interest on the debt, will fall from a peak of 9½ percent of GNP in 1980 to about 6½ percent by 1990—almost back to where it was, as a share of our economy, before Lyndon Johnson's Great Society programs got underway. But the prevailing tendency in Congress has been to achieve this result by paring, pruning, and shaving everywhere. The efficient and the wasteful, the necessary and the optional, the highly meritorious and the pork barrel have all been similarly treated.

What the Congress has not been able to do is reach a working consensus on identifying and doing radical surgery on obsolete and low priority programs, while more generously funding the highly needed and efficient programs. With few exceptions, once a Federal program gets on the books it seems to stay there forever, sometimes surviving at reduced funding, but never terminated. Old programs neither die nor fade away, they just limp along forever.

With respect to both the defense budget and to the civilian budget the Congress is capable of making cuts. It's shown the capability of exercising judgment with respect to the totals. Unfortunately, what the current budget procedures seem to make impossible is to do that cutting selectively. And as I say, there's been an across-the-board pennypinching now for 6 years, which means, as you look at our Government, that in some areas we're in danger of becoming a little bit of a banana republic. There are a lot of things in government that are unexciting, not very sexy, but that any modern society needs to be run efficiently—such areas as Federal Aviation Agency, Bureau of Prisons running the National Parks, Immigrations, and so forth.

And in many cases, in the desirable effort to hold down spending, but the unwillingness to really excise big chunks here and there, the Congress—less so the President, frankly—the Congress just held down everything. And we're accumulating a backlog of needs because of this tendency to have a little bit everywhere, good and bad together. Having said all that, I wish I could think of some procedural remedy for it. Actually this practice is the downside of all the good things in our system of government of divided powers

with very heavy local representation. It gives us a lot of strength in government, but it also means that this business of being selective and getting at old programs or weapon systems is very, very difficult for the Congress to do. I point out the problem. Your minds are better at this than mine, maybe you can think of a way out—think of a way of dealing with it.

Thank you, Mr. Chairman.

Mr. Brooks. Thank you very much.

[Mr. Schultze's prepared statement and submissions to Mr. Brooks' and Mr. Horton's questions for the record follow:]

## Statement

of

Charles L. Schultze\*  
Brookings Institution

before the

Subcommittee on Legislation and National Security

Committee on Government Operations

U. S. House of Representatives

March 12, 1987

Mr. Chairman and Members of the Subcommittee:

Your letter of invitation to testify states that ". . . the Subcommittee is anxious to ascertain the degree to which the current problems with the Federal budget are a result of a flawed budget process or simply the product of inaccurate or unrealistic budget numbers." I think that is exactly the right way to begin your inquiry. It is my strongly held view that the string of recent and prospective budget deficits of unprecedented size are the result neither of bad process nor of bad budget numbers. Rather, they stem from two sources: A terribly flawed set of budget decisions undertaken in 1981, followed by a political impasse between the President and the Congress over the

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\*The author is a Senior Fellow at the Brookings Institution. The views set forth here are solely those of the author and do not necessarily represent the opinions of the trustees, officers, or other staff members of the Brookings Institution.

means of correcting that initial mistake.

The 1981 decision -- to launch a massive defense buildup and simultaneously enact a large percent tax cut -- was first proposed by the President. But it was concurred in by a majority of the Congress. A massive spurt in economic growth and a partially unspecified series of civilian budget cuts were assumed to make this decision consistent with budget balance. In fact, neither of the two assumptions was reasonable and neither came to pass. And the resulting budget deficits fed back on themselves in a vicious circle as they generated higher interest payments on the public debt. Subsequently, the Congress and the President have been at loggerheads over what to do about the problem. The Congress -- Democrats and Republicans -- will not give the President the steep cuts in civilian spending that he wants, and even if they did, those cuts would not be enough to solve the problem. And the President has adamantly and successfully opposed the tax increase which most informed people, deep down, realize will be necessary to break the deadlock. Given these circumstances -- the fundamental disagreement between the President and the Congress and the political impossibility of passing a tax increase over the President's opposition -- neither better budget procedures nor better economic forecasts over the last five years would have fundamentally altered the situation. In fact, it is my impression that the existence of the Congressional Budget procedures instituted in 1974 enabled the Congress to take independent actions of its own that mitigated some of the

damage from the initial bad decision and subsequent deadlock. Procedural changes in the way Congress and the Executive Branch go about the preparation and enactment of the budget, however, will not solve the essentially political deadlock which now perpetuates our huge budget deficits.

I do not wish to suggest that there are no problems with the budgetary process. There are. Even if there were no huge budget deficits staring us in the face, there would be some important flaws in the budget process; there are some improvements that can be made. There are a number of proposals floating around which address these issues. Some of those proposals are desirable. Others are not, and a few are dangerous. Let me comment briefly on each of them.

#### Balanced-Budget Amendment

This proposal has been hanging around for some time. Unfortunately, it refuses either to die or to fade away. The issues involved have been extensively debated, and I will only hit a few highlights.

First, the U.S. economy in the years after the Second World War has been far more stable than it was in the previous years. And this is true even when we exclude the Great Depression of the 1930s. Since the Second World War the annual variation in the level of national output around its trend was less than half as large as it was from 1871 to 1914. An important reason for that improved stability has been the automatic stabilizing force of the modern federal budget. As the

economy started into recessions budget revenues and unemployment insurance rose. The federal government bore part of the burden of the recession and that helped stabilize the rest of the economy. A balanced budget amendment would throw away that stabilizing force. And trying to write into a Constitutional amendment some kind of an exemption formula for recession would be technically so difficult and cumbersome as to make a mockery of the amendment process.

Second, we must remember that Constitutional amendments should be designed to last for centuries. If budget deficits are forbidden (and, as in most versions of the amendment, federal expenditures limited), clever and imaginative Presidents, OMB Directors, and Congressional Committees will gradually invent countless ways to substitute government regulation and other devices for budget expenditures. Mandatory employer-provided health insurance in place of Medicaid, mandated unemployment compensation, gimmicky loan guarantees, and all sorts of other devices to minimize direct federal expenditures will multiply. And to the extent there is a burden of excessive government it will thereby be made worse rather than better.

#### Capital Budget

Lately there has been much talk about the desirability of converting the current federal budget into a capital budget. Under such a budget outlays for capital formation would be excluded from federal expenditures, but an allowance for depreciation of the existing capital stock owned (or financed) by the federal government would be

added to the expenditure estimates.

Clearly, information about the federal government's capital expenditures ought to be provided, in total and subdivided by function and program. In fact, it is so provided, in great detail, in Special Analysis D of the annual budget documents. There, capital and operating expenditures are separately distinguished in total, by broad type and by detailed budget function. Data are furnished on grants-in-aid to state and local governments for capital expenditures. It has been so provided for more than 20 years. Frankly -- and unfortunately perhaps -- no one pays much attention to it. I think it would be useful for OMB to make estimates of depreciation of the federal capital stock and provide, for the information of the Congress and the public, a capital budget as a supplement to existing budget measures.

But the mere provision of additional information is not what proponents of a capital budget have in mind. All of us realize that what counts is the bottom line deficit -- the one that appears in the headlines, the one to which the Budget Committees address their attention. The proponents of a capital budget usually have in mind not merely a new definition but a new rule of thumb for budget making. On this rule budget expenditures and the bottom line deficit would exclude the effect of capital outlays. The operating budget (including depreciation) should be balanced and the government should borrow funds for capital outlays.

This is a bad idea. A large federal deficit in periods of normal prosperity will put upward pressure on prices or interest rates, regardless of whether the expenditures are for operating or for capital purposes. And conversely, in a recession it makes no economic sense either to raise revenues or to slash expenditures so as to balance the operating budget. Unlike state and local governments which do extensively employ capital budgets, the federal government has a responsibility for using its budget in a way that helps stabilize the overall economy. And the rule "borrow for capital outlays, tax to cover operating expenditures" gets squarely in the way of that responsibility.

There is another problem with applying rules derived principally from business operation to the federal government. In business, capital expenditures are outlays designed to yield a stream of monetary returns in the future. They are designed to pay for themselves, including the cost of borrowing. For practical reasons business accounting rules have tended to restrict the definition of capital to durable physical assets. But the federal government is different in two ways. First, it undertakes many capital-type outlays that do not yield it a stream of future revenues -- indeed the very reason why government normally undertakes such outlays in the first place is that it does not pay business firms to do so. More to the point, many of the federal government's most important investments in the nation's future consist of outlays that under the normal rules of business

accounting would not qualify as capital items -- expenditures on health, education, training, and R&D are the most obvious. Granted these facts, three undesirable consequences would flow from a shift to a capital budget.

First, in periods of budget stringency, expenditures that qualified under the usual accounting conventions as "capital" would tend to be favored over those that did not. Outlays for physical investment would fare better than outlays for human resources.

Second, imaginative OMB Directors and Congressional Committees would begin to find ways of converting operating expenditures to capital expenditures. Whenever one could substitute a subsidized loan for a grant, do so. (Loans, of course, are capital outlays under the standard accounting conventions.)

Third, there would be a continuing political struggle to get one's favored program defined as a capital item (preferably with a very long life and low depreciation rate). Over the years this possibility would offer a wide scope for political bargaining that ultimately could make a mockery of the whole business.<sup>1</sup>

Ironically, by the way, adoption of a capital budget by the United States would not have made any significant difference in the size of the federal budget deficit in recent years. The Organization for Economic Cooperation and Development and Development (OECD) makes annual estimates of a capital budget for the United States, including estimates of both capital formation and depreciation in the federal government's direct investments as well as a capital budget for state and local governments (important parts of which are financed by federal grants-in-aid). Because in recent years federal, state, and local governments in the United States have been spending so little on investment, such outlays have been no larger than the annual depreciation charges. As a consequence, all governments in the United States taken together, and most probably the federal government alone would now show no lower a deficit under a capital budget than under the current accounting definitions.

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1. In case anyone thinks this is fanciful, in 1980 a senior member of the Senate Finance Committee successfully insisted, as part of the bargaining over legislation implementing the Tokyo Round of trade agreements, on an amendment which required the Census Bureau to publish as its initial estimate each month a measure of the U.S. merchandise trade deficit defined in an arbitrary way, so as to show a higher deficit. To this day, the initial monthly reports on the U.S. trade deficit incorporate the misleading, legislatively enforced definition.

Some Positive Improvements

While I do not think that the current problems of a large federal budget deficit can be solved by changes in budget procedures, there is nevertheless room for procedural improvement. Current Congressional budget procedures have several major shortcomings. First, they involve the Congress each year in unnecessarily detailed and complex procedures about each item of the budget. Congress pays too much attention to detail. Second, they are built on a fundamental contradiction that in some respects involves the worst of both worlds. Good management practices require that funding for government programs normally be stable and predictable from one year to the next but occasionally subject, if warranted, to fundamental changes and radical revision or even abolition. What Congress does with its annual appropriations (for items outside of entitlements), is the opposite: it finds every program on a year-by-year basis, but in fact seldom subjects any of them to radical reform or abolition.

These problems are the downside of the same elements of the American constitutional system that give it, on other matters, such great strength. They are inherent in the very unique nature of the American political system -- its divided powers and its unusually strong role for representation of local interests. Nevertheless, there are some modest changes in budget procedures that could reduce these unwarranted side effects of our constitutional system.

### Economic Assumption Underlying the Budget

One major problem has been the occasional "politicizing" of the economic estimates underlying the budget. Some years ago, for example, the Chairman of the House Budget Committee presented a Budget Resolution that relied on more conservative set of economic forecasts than those presented by the Administration. He was, if I remember correctly, defeated on the House floor with the argument that he was asking House members to vote for a higher deficit. In fact, of course, he was not asking the House to increase government spending, only to recognize economic reality.

From the standpoint of economic logic, a weakening economy that produces larger budget deficits ought not to lead the Congress to make larger budget cuts. And conversely, a surprisingly strong economy, producing an unexpectedly lower deficit, ought not to be an excuse to relax any budget cutting which otherwise would have been voted. Ideally, the budget receipts and expenditures which go into the Budget Resolution ought to be based on the assumption of a reasonably steady and sustainable growth of GNP. They should not reflect the temporary variations which occur as the economy cycles above and below that steady growth path. Adopting such a convention for the economic assumptions underlying the budget would have two advantages:

- It would make sense from an economic standpoint; the additional revenues from a temporary economic boom would not become a temptation to spend more just when

spending restraint is particularly needed, and the temporary revenue loss from a period of recession or abnormally slow growth would not be the occasion for additional budget cutting just at the wrong time.

- It would eliminate the temptation in the Administration and in Congress to generate excessively optimistic economic forecasts simply to show a better set of deficit estimates. Debates about the Budget Resolution ought to concentrate on budget matters -- what programs and tax sources to expand or cut -- rather than on who has the best set of economic predictions.

I firmly believe that such a reform -- basing the revenue and expenditure estimates and the deficit targets in the Budget Resolution on the assumption of moderate steady growth and ignoring temporary deviations around that path -- would make both economic and procedural sense.

#### Biennial Appropriations

There are few federal programs whose budget support really needs to be reevaluated annually. Most of them are of long standing. For good or for ill they provide some service, some subsidy, or some flow of investment to which business, consumers, or state and local governments have become accustomed and on which their plans have to be based. While every program should be subject occasionally to a

complete reassessment, that reassessment need not take place every year. It is naive to think that the Administration or the Congress can so calibrate their evaluation of national needs, and the benefits and costs of particular programs, so as to produce a newly reasoned judgment about the needs, costs, and benefits of each program each year. In fact, of course, appropriations for most programs do not change radically every year. But the process of annually refighting the battle of appropriations ties up the Congress unnecessarily, adds to the delays in the budget process, and exacerbates the problem of Congressional micro-management of federal programs. Moreover, the delays often toss budget decisions into the hopper of giant continuing resolutions, where poker playing, hostage taking, and games of chicken produce all sorts of results that have little to do with sensible budgeting.

Converting the federal budget to biennial appropriations would not eliminate the problem but it would alleviate it. Economic and social developments seldom change so sharply over a two-year period as to require new budget decisions about the vast bulk of federal programs.

Several difficulties have to be overcome in moving to a biennial budget. First, there will always be exceptions that require supplemental appropriations. But the Congress must adopt rules of procedure that discourage the number and scope of supplementals from growing so as to restore the annual budget through the back door. Second, it may be necessary in the "off years" when no budget is

enacted to have a separate vote specifying an across-the-board adjustment for inflation. (The adjustment could, of course, be less than inflation.) Third, in the case of defense procurement, I am not sure the Pentagon is capable of providing reasonably firm two-year plans. And the testing and evaluation of weapons systems often suggests (or should suggest) the need for radical reassessment. Some provision would have to be made for reprogramming procurement funds within the two-year cycle. But these matters could, I think, easily be settled satisfactorily.

#### Committee Structure

I venture with some trepidation into this minefield. Nevertheless, with a biennial budget in place, the Congress would be in a position to undertake another reform that would streamline the budget process and reduce delays. My colleague Alice Rivlin, and others, have suggested consolidating the legislative and appropriations committees of each House into one set of functionally differentiated Committees. In each two-year cycle the committees could concentrate the first year on authorizations, oversight, and legislation and the next year on appropriations. I do not believe, for example, there is any legitimate public purpose served by having the defense budget every year go through two sets of deliberations as it now does, one by the Armed Services Committee and one by the Defense Appropriations Subcommittee. Such duplication contributes in no small way to delays in the budget process.

I realize that consolidation along the lines I suggest would eliminate approximately 13 existing committee or subcommittee Chairmanships. Since that prospect alone threatens the feasibility of consolidation I would reluctantly suggest the creation of a larger number of functional committees or subcommittees in the new structure. The total number of committees or subcommittees would stay unchanged. The advantages of consolidation would, I think, outweigh the disadvantages of splitting budget considerations into a larger number of functional areas.

#### The Line Item Veto

You have heard the pros and cons of this issue for many years. And so I will not spend much time on it, but only call your attention to several points.

First, the line item veto, whatever its other merits, could not contribute significantly to the solution of the current deficit problem. We have to assume that social security and other entitlement programs would not be subject to the line item veto and that President Reagan would not use the veto to cut the defense budget. A study by the House Budget Committee in 1984 showed that under these reasonable assumptions only 9 percent of budget spending would be subject to this veto.

On the other hand, a limited form of line item veto might, over the the years, help improve the efficiency of government. The President often can afford politically to make sharp reductions in some

sacred cows which logrolling makes it impossible for the Congress to touch. But an unlimited grant of the line item veto would transfer a very substantial, and probably excessive, degree of power to the President. Not only could he use the veto directly in a negative way, but the threat of such a veto on a Congressman's favorite project would be a powerful weapon in the hands of a President to get his own way in a number of other areas. Hence, a limited grant of authority to the President -- through legislation not through Constitutional amendment -- might be in order. I think the line item veto could be limited in two ways: First, the President could be allowed to exercise it with respect only to a limited percent -- say 3 or 4 percent -- of the spending in any appropriations bill. Second, the Congress should be able to override the veto with a 60 percent vote (or perhaps a majority of the whole membership) in both Houses. With these limitations a non-Constitutional (hence reversible) change in budgetary rules might improve the budget process without granting the President an excessive increase in power. It may be worth trying for an experimental period.

#### Some Additional Reflections on the Budget Process

There are two closely related problems with the current budget process that I can identify but for which I have been able to find no procedural remedies.

The first has to do with the way the Congress deals with the defense budget in situations like the present, when the President and the majority of the Congress are in strong disagreement about its

overall size. On the one hand, Congress has played a major and constructive role in the past several years in curbing what was the prospect of a continued and, in my judgment, an excessively rapid growth in the defense budget. On the other hand, when the Congress decides to cut the Administration's defense budget by a large amount it does so not by enforcing a set of priorities and eliminating the least cost-effective weapons systems that the Administration is proposing. Rather, it tends to keep almost all of the weapon systems in the budget and to reach a lower dollar total by cutting operations and maintenance spending, reducing the total numbers of each weapon procured, and stretching out procurement schedules. The failure to bite the bullet in establishing priorities results in a less effective defense establishment -- higher unit costs for weapons and less capability of using them.

The same reluctance to enforce strict priorities shows up in budgeting for civilian programs. Between them the Congress and the President have made substantial inroads over the past five or six years into the overall size of the civilian budget. Even with no further cuts, total civilian spending outside social security, Medicare, and interest on the debt will fall from a peak of 9.5 percent of GNP in 1980 to 6.6 percent by 1990, almost back to where it was as a share of our economy before Lyndon Johnson's Great Society programs got underway. But the prevailing tendency in Congress has been to achieve this result by paring, pruning, and shaving everywhere. The efficient

and the wasteful, the necessary and the optional, the highly meritorious and the pork barrel have been similarly treated. What the Congress has not been able to do is reach a working consensus on identifying and doing radical surgery on a number of obsolete and low priority programs while more generously funding the highly needed and efficient programs. With a few exceptions, once a federal program gets on the books it seems to be there forever, sometimes surviving at reduced funding but never terminated. Old programs neither die nor fade away, they just limp along forever.

I have racked my brain off and on for some time, but have failed to come up with any procedural changes of a practical nature that would deal with this problem. All I can do is call attention to it in the hope that a more imaginative mind than mine may be able to invent a procedural change that alleviates it.

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR CHARLES SCHULTZE

1. WHAT WOULD BE ACCOMPLISHED IF THE ECONOMIC FORECASTS USED BY THE GOVERNMENT WERE STANDARDIZED?
2. WHAT IS LIKELY TO HAPPEN WITH THE NATION'S ECONOMY IF FEDERAL BUDGET DEFICITS ARE NOT REDUCED SOON?
3. IF BIENNIAL BUDGETING WERE INSTITUTED, WOULD IT BE BEST TO SWITCH THE ENTIRE FEDERAL GOVERNMENT OVER AT ONCE, OR TO PHASE IN THIS SYSTEM OF BUDGETING?
4. WHAT WOULD HAPPEN TO THE OPERATIONS OF THE TREASURY DEPARTMENT AND THE NATION'S FINANCIAL MARKETS IF THE FEDERAL GOVERNMENT WERE TO ADOPT A PURE CAPITAL BUDGET WHERE OPERATING EXPENSES WERE PAID OUT OF CURRENT REVENUE AND CAPITAL INVESTMENTS WERE FUNDED THROUGH LONG-TERM DEBT INSTRUMENTS?
5. PRECISELY HOW DO ECONOMIC ASSUMPTIONS AFFECT THE BUDGET?

C. L. Schultze's ANSWERS to Congressman Brooks' QUESTIONS

Legislation and National Security Subcommittee Hearing of March 12, 1987

ANSWER TO QUESTION 1:

If by "standardized" you mean that the economic assumptions should be based on some previously agreed-upon standard of economic performance -- e.g., 6 percent unemployment or a stipulated growth rate -- then I believe it would be a very useful practice. It would take the political posturing out of the economic assumptions used in budgeting. It would give better signals for budget policy. I argue the case for this in my testimony.

ANSWER TO QUESTION 2:

My answer to this question is covered in my testimony to the House Ways and Means Committee, February 11, 1987. Essentially failure to reduce the deficit to well under \$100 billion by 1990 will lead to rising interest rates, reduced domestic inventories, and a slower growth in U.S. productivity.

ANSWER TO QUESTION 3:

I see no reason not to switch everything at once.

ANSWER TO QUESTION 4:

I think that using this rule for budgeting would be a very bad idea for the reasons set forth in my testimony. But I do not believe that it would have any special implication for the operations of financial markets.

ANSWER TO QUESTION 5:

The faster the assumed real economic growth the faster growth in revenues and the lower the expenditures for unemployment compensation and welfare programs. Faster assumed real growth therefore lowers the forecasted deficit. Inflation has a lesser impact. Both revenues and indexed expenditures rise when inflation increases. In the short-run higher assumed inflation lowers the deficit. In the long, with tax brackets indexed, inflation is probably neutral except for its impact on nominal interest rates and interest payments on the debt. To that higher inflation extent it increases the deficit. The CBO Economic and Budget Outlook, January 1987, p. 48, has a discussion of this subject, with quantitative estimates of how various changes in economic assumptions affect the budget.

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR CHARLES SCHULTZE

- 1) Dr Chimerine suggested that budget reform should be delayed until deficits are brought down to an acceptable level.  
Couldn't some reform be initiated, such as biennial budgeting as you support, before the deficit reaches an "acceptable level", however that is defined?
  
- 2) Dr. Schultze, you stated that most probably the federal government would show no lower deficit under a capital budget than under the current accounting definition. Would a capital budget give a more accurate picture of the government's true financial condition?
  
- 3) Dr. Schultze, you testified that you would base receipts and expenditures on a Budget resolution based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two?

- 4) If Congress continues to fund the government with continuing resolutions, containing appropriations for several if not all of the federal agencies, and include other legislative actions, doesn't this argue for a Presidential veto power of some type--something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?
- 5) Dr. Schick testified that in FY 85, barely one quarter of annual outlays came from discretionary appropriations for that year, and argues that multi-year budgeting would have little impact. What are your thoughts on this conclusion?
- 6) What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

C. L. Schultze's ANSWERS to Congressman Horton's QUESTIONSANSWER TO QUESTION 1:

I see no reason to delay biennial budgeting until the deficit is reduced to some "acceptable" level.

ANSWER TO QUESTION 2:

If OMB would provide a capital budget as supplementary information, that would be very helpful. But the federal budget should not be formulated each year so as to balance the operating budget and borrow for capital expenditures. For reasons given in my testimony this would neither be good fiscal policy nor would it be conducive, in the long run, to honest budgeting.

ANSWER TO QUESTION 3:

If GNP went down or was flat for a year or two, the deficit would rise sharply. It would not be good economic policy to raise revenues or to cut expenditures in order to prevent this from happening. In this particular case, good politics and good economics go hand in hand. Moreover, if the Congress cuts taxes or raises spending in a recession it ought to have some idea of what that will do to the budget when prosperity returns. Use of "standardized" economic assumptions, as I suggested in my testimony would do that.

ANSWER TO QUESTION 4:

Running the budget by continuing resolution is a bad idea. It does promote all kinds of "game strategies" to get particular riders or special projects included in the resolution. I have suggested in my testimony a limited form of line item veto. While that might help deal with the problem you cite, the best

solution is to get rid of continuing resolutions. A biennial budget would help.

ANSWER TO QUESTION 5:

That fact simply reflects the facts of life. Some programs -- like social security -- provide "entitled" benefits that Congress, in any event, should not be changing every year. In some programs -- defense procurement being a major example -- once a "buy" is inaugurated with an appropriation it gives rise to a long stream of spending. Congress can control that spending by its initial appropriation but it cannot do anything about it year by year thereafter. The moral of this story is that Congress ought to pay less attention to the immediate budget year's outcome and more attention to the longer-run (two to five years) consequences of its actions. Again, a biennial budget would help.

ANSWER TO QUESTION 6:

I have not had a chance to study the Quayle amendment. But, I think my proposal for a limited line item veto would serve many of the purposes to which the Quayle amendment is addressed.

Mr. BROOKS. The consensus, I believe, among today's witnesses is clearly that the basic problem with the budget is simply a result of the fact that revenue and spending numbers just don't add up. And no amount of fiddling around with them is going to change that reality.

It's apparent, however, that there might be several ways which the budget process could be changed, making it more efficient and a little less confusing.

As the subcommittee proceeds with this series of hearings on the reform of the budget process, we'll examine the merits of any such proposals in greater detail. And if it truly becomes clear that one or more of these proposals indeed has merit, we will proceed accordingly.

It's anticipated that the next hearing on reform of the budget process will be held within a few weeks. And at that time we'll hear from other witnesses with different perspectives on the Federal budget process.

The hearing is adjourned.

[Whereupon, at 12:07, the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# REFORM OF THE FEDERAL BUDGET PROCESS

THURSDAY, APRIL 2, 1987

HOUSE OF REPRESENTATIVES,  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:45 a.m., in room 2154, Rayburn House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks, Robert E. Wise, Jr., and Frank Horton.

Also present: William M. Jones, general counsel; Donna Fossum and Robert S. Richard, professional staff members; Marilyn Jarvis, staff member; Stephen M. Daniels, minority staff director and counsel; and Alexander B. Cook, minority professional staff, Committee on Government Operations.

**Mr. BROOKS.** The hearing will now open. Today, the Subcommittee on Legislation and National Security continues its hearings on the reform of the Federal budget process. The primary purpose of these hearings is to determine whether our current budget problems are the result of a flawed budget process or simply the product of inaccurate or unrealistic budget numbers.

At our first hearing, five of the Nation's foremost private sector experts on the Federal budget agreed that the basic problem is one of a gross imbalance between the Federal revenues and outlays. All believed, however, that improvements could be made in the budget process.

This morning, we will hear from the architect of the President's budget and the Comptroller General of the United States. The perspective of both of these witnesses is quite different from that former minority leader.

We are anxious to learn if this difference in perspective is evident in their analysis of what ails the Federal budget.

I recognize Frank Horton for a statement on the budget process.

**Mr. HORTON.** Thank you, Mr. Chairman.

I join with you in welcoming our two distinguished witnesses to the hearing today, Mr. Miller and—

**Mr. BROOKS.** I haven't introduced them yet.

**Mr. HORTON.** Oh. [Laughter.]

Well, I figured they were going to be here.

I want to join with you, anyway, in welcoming Mr. Miller and Mr. Bowsher.

Everyone agrees that our continuing budget deficits represent a very serious problem that must be successfully resolved, and sooner

rather than later. The Congress has attempted to do this in several ways, such as the establishment of the Budget Committee and the budget process, and more recently the enactment of the Gramm-Rudman-Hollings bill.

A lot of people don't realize, Mr. Chairman, that in the older days, before we had this budget reform, the President would send up a budget, but the Congress never looked at an overall budget. All we did was pass authorizing and appropriating bills, and whether or not it came within the budget, we didn't much care. The process just went ahead. The budget reform process was an attempt for us to get a handle on the budget, and to some extent it has worked, and to some extent it hasn't. I think it is very important that we have these hearings so we can get some ideas as to whether or not this budget process is working.

However, despite all these efforts, the budget deficits grow larger and the national debt continues to increase. Perhaps we need new numbers to make the deficit shrink; but perhaps we could also improve the process, so all the participants have a better chance to reach the proper solutions to this very difficult problem.

Mr. Chairman, I look forward to the witnesses and to the testimony this morning.

Mr. BROOKS. Our first witness this morning is James C. Miller III, Director of the Office of Management and Budget. We appreciate your coming down this morning. We are delighted to have you here, Jim.

We will accept your statement for the record, and I look forward to hearing your comments.

#### STATEMENT OF JAMES C. MILLER III, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. MILLER. Thank you, Mr. Chairman.

It is a delight to be here and I welcome this opportunity, because budget reform is such an important issue and your hearing could not be more timely.

As Mr. Horton was pointing out, we need a system to improve the system. I think we need to have meaningful deficit reduction, but at the same time we are all frustrated by the inordinate amount of time consumed by putting a budget together and getting appropriations enacted. And when I talk about the budget process, I mean not only just putting together the budget resolution, but getting appropriations enacted.

Now you know a couple of weeks ago the President in his radio address talked about this issue, and he didn't mince any words. He said, and I quote here, "The budget process is indeed, a sorry spectacle." This was the same phrase he used in his State of the Union message. Continuing on, he said "Deadlines are delayed or missed completely; huge continuing resolutions camouflage the worst kind of special interest spending. The budget process is more like a magic show. It's wink and blink and smoke and mirrors and pulling rabbits out of hats, but almost all that ever comes up are designs to hide increases for special interests."

Now these are strong words, for sure, but they are not partisan, nor do they represent an attempt by the executive branch of Gov-

ernment to lecture the legislative branch on its duty. And I realize there is some sensitivity about that. Basically the President is suggesting a way that Congress run its business. But the President has said no more than what many Congressmen and Senators on both sides of the aisle have said in the past.

The fault lies with the machinery we have inherited. It is my view that built-in biases in the political system inevitably lead to excessive Federal spending and deficit finance.

It is my view and the President's view, and the view of a great majority of the American people, that we need a constitutional solution to this problem. I think that some of the problems that we see, though they may not necessarily be solved by some of the budget process reforms that we are talking about here, are represented by the highway bill that is now before the Senate. I realize this is a very sensitive issue, for it was put together with great effort. But the budget for the highway bill is simply too high. The transit money is too high. The formulas, the way it is adopted, would distribute too much money to a very small number of people, to a very small number of States and localities under this bill. The President simply finds that totally unacceptable, and that is the reason the President has vetoed that bill.

The argument that it would cost jobs is simply untrue, because that is to suggest that Congress wouldn't turn around and pass another highway bill. It's kind of like taking your football and going home. I don't think that's going to happen in the Senate or happen in the House, either. We need to make sure that our budget processes move smoothly, and I think if we work together, we can do that.

Constitutional amendments to balance the budget, to provide the President with a line item veto, would provide needed discipline. Expectations are terribly important in economic behavior, as we all know.

Mr. BROOKS. Mr. Miller, can you see this far?

Mr. MILLER. Mr. Chairman, my contacts need to be readjusted. Would you help me out?

Mr. BROOKS. This little button on my lapel says "Override," and yesterday I changed the "i" to an "o" and now it says "Overrode." Right now I'm concerned about how we are doing in the Senate. It's still up for grabs over there.

Mr. MILLER. That's right. I'm very concerned, too, Mr. Chairman.

Mr. BROOKS. I know. I want to keep you here as long as possible, because when you leave here you'll be back on that phone.

Mr. MILLER. We need that telephone access.

Mr. HORTON. He's got Joe Wright here with him, too.

Mr. BROOKS. I know. I want to keep them both here or they'll both be calling. There will be programs all over the United States traded off for this.

Mr. MILLER. No, no, no. I don't think so, Mr. Chairman.

Mr. BROOKS. If I was in the Senate and could vote the other way, I could get a highway from Beaumont to Dallas, eight lanes wide.

Mr. MILLER. Mr. Chairman, how much would that one cost?

Mr. BROOKS. That wouldn't be the problem, if you could beat that override. We all would understand that.

All the money comes out of the trust fund and you can't spend the money for anything else.

Mr. MILLER. Yes, I know, but it counts against the deficit. It's just bad government. Don't you agree, Mr. Chairman, it's bad government?

Mr. BROOKS. I surely do not. I think it's wonderful government.

Mr. MILLER. I think it's bad government.

Well, I can see we have some differences of opinion.

Mr. BROOKS. That's right. When are they going to vote? The President came in last night; they were waiting for that.

Mr. MILLER. It has gone in at 10 o'clock.

Mr. BROOKS. At 10 o'clock, and Dole will delay them some more with procedure, until they feel like they've got one more person. I wonder what it will cost.

Mr. MILLER. Let me go on and talk about this now.

Is this part of your strategy? You've got us nailed down right here.

Mr. BROOKS. This will go on for a while.

Mr. MILLER. Well, let's go back to the fact that expectations are important. Without a constitutional safeguard, many people wouldn't expect future administrations or Congresses to maintain discipline. They'd doubt whether administrations and Congresses would take the heat in 1 year to reduce spending, knowing the next year some new political coalition might turn back on it and make their efforts meaningless. We must ensure in a manner that is persuasive to the public that the balance will be maintained, and that is the advantage of some kind of constitutional device.

A line item veto would also enable the Chief Executive to excise some of the most flagrant special interest spending that all Presidents, Democrats and Republicans, have had to accept in big spending bills. I suspect that the threat of such vetos would be a force to give some support to Members when they wanted to resist special interest pleadings in legislation and in appropriations legislation.

Therefore, I would encourage you and your colleagues to support the enactment of a permanent solution to the budget problems.

Let me outline now a number of specific reforms in the budget process that would enhance the quality of our decisions and strengthen budgetary controls in support of those decisions.

Many of these proposals have been introduced by Senator Domenici in the omnibus reform package, S. 832. Others have been suggested by Congressmen and other Senators on both sides of the aisle. We are now in the process of reviewing these various proposals. We haven't reviewed all the legislative language yet, and we haven't made conclusions whether we think the specific wording in every case is correct. So my comments today go more to the concepts than the specific legislative wording.

Under current law Congress passes an annual budget resolution, but this is a concurrent resolution that doesn't require Presidential approval. I also would point out very, very importantly that it does not bind the President in any way.

While the President's representatives may be consulted during the formulation of the resolution, the President does not have any formal role in the process. As a result, the same disagreements over major priorities are frequently fought again and again as ap-

appropriations bills are enacted. If the concurrent resolution were changed to a joint resolution, the budget law would be presented to the President for his signature and debates on these priorities would have to be settled prior to putting together appropriations.

In addition to allocations by budget function, the budget law in our judgment should include allocations by committee. To ensure that the priorities established in the resolution are followed, the allocation of discretionary spending to the Appropriations Committee should specify the defense and international and the domestic amounts separately. We probably suggest that you have defense and international separately, too.

Budget control should be strengthened by expanding the President's rescission authority. Under current law the President may propose a rescission of budget authority, but both Houses of Congress must act favorably on the rescission before it takes effect.

This year the administration proposed 73 rescissions involving 14 agencies, and totaling \$5.8 billion in budget authority. Not a single one was enacted or even voted on. That's the problem; we didn't even get a vote on it before the 45-day clock expired, and according to law we released the funds. In 1986, only 1 percent of the funds proposed for rescission were approved. In 1985, only 9 percent. So I don't think the system really is working.

I would urge consideration of an approach that's been advanced by Senator Dan Quayle, similar versions of which have been talked about by others. Essentially it would be like a line item veto in a way, but it is just a mechanism to force an up or down vote on a rescission.

Now you know that under a line item veto if the President lines through an item, it takes two-thirds of both Houses of Congress to turn the President's decision around. With enhanced rescission authority, the President is really making a proposal to Congress. He lines through an item, and either House of Congress, if it just musters a 51-percent vote, can turn it off. This is very different from a line item veto in terms of the burden of proof or the burden of overturning the President. Just 51 percent of either House of Congress would turn it off.

Under the Quayle proposal, as you probably know, 3 days after an appropriations bill is signed by the President, he could send up a rescission message. Congress would then have 10 days in which to vote on his proposal.

I think we ought to consider expanding that proposal, not just having the process available for 3 days after the President signs an appropriation bill. He could be allowed to propose rescissions at any time during the year, with Congress required to give it an up-or-down vote.

Now biennial budgeting. The President's FY 1988 budget, as required by law, proposes a 2-year appropriation for the Department of Defense and selected other programs as a partial test. Senators Domenici and Roth have introduced a bill to require adoption of a 2-year budget and 2-year appropriations process, and a number of House Members, including Congressmen Panetta, Regula, Daub, Penny, and Lloyd, have introduced 2-year budgeting bills that follow different schedules.

Now, we see some significant advantages in biennial budgeting.

Mr. Chairman, I want you to know that Jim Miller is not one who closes his eyes to evidence and experience. When I testified in my confirmation hearings, I expressed grave reservations about a 2-year budgeting process. I think maybe to say I was agnostic on the idea was accurate, though I think the thrust of my testimony was pretty much against it.

But after seeing the budget process work the way it does, I'm convinced we ought to look at a 2-year budgeting process very seriously. It holds out a lot of promise, I think.

We are wrapped up in the budget process preparing the budget, and I don't know how many times I've had Congressmen and Senators tell me, Jim, we have to do something about this. This budget thing takes all of my time. We need to figure out a way in which we can operate more efficiently and give appropriators and budgeteers a better opportunity to review what agencies are doing. Now, this sounds heretical coming from somebody who is representing the executive branch of Government.

I want you to remember that I said it, that I think it's appropriate for appropriators and budgeteers to have more opportunities for oversight of agency programs.

Mr. BROOKS. Would the gentleman yield?

When you consider 2-year appropriations, you would also have to consider 2-year authorizations. You have to have that as well. Right?

Mr. MILLER. I would do that.

Mr. BROOKS. Two-year authorizations for 2-year appropriations. You would have to limit that to major ongoing problems. There are some programs that are of necessity from year to year and it makes sense to do them year to year. Others could certainly be considered for 2 years.

You have additional problems of economic evaluations. You have that problem. That's one we always have in the budget. They would have to resolve that.

Mr. MILLER. Yes.

Mr. BROOKS. You know what I mean, we have to use the same numbers and that gets tricky.

Mr. MILLER. It does.

Mr. BROOKS. This is something that has been considered before and has some potential for further exploration.

Mr. MILLER. The point I want to make is that better oversight would be one of the benefits, certainly to Congress and also to the American people, although I know there is a sort of institutional bias down the other end of Pennsylvania Avenue sometimes to resist oversight. I think oversight by Congress is an important function and needs to be done and done well.

I think the 2-year budget process, if we streamline it, will give appropriators and budgeteers as well as authorizers more time to really get in and look at agencies' programs in a very comprehensive way rather than just make a couple of hits here and there.

Mr. HORTON. I just want to emphasize what you said, Jim, about oversight. For the 25 years I've been in this Congress, I have talked in terms of two major responsibilities a legislator has. One is to legislate, the other is oversight. We very seldom do enough oversight.

That's of course what this committee is all about. Most people don't think in terms of the oversight function, but it is very important.

That's why I like this structure that we have now with the Comptroller General and the General Accounting Office, along with the Inspector General Offices working with the Congress. What we have set up with the IG's and your Office has been very helpful in that and Joe Wright has done a tremendous job with those IG's. They give us additional information and they are ferreting out waste, fraud, and abuse all the time. I think that is a very important tool for the overseers.

As a matter of fact, Mr. Brooks and I have tried to get all committees to have oversight functions and so far it's kind of a hit and miss proposition. I think oversight is equally important with legislation.

The thing I wanted to ask you, based on your comments about this amount of work that you do, I'm persuaded there is a lot of time that your budget officers spend each year that is rather duplicative.

Just for the edification of the committee, can you give us an idea what type of a problem is it to get the budget in place and present it to us? I remember getting a letter from you saying that by the advancing of the date, it is going to be pretty tough for you. All you could do really was give us a summary, which was helpful. On the other hand, I'm aware that it must be a terrible problem trying to do it every year.

Can you give us any idea about maybe the number of people or the man-hours or how many people you have to just completely turn over to this problem?

Mr. MILLER. We have at OMB a little over 500 people, but during the budget season, I would say, 300 of those for sure are just working around the clock on putting out the budget. There are also a bunch of people from the agencies that are detailed over to OMB. I don't have any exact numbers—about 40 to 50 come over from the agencies. In addition, in the agencies, all the people that have anything to do with the budget are working around the clock to pull all this together.

Mr. HORTON. There is a large number of people that are actually working on it.

Mr. MILLER. That's right.

Mr. HORTON. What period of time is that?

Mr. MILLER. It begins really in earnest about the end of September because then we start pulling all the numbers together, making all the estimates, reestimates, et cetera. This year, of course, we produced the summary on January 5, and then the rest of the information on January 28. Then there is some letting up. Of course, some of us then get into high gear and try to explain the President's budget in hearings on the Hill and so forth.

Mr. HORTON. If you did it on a 2-year basis, would it save a lot of time and personnel?

Mr. MILLER. I think it would save a lot of time but you know, Mr. Horton, I think the major benefit would probably be the improvement in the quality of the product. Keep in mind that I'm not about to suggest that the product that we produce is anything but first rate. I think it is extraordinary, given the timeframe that we

have. I know there are some differences of opinion, Mr. Chairman, on some of the priorities. I'm just seeing what your reaction is.

I think your point is that probably we would benefit in terms of the quality of our effort as well as you here in Congress. I think that is a point very well taken.

There are significant benefits, as we have just talked about. I think we ought to give this serious consideration. There are a number of problems that have to be solved. The chairman pointed out one or more. We would have to make projections further in advance and the further in advance you make projections, the less reliable they tend to be. We would have to follow up with more supplementals and rescissions, et cetera. I think that could be accommodated. We would have a tendency, I think, human nature being what it is, to find things that we wouldn't think about in advance that would cause expenditures in the second year. However, maybe we could handle that in the budget resolution with some kind of contingency fund for the second year.

Now, let me talk a minute about 302(b) allocations. Under the current practice, of course, Congress votes on functional allocations for the budget, such as defense, international affairs, health, and so forth. The sum of all the spending under the jurisdiction of the Appropriations Committees is allocated to them in a block.

The Appropriations Committees frequently disregard the approved functional allocations by shifting funds from defense and international affairs to domestic spending. Senator Domenici's reform proposal would enforce separate defense and nondefense allocations for each year via a point of order provision in the Budget Act. We support this proposal and would even suggest modifying it to include, as I indicated earlier, defense and international as well as nondefense as separate categories.

Senator Domenici's bill also includes a proposal that would require the House of Representatives to enforce previously agreed-to outlays in the same way that is now accomplished in the Senate. We essentially have two different rules now. We have one set of rules in the Senate and a different set of rules in the House for putting the budget together. I think that is a problem. Another benefit would be to ensure that both Houses better understood the impact of appropriations decisions and budget decisions on the deficit which, of course, is measured in outlays, not budget authority.

Now, let me raise another proposal, which is an automatic continuing resolution. I've been involved in this as you have. What happens is that we come up to the end of the year, we don't have the appropriations, and we have an ending of the previous appropriations. We have sort of a staring match between the President and Congress. That's a very uncomfortable situation to be in, because blinking first is almost like losing some of your manhood. On the other hand, if you don't blink, you end up being held responsible for closing down the Government and sending people home, and that's a big waste. It surely isn't the kind of thing I think the American people deserve. It's not the kind of thing that produces a lot of confidence in government.

Basically, when we talk about a continuing resolution, most people have in mind that you just continue under the old level of appropriations. I think maybe we ought to stick with that kind of

approach and maybe talk about some kind of automatic mechanism so that if the appropriations expire, we don't sit back and stare at each other and see who is going to blink first. I think we ought to figure that out in advance.

I know that Congress does something like that with respect to the debt limit in the House but doesn't do it in the Senate. I think we could probably work something out. I think it would be a good idea.

Now, let me talk a minute about fixing the Gramm-Rudman-Hollings sequester. I believe that Gramm-Rudman-Hollings represents a major advance in the way we go about the budgeting process because it really has targets and they are rather firm targets about getting the deficit down.

Part of the Gramm-Rudman-Hollings law was invalidated, the part that had an automatic trigger mechanism that involved the General Accounting Office, OMB, and CBO. It was invalidated because the Comptroller General is an official of the legislative branch of Government.

One thing we ought to give some serious thought to, it seems to me, is fixing the Gramm-Rudman-Hollings sequester. You could fix that by transferring the authority for the sequester report and the draft order for the President to sign to someone in the executive branch of Government. Probably the most obvious choice would be the Director of the Office of Management and Budget, as proposed by Senator Domenici.

I think, however, that you ought to make sure that the OMB has some discretion about the choice of assumptions with respect to growth and inflation, which drive the nominal GNP, which drives the revenues and also the deficit. I don't think these are things that you can legislate very well.

We can compare the latest Blue Chip Economic Indicators, which as you know is an average from 51 different outfits, academics, banks, insurance companies, private consultants, all the people who make these economic projections. If you look at the product of inflation and real growth, OMB is about two-tenths of 1 percent more optimistic for the 1987 calendar year than Blue Chip and about two-tenths of 1 percent more pessimistic in 1988. We are right in there.

Let me just say I do have a concern. There are some people that say we will fix the Gramm-Rudman sequester but we will narrow the base, making it even narrower than it is now. I think this is absolutely the wrong approach. In fact, in a Gramm-Rudman-Hollings sequester fix, I think the base ought to be broadened. Why do I want to do that? Not that I want to hurt old people or some other group. I think by broadening the base you make a sequester even more undesirable, and that puts pressure on both the President and the Congress to pull things together and work together so you avoid a sequester. That is the way to get the deficit down while avoiding sequester.

I've heard it said that the present Gramm-Rudman-Hollings sequester base is so narrow that some people say that the way to reduce the deficit is just have a sequester. That kind of talk leads me to believe that the base ought to be broadened, not narrowed.

I think also if you do have a sequester, there ought to be some flexibility. In particular, I would urge that there be the flexibility, the same kind that was accorded the President in the 1986 sequester, so he could insulate the personnel accounts in the Defense Department. Most of the Defense Department personnel accounts is for people, whereas personnel accounts in other agencies usually include some other things.

Let me talk a little bit about credit reform. I know that this is an issue of great interest to this committee. There was a bill sponsored by Congressman Gradison and a bipartisan group of 15 others, here in the House of Representatives, and it's also incorporated in Senator Domenici's proposal in the Senate. The Federal Credit Reform Act is designed to give Congress and the administration a better fix on what the nature of credit programs is.

There's sort of a feeling on the part of a lot of people that these credit programs are free, because people pay back the loans. However many people don't pay back the loans. The loan guarantee likewise looks free, if you think that you never have to trigger the guarantee, but the guarantee does have to be triggered from time to time.

The proposal that we have, which the President outlined in his message to Congress on the management of the Government is a very important one. We would assign the subsidies to the agencies, include them in their budget, and thereby put credit programs on a similar footing with other spending programs in the budget.

I do hope that you will move forward on that proposal, incorporate it in any legislation that you will have, and will also share positive views about this with your colleagues.

Now let me just conclude by saying, we don't have all the answers. I haven't touched today on all of the various ideas that have been floating around, and a lot of them are good. Some of them are not so good. I'd be glad to talk with you about that, either today or later. I think we've got to put together a budget process that works better than the one we have today, and I think the American people deserve no less.

In that regard, I look forward to working with you, and my staff is more than happy to work with your staff in seeing what we can do.

Mr. Chairman and Congressman Horton, you know that there are few things that I think that there is more coincidence of views about than the need to have remedial legislation on this issue. There's not been agreement on what it should be. I've talked to some appropriators who say the answer is just to abolish the budget resolution process, and I've talked to some budget resolution people who think maybe we ought to have a single omnibus bill, and it ought to come out of the Budget Committee, not the Appropriations Committees.

So let's recognize that there's a great difference of opinion on what ought to be done, but I think the opinion that something ought to be done is almost universally shared. It's going to require some work, but I think we ought to get at it.

Thank you very much. I'd be glad now to respond to your questions.

[Mr. Miller's prepared statement follows:]



EXECUTIVE OFFICE OF THE PRESIDENT  
 OFFICE OF MANAGEMENT AND BUDGET  
 WASHINGTON, D.C. 20503

PREPARED STATEMENT

of

JAMES C. MILLER III

DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

before the

COMMITTEE ON GOVERNMENT OPERATIONS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

APRIL 2, 1987

Mr. Chairman and Members of the Committee: I welcome this opportunity to appear before you today to discuss reform of the Federal budget process. Your hearing could not be more timely. I am sure we all want to achieve meaningful deficit reduction and that we are all frustrated by the inordinate amount of time consumed by putting a budget together and getting appropriations enacted.

In a recent radio address, President Reagan minced no words in describing the failure of the present budget process. I quote:

"The budget process is, indeed, a sorry spectacle: deadlines delayed or missed completely -- huge continuing resolutions that camouflage the worst kind of special interest spending. Budget process? It's more like a magic show. It's wink and blink; and smoke and mirrors; and pulling rabbits out of hats; but almost all that ever comes up are designs to hide increases for special interests."

These are strong words for sure, but they are not partisan. Nor do they represent an attempt by the executive branch of government to lecture the legislative branch on its duty. The President said no more than what many Congressmen and Senators of both parties have said on other occasions.

The fault lies in the machinery we have inherited. It is my view that there are built-in biases in our political system that inevitably lead to excessive Federal spending and deficit finance. It is my view, and the President's view, and the view of the great majority of the American people that we need a constitutional solution to this problem.

#### Balanced Budget Amendment and Line Item Veto

Constitutional amendments to balance the budget and to provide the President with a line-item veto would provide needed discipline. Expectations are terribly important to economic behavior. Without a constitutional safeguard, many people do not expect future Administrations and Congresses to maintain budget discipline. They doubt whether Administrations and Congresses will take the heat in one year to reduce spending -- knowing that in the next year or the year after a new political coalition could make the sacrifices required of them virtually meaningless. We must ensure in a manner that is persuasive to the public that the balance will be maintained. Then all parties concerned may be more willing to accept the sacrifice needed to achieve that balance.

A line-item veto would enable the chief executive to excise some of the most flagrant special interest spending that all Presidents have been forced to accept in the context of more general spending bills. I suspect, Mr. Chairman, that the threat of such vetoes would be a force for restraint when Members of Congress were trying to withstand pressure from various special interest groups.

I encourage you and your colleagues to support the enactment of such permanent solutions to our budget problems.

Let me now outline a number of specific reforms to the budget process that would enhance the quality of our decisions and strengthen budgetary controls in support of those decisions. Many of these proposals have been included in Senator Domenici's comprehensive budget reform proposal (S. 832). Others have been suggested by Congressmen and other Senators -- on both sides of the aisle. We are now in the process of reviewing various legislative drafts, and the Administration may suggest legislative language of its own. Thus, what I say today goes to the concepts advanced rather than to the legislative language per se.

#### A Joint Budget Resolution

Under current law, Congress passes an annual budget resolution, but this is a concurrent resolution, not requiring Presidential approval. While the President or his

representatives may be consulted during the formulation of the resolution, the President does not have any formal role in the process. As a result, the same disagreements over major priorities are frequently fought again and again as separate appropriations bills are enacted.

If the concurrent resolution on the budget were changed to a joint resolution, or budget law to be presented to the President for signature, debates on these priorities would have to be settled prior to the formulation of appropriations. In addition to allocations by budget function, the budget law should include allocations by Committee. To ensure that the priorities established in the resolution are followed, the allocation of discretionary spending to the Appropriations Committee should specify the defense and international and the domestic amounts separately.

#### Enhanced Rescission Authority

Budget control should be strengthened by expanding the President's rescission authority. Under current law the President may propose rescissions of budget authority, but both Houses of Congress must act favorably for the rescission to take effect. This year, the Administration proposed 73 rescissions involving 14 agencies, and totaling \$5.8 billion. Not one was enacted, or even voted on, before the 45-day clock established under current law expired -- and, in accordance with the law, the funds had to be released. In 1986, only 1 percent of the funds proposed for rescission were actually rescinded; in 1985, only 9 percent. The current procedure is not working.

I would like to urge consideration of an approach that has been advanced by Senator Quayle, a version of which is incorporated in Senator Domenici's proposal. It would force Congress to make an up-or-down vote on Presidentially-proposed rescissions. This is unlike the current system, under which Congress can ignore the President's proposals and avoid any on-the-record vote.

Within three days after the President approves an appropriation bill, he would be required to transmit a special message for each agency provided funds by the bill -- proposing to rescind all or part of any appropriation in the bill. The special message would be accompanied by a draft bill or resolution that, if enacted, would rescind the funds identified by the President. Congress would then have to vote on the bill or joint resolution within 10 days of its introduction.

Note, of course, that Senator Quayle's proposal is limited to appropriations bills within a tight three-day time frame. I would urge consideration of liberalizing this

proposal to apply to rescissions of any variety, submitted at any time, in any fashion. All that would be required is an up-or-down vote. If either House demurred, then of course the President's proposal would fail.

### Biennial Budgeting

The President's FY 1988 Budget proposed two-year appropriations for defense (as was specified in the Defense Authorization Act of 1986) and selected other programs as a partial test of this approach. Senators Domenici and Roth have introduced a bill that would require the adoption of a two-year budget and two-year appropriations process in the first session of each Congress. A number of House Members, including Congressmen Pinetta, Regula, Daub, and Penny, and Congresswoman Lloyd, have introduced two-year budgeting bills that follow different schedules.

We see some significant advantages in biennial budgeting. A two-year process would:

- o Reduce repetitive, time-consuming, and potentially unnecessary annual actions.
- o Allow more time for appropriators to provide needed oversight of programs.
- o Reduce opportunities for budget gimmicks, such as moving spending from one year to the next.
- o Provide more time for improved consideration for using reconciliation to address decisions as entitlement spending.

Of course, moving to a biennial budget would necessitate our solving certain problems. One is that economic assumptions and technical estimates for budget projections would be required 30 months in advance rather than 18. We make estimates that far in advance now for planning purposes, of course, but appropriations are not enacted based on those estimates. If it became apparent that the second year deficit would exceed projections (because the initial revenue projections were too high or outlay projections were too low), it could be difficult to adjust already-enacted appropriations to compensate. This is not an abstract problem. The actual budget deficit has exceeded the estimates contained in the budget resolution every year since FY 1980. This has happened for various reasons, including differences between assumed and actual economic conditions, failure to achieve the savings called for in the budget resolution, unanticipated regulatory and other administrative actions or inactions by Federal agencies, and the inevitable imprecision in estimating.

A biennial budget process could also lead to more supplemental appropriations and rescission proposals. Not only would this limit somewhat the expected benefit of increased efficiency, it could increase the number of decisions that occur outside the context of a whole budget proposal. One way to minimize the effects of these factors might be to require that a contingency fund be included in the resolution for the second year -- to provide funds for such unanticipated increases.

#### Enforcing 302 Allocations

Under current practice, Congress votes on functional allocations of the budget: defense, international affairs, health, and so forth. The sum of all spending under the jurisdiction of the Appropriations Committees is allocated to them in a block. The Appropriations Committees frequently have disregarded the approved functional allocation by shifting funds from defense and international affairs to domestic spending. Senator Domenici's budget reform proposal would enforce separate defense and non-defense allocations for each fiscal year via a point of order provision in the Budget Act. We support this proposal and would even suggest modifying it to include both defense and international affairs in a separate allocation.

Senator Domenici's bill also includes a proposal that would require the House of Representatives to enforce previously agreed-to outlay levels in the same way that it is accomplished now in the Senate. In other words, under the proposal both Houses would follow the same rules. Another benefit of such a proposal is that it would ensure that both Houses better understand the impact of their decisions on the deficit -- which is measured in outlays, not budget authority.

#### Automatic Continuing Resolution

Of course, all of the proposals I have just described assume that a consensus on the budget can be achieved in a timely manner. However, given the experience of the last several years, we believe that proposals to enact an automatic continuing resolution -- to fund the operations of the Government pending the enactment of either annual or two-year appropriations -- deserve serious study and consideration. The difficulties associated with funding lapses are all too apparent: essential public services are disrupted, and Federal employees are distracted from their duties for no good reason.

#### Fixing the G-R-H Sequester

Mr. Chairman, as you know, I believe the Gramm-Rudman-Hollings law (G-R-H) represents a major

innovation in our political landscape and has had a very important effect on the budget as well as the budget process. G-R-H legislated a five-year phased reduction in the budget deficit, and it modified Congressional rules to ensure that all legislative action would be deficit neutral.

Part of G-R-H mandated across-the-board cuts in much of the budget if the normal political process did not achieve the required deficit reduction. This part, however, was found unconstitutional because it required the Comptroller General -- a legislative branch official -- to perform what is clearly an executive function. Thus, one action that the Congress could take to strengthen the budget process would be to "fix" the G-R-H sequester by shifting responsibility for the sequester report to the Office of Management and Budget, as proposed by Senator Domenici. However, I believe such a shift should be accomplished in a way that allows OMB to exercise its best judgement regarding economic and technical assumptions rather than be bound by artificial assumptions codified in law.

I would add, moreover, that any attempt to make sequestration automatic should not be accompanied by any narrowing of the sequester base. In fact, the sequester base should be broadened. The reason is to make a sequester even less tolerable than it is today. Frankly, with the continued narrowing of the sequester base the possibility of a sequester appears to be the preferred method of reducing the deficit for some people. This defeats the purpose of a sequester -- which is to force Congress and the Administration to agree on a rational way of meeting the G-R-H deficit targets.

But should there be a sequester, some flexibility in application would be essential. For example, the President should be able to protect defense personnel as he did in the 1986 sequester. At Defense, personnel accounts fund almost entirely people. By contrast, at non-defense agencies personnel accounts fund considerable non-people aspects. In other words, a sequester would almost certainly force a reduction in defense personnel unless they were "protected" as they were in 1986.

### Credit Reform

As you know, the President recently proposed the "Federal Credit Reform Act of 1987." That legislation was introduced in the House on March 23rd as H.R. 1754. It was sponsored by Congressman Gradison and a bipartisan group of 15 others. It is also incorporated in Senator Domenici's proposal in the Senate.

The Federal Credit Reform Act is designed to provide Congress and the Administration with accurate measures of

the benefits of Federal credit programs and place their cost on a budgetary basis equivalent to other Federal programs. It would also encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries, improve the allocation of resources among credit programs and between credit and other spending, and provide for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies.

To achieve these goals, the Act would change the budgetary treatment of credit transactions by charging Federal agencies for the amount of subsidies inherent in their credit programs. The subsidy for a direct loan is the difference between the loan and the price secured on the open market for the promissory note. The subsidy for a guaranteed loan is the cost of reinsuring that loan on the open market.

Nothing in the Act would change the credit programs that Congress has enacted or change the existing authority of agencies to operate credit programs. Agencies would continue to arrange and approve direct loans and loan guarantees as they do now, would service those that have not been sold or reinsured, and would arrange for sale or reinsurance. The legal rights of borrowers would not be changed.

The proposed budgetary treatment of credit affects the deficit only to the extent that loan assets are sold and guaranteed loans are reinsured. The net effects of our planned sales and reinsurance were estimated in the President's FY 1988 Budget. Except for these effects, the credit reform proposal itself is deficit neutral.

### Conclusion

Mr. Chairman, we do not have all the answers. Improving the budget process requires an interaction between Congress and the Executive branch of government. We must work together to develop a budget process that works and brings the deficit under control. We must restore the confidence of the American people in their government. That can be achieved in part by simplifying the budget process and making it more understandable. I look forward to working with you toward this end.

Mr. Chairman and Members of the Committee: that completes my statement. Now I shall be happy to address any questions you might have.

Mr. BROOKS. Thank you, Mr. Miller. You are a delightful exponent of a lot of things I don't really agree with. You know, I'm not too keen on that line item veto, but that's part of the party line.

Mr. MILLER. Give it a break, give it a chance.

Mr. BROOKS. Give it a chance. Fat chance!

Well, I do want to observe that on the matter of sequestration, you may recall, when we were considering the Gramm-Rudman bill, I was the leading proponent of doing away with sequestration, maintaining that it was not only unconstitutional, it was immoral, unworkable, and undesirable. You can imagine how pleased I was when the Supreme Court threw it all out. I was delighted.

You may want to take a look at what the Committee on the Budget did yesterday. They recommended in their report that the appropriate committees of jurisdiction, in consultation with the House leadership, develop legislation that would move both the executive and the Congress to a system of multiyear budgeting, address the problems of structural and cyclical deficits in defining the Gramm-Rudman-Hollings targets, and restore a constitutional mechanism for automatic sequestration, pursuant to the Gramm-Rudman-Hollings legislation.

Some of these suggestions are useful. It indicates that they, too, share our joint opinion that we ought to try and do something about the budget process itself. It's going to take some work to hammer out some changes in it, but anything would be better, almost anything.

Mr. MILLER. Yes, like a line item veto would be better.

Mr. BROOKS. You've got a great sense of humor.

Mr. MILLER. I'm pushing my luck.

Mr. BROOKS. But you've got a good man here with you, Joe Wright. He's about as good-hearted as you are and almost as personable.

You all don't have any trouble with him getting easy, I'll tell you.

Mr. MILLER. No. He's a good man.

Mr. BROOKS. Many economists have expressed some serious concern that the implementation of Gramm-Rudman, as currently written, would force the Nation's economy into a recession. That's if we go to an actual, honest-to-goodness \$108 billion deficit for fiscal year 1988 on hard economic assumptions.

Mr. MILLER. Yes, sir.

Mr. BROOKS. What are your views on that?

Mr. MILLER. Mr. Chairman, I don't believe that is true. There are a couple of reasons.

One, we have the evidence from this year. We had a deficit of \$221 billion for 1986, and we're estimating now the deficit for 1987 to be around \$173 billion—both CBO and OMB are around that number. So we've had a substantial reduction in the deficit in just one year, yet there's no evidence that that's caused a recession or caused any slackening in the economy.

Mr. BROOKS. No, I say if we actually go to the \$108 billion deficit for this year.

Mr. MILLER. Yes, sir. But what I'm saying is, we've come down from \$221 billion to \$173 billion, and that's about \$48 billion. Now if you went from \$173 billion down to \$108 billion, that's \$65 bil-

lion. I think you could accommodate that. The evidence we have so far is that we don't have a recession or anything critical like that. So I think you could probably duplicate it next year.

The second item is that it's arguably a reduction in the extent of stimulation in a fiscal policy. This is the reason one might be concerned about it. But we all know at the margin you can substitute monetary stimulation for fiscal stimulation. I think that can easily be accommodated. In fact, we've had a fairly stimulative monetary policy over the past 18 months or so, and the effects of that tend to show up with a lag, as you know.

And finally, even though \$65 billion is a lot of money, in the context of a \$4 trillion economy plus, it's not that big a portion of total demand.

Mr. BROOKS. Why are OMB's estimates of the rate of growth in the GNP persistently overoptimistic, thereby making deficit control really more difficult?

Mr. MILLER. Well, this sounds like——

Mr. BROOKS. I'm looking at your 4- or 5-year record on estimating the GNP, to be honest with you.

Mr. MILLER. Yes, sir, I know. Let me say, there is an institutional problem that we have here, and it may sound like a bit of institutional parochialism. But basically keep in mind that the President's budget is a document which, in the short run, is predicated on the assumption that Congress will enact the President's budget. Whether you agree or disagree with the priorities, I don't think it should be surprising to anyone that the President tends to believe that if Congress were to adopt his budget, the effect on the economy would be pretty positive, that is, the rate of growth would be higher than if Congress did not adopt his budget.

Now we know every year Congress does not adopt the President's budget, and so——

Mr. BROOKS. You have trouble getting somebody to introduce it in Congress.

Mr. MILLER. And so the rate of growth tends to be below that assumed in the President's budget. That's one explanation we have.

Of course, there are years like 1983 when the rate of growth was a lot higher than assumed in the President's budget.

But that's one reason that over time I think you would find that the administration's rate-of-growth assumption will tend to be a little higher than what actually happens.

One thing we could do, for example next year, we could say, "Well, here's the rate of growth if the President's budget is adopted, and here's another rate of growth if it isn't." That could be a self-fulfilling prophecy. I think we'd be very reluctant to do that.

But I think that's the answer to the question.

Mr. BROOKS. Well, without objection, I want to put in the record CBO's and OMB's GNP forecasting record from 1976 to 1987. I understand it's a tough problem, but I think we should make an effort at the administration, your administration, to get those numbers a little closer to reality by not using a lot of assumptions that everybody in the real world says aren't going to happen.

[The chart follows:]

COMPARISON OF OMB AND CBO  
FORECASTS OF ECONOMIC GROWTH WITH ACTUAL GNP

	<u>OMB</u> <u>Forecasts</u>	<u>CBO</u> <u>Forecasts</u>	<u>Actual</u> <u>GNP</u>
1987	3.1	2.8	?
1986	3.4	3.2	2.5
1985	3.9	3.5	2.7
1984	5.3	5.4	6.8
1983	6.7	2.1	3.7
1982	0.2	-0.1	-2.1
1981	1.1	1.8*	2.5
1980	-0.6	-0.9	-0.3
1979	3.3	3.1	2.8
1978	4.7	4.0	5.0
1977	5.2	4.8*	5.5
1976	6.2	6.3*	5.4

\*mid-point of range

SOURCE: Congressional Research Service, Economics Divisions

Mr. BROOKS. I mean, let's just take one that the econometric experts develop or take an average of them. Let's try and get the economic forecasts a little closer.

I realize nothing is exact, and you're going to be off a bit. Nobody's perfect. But 1983, when you estimated 6.7, and it came out 3.7, that's almost a 50-percent error. When you change the economic indicators to that extent, it skews the budget all over the lot.

Mr. MILLER. Right.

Mr. BROOKS. I just think you ought to try and make your assumptions more realistic. You don't have to and no administration really likes to. They all like to have the rosy picture.

Mr. MILLER. What I'm suggesting again, Mr. Chairman, is that the perception of a rosy picture partly is embedded in the function of the President's budget, namely to articulate this proposal and to say, "If the President's budget is adopted, this is likely to be the consequence."

If you start with the assumption that the President's budget is going to be rejected, then you probably have a different number.

I'm not sure that the advocacy relationship process of getting out the President's proposal would be served by pulling your punches and trying to project what Congress is likely to do and then putting those numbers in there.

But as I was saying a moment ago, it seems to me that the numbers that we have in this year's budget are not far from what may

likely happen. As I indicated to you, we're right there, very close to what Blue Chip is saying. Those are 51 independent forecasters, and although you're never certain about this, we've done the best we can.

Mr. BROOKS. Mr. Miller, why should Congress grant the President more authority to impound funds through an enhanced rescission power, when the President doesn't use the existing deferral powers properly?

Mr. MILLER. Well, let's separate the rescissions and deferrals and impoundments. You know that we don't really have any impoundment authority. We've had this deferral authority, and we get overturned on that, as you know, from time to time.

We have used that. There were a bunch of deferrals in the President's budget, but those were overturned.

The President has also used the rescission authority he has now. The problem is getting Congress to vote on proposed rescissions. Under the present rescission authority, the President cannot rescind the spending unless Congress takes an affirmative vote for it.

The enhanced rescission authority would make sure that Congress made a vote on it, up or down. That is all it would do.

Mr. BROOKS. They've already voted on it. Why do they need to vote on it again? We just said we didn't like it. I've already voted on the program.

Mr. MILLER. Well, you know how it is.

Mr. BROOKS. He says he doesn't like it. Well, my record is clean. I've already voted for it, as everybody knows.

Mr. MILLER. Well, let me put the shoe on the other—

Mr. BROOKS. Or voted against it, whatever.

Mr. MILLER. Let me put the shoe on the other foot. If a particular thing the President might pick out and send up here for rescission is such a good idea, and if Congress has already voted for it, surely they'll vote for it again. In this case, giving the President an enhanced rescission authority doesn't give him a thing, so why not give it to him?

But you and I know that—

Mr. BROOKS. How many times do you want to bite that bullet?

Mr. MILLER. But as you know, a lot of things get into appropriations bills that won't stand on their own bottom. If they were brought up before the Congress, on an up-or-down vote, likely they would fail, and I think—

Mr. BROOKS. I'm not on the Appropriations Committee.

Mr. MILLER. Yes, but therein lies the benefits, I think, of an enhanced rescission authority. That is to give the President an opportunity to choose things where essentially he says to Congress, "Why don't you take this item, and here's my views about it, and why don't you vote it up or down?"

And if even just one House votes it up and the other House votes it down, as you know, then it's dead, because it only takes a majority of one House to kill it.

Mr. BROOKS. I know what it takes.

Mr. MILLER. Pardon?

Mr. BROOKS. We know what it takes.

Mr. MILLER. Yes, OK. You'd know that better than I do.

Mr. BROOKS. I'm worried about that Senate vote, though. I'll only keep you a little longer.

How would a change in the way the Government's credit obligations are reflected in the budget affect the deficit?

Mr. MILLER. In the President's budget, we have really two things involving credit. One is the sale of old assets, several billion dollars there, old paper assets, promissory notes. Those would reduce the deficit from the proceeds. We won't get 100 cents on the dollar, of course, because that's the nature of selling these loans. The borrowers are not the greatest, best risks when they come to the Government.

Then there's also this new program. Essentially it would take all new loans as they come in, as they're made, and sell them. It would count the difference between the amount of the loan and the amount received for the promissory note as the subsidy. The program would also reinsure the guarantees. That has two different effects on the deficit. When you sell the promissory note, there is a negative outlay or revenue that wouldn't be there if you didn't sell the promissory note. On the other hand, when you reinsure the loan guarantee, that's an outlay that otherwise wouldn't have been an outlay. So the two have a tendency to balance each other off. They move in different directions.

From what we've put together, the difference is \$1.3 billion in 1988. That is, the revenues we anticipate from the sales of the new loans exceeds the cost of reinsuring the guarantees by about \$1.3 billion.

Mr. BROOKS. But wouldn't it cost us money in the long run?

Mr. MILLER. No, sir. It will not.

Mr. BROOKS. If you take the money now, you will not get it in the future.

Mr. MILLER. Well, that is right. It is not for free.

Mr. BROOKS. You will not get more in the future.

Mr. MILLER. That is right. It is not for free. If you take the money now, then you get—

Mr. BROOKS. At a discount.

Mr. MILLER. That is right.

Mr. BROOKS. Is it 20, 30, 40, 80 percent discount?

Mr. MILLER. Let's distinguish two things. One is that if we have paper, let's say, of \$100 and we sell it on the open market and get \$40 for it, that is reflecting the fact that \$40 is about all we can expect to get back. So the fact we discount it to the private market does not mean a thing in terms of selling it for less than the face value, because the Government is never going to get 100 cents on the dollar.

Mr. BROOKS. Why would anybody buy it for 40 cents on the dollar if they didn't think they would get 50 or 60 out of it? They must think they are going to collect on the future indebtedness, the value of that 100 dollar bill.

Mr. MILLER. Let's follow that up.

Mr. BROOKS. Or they wouldn't pay you 40. I wouldn't buy it for 40 if I didn't think I could get more than 50. I would want to get at least 60 or 70.

Mr. MILLER. No, I would say it wouldn't be 50 or 60.

Mr. BROOKS. If they can get it, why couldn't the Government get it if we hold it?

Mr. MILLER. I would say 50 or 60 is much too high a number because the cost of collection is not anything like that, but it would have to be over 40. Now, keep in mind that you are going to have competition. We are setting these things up, with highly competitive sales of these loans, so the price would not be 50 or 60. That margin is going to be squeezed down to really the cost of collection.

What I am saying is the private markets are much better at collecting Government loans than the Federal Government, and they have the right incentives, they have the right knowledge and personnel, et cetera. This means that when you sell it for 40, you are getting more money than the Government is going to get in the long run in terms of present value, because the Government is not particularly good at collecting on these loans.

Besides that, there are some additional advantages. Government agencies are going to be a lot more careful about screening borrowers and maintaining records and files, because they will want to minimize the outlay hit to them through this program.

I think finally, Mr. Chairman, appropriators and budgeteers will have a lot better feel for what these programs are really costing and, I think, will make much more intelligent decisions on them.

Mr. BROOKS. The President insists that all budget balancing will be accomplished solely by cutting spending. If we had a constitutional amendment in effect today that required the President to produce a balanced budget, how would he comply with this amendment and maintain his hard line against raising taxes to raise additional revenues?

Mr. MILLER. Mr. Chairman, that is a hypothetical question, and I don't think it would serve a lot to try to answer that. The President's policy has been to achieve a balanced budget amendment that would go into effect after Gramm-Rudman-Hollings brought the deficit down to zero, so we are talking about an enactment date around 1991.

I think, as I have said before, that to close the deficit from \$173 billion down to zero in one fell swoop would cause considerable disruption in terms of both aggregate economic activity and also the kind of cuts that would have to be made.

Mr. BROOKS. I would agree with that.

Mr. MILLER. Yes.

Mr. BROOKS. To balance the Federal budget solely through cutting expenditures, as you are basically proposing now, it would be necessary to drastically reduce the defense budget or drastically reduce Social Security and similar benefits or close every nondefense agency in the Federal Government, including the Departments of Commerce, Agriculture, State, and Justice.

Which of these options do you want to go for? You can't get enough money out of that piece of the pie that is the social programs on the domestic side, so you have got to go somewhere else. Where will you go?

Mr. MILLER. Let me respond to that by just emphasizing the components of the President's deficit reduction package for fiscal year 1988. Like I said a while ago, we have got a \$173 billion deficit we are looking at for fiscal year 1987. Now, how do you get from \$173

billion down to \$108 billion? That is our estimate, and I know CBO has some slightly different numbers.

But you get down there in three tranches, as they say. That is a word that is in vogue here in Washington these days. The first tranche is that under our assumptions of growth, et cetera, you will have from 1987 to 1988 an increase in receipts to the Federal Government of about \$68 billion.

Mr. BROOKS. We will?

Mr. MILLER. Under current law. Yes, sir.

Mr. BROOKS. No bond on that, though.

Mr. MILLER. Pardon?

Mr. BROOKS. That is just the projection.

Mr. MILLER. Yes, sir. It could be more, it could be less, but we estimate \$68 billion. Then you have an increase in outlays for entitlements programs, et cetera, which would ring up outlays by \$44 billion, so the difference is \$24 billion. That reduces the deficit from \$173 billion to \$150 billion. And again, this is the net effect of increasing revenue more than outlays, you see. It is the net effect.

Mr. BROOKS. That is what you say.

Mr. MILLER. That brings it down to \$150 billion.

Now, the second tranche is that the President has in his budget a \$22 billion revenue package from asset sales, user fees, et cetera, and this brings the deficit down to \$128 billion. Then we have \$20 billion in cuts in outlays, reductions from current services, which bring the deficit down to \$108 billion. Of that, \$1.3 billion is reduced interest expense, because if you have got a lower deficit and you have lower debt to carry, you have a lower interest expense. The \$18.7 billion that is remaining is where you are talking about the programmatic cuts from current services.

What I am saying is that when you reduce the deficit by \$65 billion from 1987 to 1988, you have got two-thirds of that in net revenue. It is net revenue because of current services receipts increasing by more than current services outlays. It is also the revenue in the President's package. So you have got two-thirds of it already in revenue. Only one-third of it is really outlay cuts.

But if you had to go down to zero, in 1988, as you say, and you didn't increase taxes, you can't do it. I mean I don't say you couldn't do it; it would be irresponsible to try.

Mr. BROOKS. If you eliminate all the nondefense agencies, you couldn't make it.

Mr. MILLER. It would be irresponsible to try.

Mr. BROOKS. You still couldn't balance the budget.

[Mr. Miller's submissions to Mr. Brooks' questions for the record follow:]

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR JAMES MILLER

Question 1:

How would a biennial budget control the deficit?

Answer:

The primary objective of a biennial budget is to improve the efficiency of the Government, not to control the deficit, although to some extent it could help to control the deficit as well. A biennial budget would reduce the time that the Executive and the Congress spend on the budget process. It would allow Congress more time for the needed oversight of Government programs. It would also allow Federal agencies -- and State and local governments receiving grants -- to plan their programs in a more certain and more stable budgetary environment, which would improve their procurement and program efficiency. A biennial budget would furthermore reduce the opportunities for budget gimmicks, and it would provide more time for using reconciliation to address decisions on entitlement spending.

Other budget reform proposals discussed in my testimony would be more effective in controlling the deficit -- a balanced budget amendment to the Constitution, a line item veto, a joint budget resolution, enhanced rescission authority, and enforcing 302 allocations.

Question 2:

What effect would a capital budget have on the deficit?

Answer:

A capital budget is a method of recording transactions. Therefore, in and of itself it would not affect the real resources commanded by the Federal Government or the real saving absorbed by the Federal deficit. However, it might change political decisionmaking on the budget insofar as it reduced the recorded levels of Government spending and the deficit. The appearance of lower Government spending and a lower deficit might give an excuse for more Government spending in the absence of institutional constraints on expenditures -- such as a balanced budget amendment, a line item veto, or enhanced rescission authority. This would increase the real Federal deficit.

The effect of a capital budget on the recorded Federal deficit is uncertain, because a capital budget could be configured in many different ways. One method would be to keep the present unified budget but to divide it into operating and capital sections. In this case, the recorded total deficit would be unchanged. Another method would be to replace the present unified budget by an operating budget that excluded capital investment but included an estimate of depreciation on all previous capital purchases. The recorded deficit of such an operating budget would depend on a number of different variables. It would depend in part on the definition of capital investment -- whether capital investment included weapons for the armed services, grants to State and local governments for highways and other capital purposes, research and development, and expenditures to augment human capital through education, training, and health. It would also depend in part on the method of depreciation -- the length of the periods over which the assets were depreciated, the formulas that determined how fast assets were depreciated over given periods, and whether depreciation was adjusted for inflation and relative price changes. Each combination of these methods would produce a different recorded deficit, but none of them would alter the Government's claim on real resources or its absorption of private saving except insofar as it changed political decisions about the budget.

Question 3:

How would an automatic continuing resolution solve our current budgetary problems?

Answer:

An automatic continuing resolution would not by itself solve our current budgetary problems. Its purpose is simply to ensure that the Government can always continue to operate without costly disruption whenever Congress fails to enact appropriations before the beginning of a fiscal year. When the Government shuts down due to the absence of appropriations, essential public services are not provided and Federal employees are distracted from their duties. This is wasteful, and the American people deserve better.

Question 4:

In the aftermath of the New Haven court decision, what power does the President have to make policy deferrals?

Answer:

It is important to note precisely what the D.C. Circuit Court of Appeals held in its decision in City of New Haven v. Pierce. On January 20th, the Court unanimously affirmed the lower court decision declaring unconstitutional the deferral provision of the Impoundment Control Act. The Court determined that the unconstitutional legislative veto device in that provision was not severable from the remainder of the section because Congress would not have enacted the section authorizing deferrals in 1974 if it had known the legislative veto provision was unconstitutional.

At least two other sources of deferral authority remain after New Haven. In its decision, the Court did not question the President's authority to continue to defer funds under the Antideficiency Act. It also declined to rule on the Justice Department's position that, apart from the Impoundment Control Act, underlying authorization and appropriations statutes may provide authority supporting deferrals. We believe that by not specifying spending schedules and by granting the Executive discretion over the timing of expenditures, the authorization or appropriations laws may implicitly grant the President discretion to determine specific spending schedules, so long as all funds are spent within the period of availability. We believe each of the deferrals submitted by the President is supported by valid legal authority. We note that the validity of this approach is currently the subject of litigation in the local Federal district court.

Question 5:

What is likely to happen with the nation's economy if Federal deficits are not reduced soon?

Answer:

The large budget deficit in recent years has been associated with a large trade deficit and a correspondingly great inflow of capital from abroad. The depreciation of the dollar is expected to reduce our trade deficit and the inflow of foreign capital. If the Federal deficit is not likewise reduced, it is quite possible that this will cause interest rates to rise and U.S. domestic investment to decline. A rise in interest rates would be especially likely if foreign portfolio managers lose confidence in U.S. budget policy and decide to reduce the share of dollar-denominated securities in their portfolios.

A decrease in U.S. domestic investment would weaken the economy and would also diminish the long-run potential for real growth. The weakened economy and the higher interest rates, in turn, would increase the budget deficit. A high budget deficit is thus a high-risk policy for the economy. Consequently, in the G-5 accords in 1985 and 1987, the U.S. explicitly agreed to reduce its budget deficit as its contribution to reducing global trade imbalances.

Question 6:

How can we eliminate the structural deficit?

Answer:

We can eliminate the structural deficit by reducing the trajectory of Federal spending. The President's budget proposes the specific means of reaching this goal step-by-step over the next few years.

Question 7:

If biennial budgeting were instituted, would it be best to switch the entire Federal Government over at once or to phase in this system of budgeting?

Answer:

If biennial budgeting were instituted, it would be better to switch the Federal Government over all at once to biennial budgeting rather than to phase-in the new system. This would have two major advantages.

First, the President and Congress would be able to compare all programs with each other in any year when appropriations were enacted and, on the basis of this comparison, to rank programs in terms of priority relative to all other Government programs. This would be possible only if all programs had the same budget cycle. The ability to compare all programs with each other is fundamental to good budgeting and would be especially critical for a new President's initial budget proposals.

Second, the primary benefit of a biennial budget would come from reducing the time that the Executive branch and the Congress now spend on budgeting. This saving would be limited if part of the budget remained on an annual basis for a few years, even if appropriations bills were not required every year for the whole Government. The budget totals as such would be a political issue every year, and the congressional budget resolution would have to be passed annually.

Question 8:

In light of GAO's April 1 report on the President's fourth special message on deferrals and rescissions, when do you plan to release the budget authority that has been illegally withheld?

Answer:

We disagree with the characterization that any funds have been "illegally withheld." We believe that the deferrals supporting pay and retirement cost transfer proposals remain appropriate and valid, notwithstanding the New Haven decision.

The practice of proposing transfers of funds to offset or absorb the cost of pay and benefit increases to the maximum extent possible has a long history, as has the taking of administrative actions to help offset or absorb these costs. As in the past, in those cases where the funds proposed to be transferred could have been obligated before Congressional action, Executive action (i.e., deferrals) was taken this year to preserve the status quo while Congress considered the proposals. In keeping with the usual practices, the Congress was notified of this action through the reporting of deferrals transmitted on January 28th of this year.

The deferrals supporting transfers for pay and retirement costs will be continued until the general supplemental for fiscal year 1987, which includes supplementals for pay raises and retirement costs, is enacted into law. If a proposed transfer is not approved in the enacted Supplemental, the deferred funds will be made available promptly for obligation.

Question 9:

What actions do you plan to take to prevent future unauthorized withholdings of budget authority?

Answer:

As noted in our response to question 4, we believe that each of the deferrals and rescissions included in the President's Special Messages this year is fully authorized and supported by law.

In particular, we believe that the proposals in the budget to transfer funds from various accounts for pay raises and retirement costs remain valid, notwithstanding New Haven, because they are supported by independent authority, including that provision in the Continuing Resolution requiring agencies to absorb 50 percent of the pay increases. However, as I previously have stated, if Congress does not adopt these proposals in the Supplemental Appropriations bills, these deferred funds will be made available promptly for obligation.

The Administration has decided, in light of the New Haven decision, not to defer funds for policy reasons in the near future. While the New Haven decision also eliminated the reporting requirement under the Impoundment Control Act for any deferrals, our policy is to continue voluntarily to report to Congress, in Special Messages signed by the President, any funds deferred under the Antideficiency Act or other authorities. This will permit Congress to be notified formally of deferral actions and the reasons supporting them. This will also provide Congress with the information required to decide whether to overturn the deferral.

Question 10:

How does the fact that Congress rarely votes on rescission bills lead to your conclusion that the current rescission process is not working well?

Answer:

By rarely voting on rescission bills, Members of Congress do not have to take a position for or against the particular provisions that the President proposes to rescind. While they have already voted on the appropriations bill as a whole, each bill has wide coverage, containing many expenditure programs of very different merit. Consequently, a Member may have to choose between voting for a bill that contains many provisions he deems wasteful, or voting against a bill despite the great value that he attaches to some of its provisions. A vote on an appropriations bill, therefore, does not address the value of individual programs. Unless Congress has to vote on each of the provisions singled out by the President, as proposed under enhanced rescission authority, there is no effective way to stop the most flagrant cases of special interest spending.

Mr. BROOKS. Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

I have a number of questions, Jim, I will submit, and then you can give me the answers for the record. One I wanted to ask you about was the Department of Defense that did have a 2-year defense budget adopted. Does that present any special problems for you?

Mr. MILLER. It hasn't. Of course, it was a new thing for us to go through this year. We hadn't put that together before. But let me tell you, there had been some thinking along these lines even before the law was passed. The reason was the recognition that Defense and HUD are the two major agencies where you have a lot of budget authority that is committed for a longer period of time. You don't see the outlays immediately.

Second, there is a real realization that, because you start assembly lines for weapons systems, you are going to have a lot lower cost if you have a longer timeframe in which to know how much the money is going to be. There are economies that you can realize.

I will say again it was something new, so that caused a little trouble, but there had been some thinking about it in the past, so we were able to do it. I think we could do it for other agencies as well. If you went to 2-year biennial budgeting on other things, we could do it. It wouldn't be easy. We would find a lot of problems we would have to work out as we encountered them, but we could do it.

Mr. HORTON. What about with Agriculture? Would that create any special problems?

Mr. MILLER. I don't know off the top of my head. Agriculture is a great uncertainty because Commodity Credit Corporation deficiency payments are going to be very responsive to what the weather is going to be. It is hard enough to predict the weather 1 year in advance. Imagine predicting it 2 years in advance. So that is a great uncertainty.

Mr. HORTON. I am asking the question whether there is any realistic possibility that you can utilize a 2-year rather than a 1-year?

Mr. MILLER. Well, Congressman Horton, there would be certain areas where you would anticipate problems. You would have to follow up in these areas with some kind of supplemental. If there was a shortfall and you zero summed it, you would have to come in with offsets. Or if it turns out that there would be no reason to have outlays as large as we had anticipated, you could come in with a rescission if that were necessary. CCC is an entitlement program so you wouldn't have to rescind anything, but that would leave some margin that could either be used to reduce the deficit or some spending could be—

Mr. HORTON. I would assume that there would be a more practical problem that could be a more major problem than any of the other ones that you have mentioned. If you were going to have a 2-year budget adopted, it would certainly have to be done at the beginning of a Congress. When you do that, you are dealing with Congress being organized, and that takes some time to get done.

As a matter of fact, this year we moved as quickly as I recall over the 25 years. This is the quickest we have moved to get organized, and yet we still haven't accomplished complete organization.

And that would mean that a good part of that first year you would be trying to get your appropriations and your authorizations in your budget in place. I am not sure you could do it, realistically, in the timeframe in order to accommodate. We have got the problem right now of doing it.

Mr. MILLER. Well, let me say in a sense you have three possibilities, broadly defined. One, you could do the appropriating and authorizing, as Chairman Brooks pointed out, during the first year of a Congress, and then oversight the second. Or you could reverse it. You could do your oversight in the first year, getting on top of what is going on, and then do your appropriating and authorizing the second year. Or you could divide the Government up, do half the Government one way and half the Government the other way.

I think probably to do it at the beginning would be the best of the three alternatives.

Mr. HORTON. I have some other questions. I want to thank you.

We have kept you both a long time. The Senate is now voting on a motion to table a motion to postpone the motion to reconsider, so you have got time.

Mr. MILLER. I don't even know which way to ask people to vote on that, Mr. Chairman.

Mr. BROOKS. Without objection, Mr. Horton's questions will be submitted.

Mr. MILLER. I will be glad to respond.

[Mr. Miller's submissions to Mr. Horton's questions for the record follow:]

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR JAMES MILLER

Question 1:

At our earlier hearing we heard the suggestion that budget reform should be delayed until deficits are brought down to an acceptable level. Do you agree? Could some reform be initiated, such as biennial budgeting, before the deficit reaches an "acceptable level", however that is defined?

Answer:

There is no good reason to delay budget reform until deficits are brought down to acceptable levels. In fact, some types of budget reform would themselves help bring down the deficit -- such as a balanced budget amendment, a line item veto, enhanced rescission authority, a joint budget resolution, and enforcing 302 allocations. Other types of budget reform would improve the efficiency of the budget process -- such as credit reform and biennial budgeting. The sooner we improve the efficiency of the budget process, the better.

Question 2:

Dr. Charles Schultze testified that in his opinion the Federal Government would show no lower deficit under a capital budget than under the current accounting definition. Do you share that opinion? Would a capital budget give a more accurate picture of the Government's true financial condition?

Answer:

A capital budget is a method of recording transactions. Therefore, in and of itself it would not affect the real resources commanded by the Federal Government or the real saving absorbed by the Federal deficit. However, it might change political decisionmaking on the budget insofar as it reduced the recorded levels of Government spending and the deficit. The appearance of lower Government spending and a lower deficit might give an excuse for more Government spending in the absence of institutional constraints on expenditures -- such as a balanced budget amendment, a line item veto, or enhanced rescission authority. This would increase the real Federal deficit.

The effect of a capital budget on the recorded Federal deficit is uncertain, because a capital budget could be configured in many different ways. One method would be to keep the present unified budget but to divide it into operating and capital sections. In this case, the recorded total deficit would be unchanged. Another method would be to replace the present unified budget by an operating budget that excluded capital investment but included an estimate of depreciation on all previous capital purchases. The recorded deficit of such an operating budget would depend on a number of different variables. It would depend in part on the definition of capital investment -- whether capital investment included weapons for the armed services, grants to State and local governments for highways and other capital purposes, research and development, and expenditures to augment human capital through education, training, and health. It would also depend in part on the method of depreciation -- the length of the periods over which the assets were depreciated, the formulas that determined how fast assets were depreciated over given periods, and whether depreciation was adjusted for inflation and relative price changes. Each combination of these methods would produce a different recorded deficit, but none of them would alter the Government's claim on real resources or its absorption of private saving except insofar as it changed political decisions about the budget.

Question 3:

It has been suggested that the Budget Resolution should be based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two? Would this make sense as good fiscal policy?

Answer:

The Administration and CBO both assume a fairly steady and sustainable growth rate of real GNP beyond the budget year rather than attempting to forecast the exact year-to-year pattern of real GNP. The same method could be used for the current year and budget year as well. This would provide stability to the economic assumptions during the course of the year, because they would not have to be changed due to minor changes in the economic outlook. It would also help to avoid some types of perverse fiscal policy. A forecast of unusually rapid growth, which would raise receipts faster than normal, could not be used as an excuse for higher Government spending than was needed. A forecast of a recession, which would reduce receipts, would not imply that policy makers ought to respond by outlay cuts or tax increases that were intended to offset the increase in the deficit but that would intensify the economic contraction.

However, applying this method to the current year and budget year has its own problems and dangers. An accurate estimate of the trend of real GNP may be as difficult to make, or even more difficult, than an accurate estimate of real GNP in this year and next. Whereas the forecast of GNP can always be tested by actual data shortly after the forecast period is over, the trend of GNP may need several years to be revealed and even then is always subject to disagreement. As an example of the difficulty in estimating trend GNP, it can be noted that the Administration and CBO forecasts of real GNP growth are closer to each other for 1987 and 1988 than are their estimates of trend growth during 1989-92. With this much room for differences of opinion, there is no ready way to reach consensus on the correct assumption about trend growth. For the same reason, there is a danger that the assumed growth rate would perpetually have an upward bias -- pegged to our hopes rather than our experience -- which would encourage excessive spending and deficits.

A further problem is inherent in the concept itself. The President and the Congress would still have to judge appropriate policy in light of what they expected the economy to actually do, and they would still have to plan for the actual budget outcomes in terms of the receipts, outlays, and deficits that they expected to occur. Our ability to forecast economic developments is very imperfect, but we do know something about what is likely to happen; and that will usually provide a better guide to policy

action than would a rigid formulistic approach. Therefore, the President and the Congress would still need to forecast real GNP for the current year and budget year, including its temporary variations from the trend growth rate.

Finally, the economic assumptions for the budget include other important variables besides real growth -- notably inflation, interest rates, and income shares. The method of estimating these variables would have to be considered together with the method of estimating real GNP.

Question 4:

If Congress continues to fund the Government with continuing resolutions, containing appropriations for several if not all of the Federal agencies and including other legislative actions, does this argue for a Presidential veto power of some type--something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?

Answer:

The Congress should enact appropriations bills in a timely fashion, so that the Government can operate in an orderly manner and so that priorities can be changed significantly from year to year. Continuing resolutions should be only a last resort to prevent the disruption of Government services. We should not rely on them except for very short periods or emergency conditions.

Even if the 13 traditional appropriations bills were sent to the President separately before the close of the fiscal year, he would still need a line item veto or enhanced rescission authority. The traditional appropriations bills have such wide coverage, each containing many expenditure programs of very different merit, that the President cannot effectively respond by either signing or vetoing the package as a whole. He therefore needs to be able to excise the most flagrant cases of special interest spending. The threat of such action, furthermore, would be a force for restraint when Members of Congress were trying to withstand pressure from special interest groups.

The need for a line item veto or enhanced rescission authority is still greater insofar as continuing resolutions are used widely and cover more agencies than the separate, traditional appropriations bills. The broader the coverage, the more difficult it is for the President to single out the most objectionable provisions so that the Congress has to vote on these provisions separately. In order to face the issues directly, the President should be able to reject those items with which he strongly disagrees while leaving most of the appropriations intact.

Question 5:

What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

Answer:

Budget control should be strengthened by enhancing the President's rescission authority. This year the Administration proposed 73 rescissions totaling \$5.8 billion. Not one was even voted on before the 45-day clock established under current law expired, so in accordance with the law all the funds had to be released. In 1986 only 1 percent of the funds proposed for rescission were actually rescinded; in 1985, only 9 percent. The current procedure is not working.

I would therefore urge consideration of Senator Quayle's approach, which would require a timely vote on each rescission proposed in conjunction with enrolled appropriations bills. (As we understand his bill, rescissions proposed under the Impoundment Control Act procedures would not be affected by his proposal.) If a majority of both Houses voted in favor of the proposal, the funds would be rescinded; if either House voted against it, the funds would be released. This approach would thus require Members of Congress to take a position for or against the particular provisions that the President proposed to rescind. While they would have already voted on the appropriations bill as a whole, each bill has wide coverage, containing many expenditure programs of very different merit. A vote on an appropriations bill therefore does not address the merit of individual programs. Enhanced rescission authority by itself would not solve the deficit problem. However, unless Congress has to vote on each of the provisions singled out by the President, there is no way to stop the most flagrant cases of special interest spending.

Senator Quayle's proposal requires the President to transmit his special rescission messages within three days after approving an appropriations bill. This timing is too restrictive; it does not allow enough time to examine the bill carefully. I would urge consideration of liberalizing this proposal to apply to rescissions proposed at any time during the year.

Question 6:

Since only about one quarter of our annual outlays are the result of discretionary appropriations, according to an earlier witness, would multi-year budgeting have a significant impact nonetheless?

Answer:

Biennial budgeting would have a significant impact regardless of the fact that so much of the Government's annual outlays are not the result of discretionary appropriations enacted in the same year. The principal purpose of a biennial budget is to reduce the time that the Executive and the Congress spend on the budget process. A biennial budget would allow Congress more time for the needed oversight of Government programs. It would also allow Federal agencies -- and State and local governments receiving grants -- to plan their programs in a more certain and more stable budgetary environment, which would improve their procurement and program efficiency. A biennial budget would furthermore reduce the opportunities for budget gimmickry, and it would provide more time for using reconciliation to address decisions on entitlement spending. Biennial budgeting deserves serious consideration in the context of budget reform.

Question 7:

What parts of the budget are now susceptible to a two-year budget cycle? Could you foresee the entire budget ever being on a longer than one-year cycle?

Answer:

The entire budget could be on a two-year cycle. Biennial budgeting has limitations, but having all programs on the same budget cycle is important to the success of any budget process. Otherwise, the President and Congress would not be able to compare all programs with each other in any year when appropriations are enacted and, on the basis of this comparison, to rank programs in terms of priority relative to all other Government programs. The ability to compare all programs with each other is fundamental to good budgeting and would be especially critical for a new President's initial budget proposals.

Furthermore, the primary benefit of a biennial budget would come from reducing the time that the Executive branch and the Congress now spend on budgeting. This saving would be limited if part of the budget remained on an annual basis, even if appropriations bills were not required for the whole Government every year. The budget totals as such would be a political issue every year, and the congressional budget resolution would have to be passed annually.

**Question 8:**

Did the development of the two-year Defense Department budget (for FY 88 and 89) present any special problems due to the two-year rather than one-year period? Have you reached any agreements with either the Armed Services Committee or the Appropriations Committee on how they will proceed within this two-year cycle?

**Answer:**

The Defense Department and OMB began work on the biennial Defense budget request for fiscal years 1988 and 1989 more than one year before it was submitted to Congress. This long planning time, plus the Defense Department's experience in previous years with the two-year Defense Authorization request and its Five-Year Defense Program, enabled the Department to prepare a biennial budget without special problems.

OMB has not reached any agreement with the Armed Services Committees or Appropriations Committees. The Administration urges the Committees to approve the biennial Defense budget requested by the President.

**Question 9:**

Under a process which establishes automatic continuing funding levels for agencies in the absence of an appropriation, those agencies that requested lower funding levels for the subsequent year would benefit. Is this correct? Would this present any problem?

**Answer:**

Different types of formulas can be used to determine the automatic funding level under a continuing resolution. If the automatic funding level was the same as the previous year's level, those agencies that had requested lower funding levels for the subsequent year would indeed benefit. However, this problem would not exist if the formula in the Domenici-Roth bill were to be used. It provides the lower of the previous year's level of funding or the level proposed in the President's budget.

Mr. BROOKS. We thank you for being here, and I thank you for keeping Wright here, too, because he is on the phone all the time.

Mr. MILLER. He would have been on the phone, sure.

Mr. BROOKS. We wish you every success with your phone calls.

Our final witness this morning is Charles A. Bowsher, Comptroller General of the United States. He is accompanied by Milton Socolar, Special Assistant to the Comptroller General, and Fred Wolf, Director of the Accounting and Financial Management Division of the GAO.

Gentlemen, we welcome you, and will accept your statement for the record. It's a good statement. We would be pleased to have your comments.

**STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY MILTON SOKOLAR, SPECIAL ASSISTANT TO THE COMPTROLLER GENERAL, AND FREDERICK WOLF, DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION**

Mr. BOWSHER. Thank you very much, Mr. Chairman. It is a great pleasure to be here, and I have already testified once today before Congressman Horton, so this is the second time.

Let me summarize the statement here, because I know we are running out of time.

Personally, I think we do have a critical problem in the structural deficit area. Our deficit has gone from \$40 billion to \$221 billion over fiscal years 1979 to 1986. I think a lot of this was, of course, caused by the 1981 tax cuts and, the rapid buildup in defense. All of a sudden, the interest costs on the debt in our budget has become a major item.

I think you have asked us to comment on whether it's bad numbers or bad process. In fact, in your opening statement you raised that issue. I think you have both. I think, in fact, David Stockman gave Congress both. He cooked the books, as he said in his book himself, and then I think he bent the process, and I think you have got a real problem here in working with the numbers that have been sent over to the Congress in recent years, and I think the process is not working very well.

And then we got the Gramm-Rudman-Hollings process, and as you remember in 1985, when we testified on that subject we were worried about a mechanical approach to a \$200 billion deficit problem.

We were also concerned at that time about the annual expenditure targets which lead to inefficient spending of money, and disruptions in programs that don't know where they stand until after the fiscal year gets started, and I think the economic risk is always something that has to be looked at, because the Federal budget does have a major impact on our economy. And unfortunately, I think last fall we saw some phony numbers being pushed through the system to meet the targets, and I think that's getting the Federal Government right in the same boat as New York City, and I think that is unfortunate.

Now everybody hopes that the revenues will grow, and that growth is their big hope, but I think if you look at the major bank-

ruptcies and fiscal crisis that we've had in the last 15 years—namely, Penn Central, Lockheed, New York City and Chrysler, and now one that we will be looking at and I will be testifying on next week on farm credit—why, they too had hoped that their budget problems would be solved by much greater revenues. And when it doesn't come to be, why, then you run into real serious economic conditions.

I think the rosy scenarios that we have had with economic predictions have been misleading. I think the report that we issued last September on the Gramm-Rudman process raised those concerns. I think that we were worried that the \$154 billion target was not being met. Now the administration says it's \$173 billion for this current fiscal year.

I find it interesting, and many others are even looking at higher numbers.

So I don't think there are any easy solutions here to solve a \$200 billion deficit. I think you have to get all the programs on the table. You have to look at the revenue side of the budget, you have to look at the big items like defense; you have to look at interest costs, which is becoming the third largest item in the budget; and if interest rates start to go up now, why, we could go from \$135 billion up to a considerably higher number in the budget; and if our debt continues to grow from \$2 trillion to \$3 trillion, which is the way we are heading, why, we could easily have what I would call the third tower in that budget, namely defense, Social Security and Medicare, and now interest costs, and that is going to squeeze out an awful lot of other programs that the Federal budget and the Federal Government have traditionally handled for our taxpayers.

Last year I think the real deficit was even greater than \$221 billion if you look and see how the trust funds cash flows really affect that on a unified basis. And so I think that one thing that would be helpful is to have a new summary of the budget structure. I think that we ought to keep the unified column, the unified total, but I think it would be good to take a look and see how we could recast the budget, so that to show the capital items, the trust funds and that in a way that people understood, not only how the costs were flowing, but how the financing of the budget was taking place. I think that we have got to make major program decisions if we are really ever going to close this gap.

I think, Mr. Chairman, you are aware, as well as the committee, that we have advocated a reform in both the systems of the budgeting and the accounting, and I think that the Congress ought to have up-to-date information as to how the budget is unfolding. I don't think you have it today, and I think that every Member of Congress should have information on a real time basis just as the decisionmakers in the executive branch should have it. So I would hope some way that Congress would mandate a new budget accounting system here that would give everybody an honest set of numbers, and I think that unfortunately, like we have had this past couple of weeks, to come forward and point out the problems with a program like the B-1 bomber, that that should have been known much faster and much more current to the Members of Congress, and I think that it is these kinds of problems that I hope

in the next few years the Congress could mandate a change from the executive branch.

Mr. Chairman, we would be pleased to take any questions.

[Mr. Bowsher's prepared statement follows:]

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**United States General Accounting Office**

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**Testimony**

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**The Federal Budget and  
the Budget Process**

Statement of  
Charles A. Bowsher, Comptroller General  
of the United States

Before the  
Subcommittee on Legislation and  
National Security  
Committee on Government Operations  
House of Representatives



Mr. Chairman and Members of the Committee

I am pleased to have this opportunity to discuss our views on improving budgeting in the federal government. I will later in my statement offer some suggestions on improving the budget's structure and changing governmental budgeting procedures. Before discussing those matters, however, I would like to address what I consider to be the most urgent need--that is, the need for public and institutional support for decisive deficit reducing actions.

THE CRITICAL PROBLEM--A STRUCTURAL DEFICIT

In the six years that I have been Comptroller General, I have been struck by the increasing number of bills introduced each year to change the way the government budgets. Your committee has referred many of these proposals to us for comment. I think that the growing number of such bills reflects concern by members about the time-consuming annual budget process and, probably more importantly, its outcome. It's easy to get discouraged over the missed budget calendar deadlines and huge deficits.

Many of these proposed changes deserve serious consideration. However, I think we should start by recognizing that we have been facing a special fiscal-political situation that would make it difficult for any budget process, no matter how well designed, to work well.

Two events coincided in the 1980's to place severe strains on the budget process. The first was the emergence of a

structural deficit of unprecedented peacetime proportions. Whether figured in current or constant dollars, or as a percentage of the nation's gross national product (GNP), our deficit grew enormously in the 1980's.

From fiscal year 1979 to 1986, the deficit grew in current dollars from about \$40 billion to about \$221 billion, a 450 percent increase. That equated to spending each day a little over \$600 million more than we were taking in. As a percentage of GNP, the deficits in the early 1980's grew from under 2 percent to a little over 6 percent--higher than the level in the mid-1930's during the Great Depression. In short, our policymakers have been faced with a deep and persistent deficit that reflected a fundamental imbalance between governmental receipts and expenditures.

The second occurrence, coinciding with this major fiscal imbalance, was a lessening of the institutional give-and-take that normally keeps our branches of government working together to solve the nation's problems. Compromise has often given way to confrontational politics and budgeting between the branches of government. And within the Congress itself over the 1981-86 period, matters were complicated by the development of split party control--the first situation of this kind since 1931-32 during the last years of the Hoover administration.

It is no wonder, then, given these fiscal and institutional pressures, that budgeting in recent years has become troublesome

and time-consuming. Furthermore, I would suggest that the budget process will remain in this state until we successfully tackle the major imbalance of receipts and expenditures that is at the heart of the problem. That will not be easy. Let's consider for a minute what makes up the budget. I think it will show how difficult it will be to address the problem simply by additional funding reductions.

Our government's receipts are running at about \$800 billion a year. The Congressional Budget Office's (CBO) recent baseline estimate for the current fiscal year is \$834 billion. What does that cover? Using CBO's figures, we could say that it covers net interest costs (\$135 billion), social security (\$206 billion), medicare (\$78 billion), and national defense (\$280 billion). That's \$699 billion, leaving about \$135 billion of the receipts to cover all other programs of the government--the National Institutes of Health, the Federal Bureau of Investigation, the Customs Service, the Federal Aviation Administration, the National Park Service, the Internal Revenue Service, etc.

According to CBO, though, we will spend far more than that--closer to \$309 billion--on the other programs. And most of that \$309 billion (almost \$200 billion) will be for various entitlement and mandatory spending programs, such as veterans pensions, many of which the Congress shielded in some way from the full effects of the Gramm-Rudman-Hollings law.

Clearly, there are large funding requirements for

maintaining the nation's defense and the basic services and entitlements that most citizens consider important, and these requirements can not be greatly reduced simply by improving management efficiency or selling governmental assets. We in GAO have always pushed hard to eliminate waste in the government, and our work has identified how billions of dollars could be saved. I have to say, though, that the government can not solve its fiscal problem simply by stopping those who buy thousand dollar coffee makers or make overpayments on entitlements. Also, while sometimes appropriate, selling the government's assets won't solve it. For example, what we gain through loan asset sales, we lose in future foregone receipts, and in many cases we may give up more than we gain.

All of this, Mr. Chairman, points to difficult choices that will have to be made, and I do not see how a lasting solution can be found without some additional revenues and a close look at all programs, including defense and entitlement programs for possible reductions. As I stated to this committee in 1985, before the Gramm-Rudman-Hollings law was enacted, we need to put all revenue options and programs on the table for examination.

It is very important that we do so without much delay, because we are already paying a stiff price for failing to act on this sooner. Every taxpayer is paying some of that price today, and will be paying a lot more in the future if something is not done. The \$135 billion net interest cost does not buy us a

thing, except the privilege of paying it again next year. Instead of being used to replace obsolete bridges or help farmers in distress, it is a transfer of income from average taxpayers to holders of Treasury securities, many of whom live in other countries.

Another part of the deficit's price is our growing international debt burden. I am convinced that the large budget deficits have been a real cause of the massive inflows of foreign capital and the dangerous foreign trade imbalance.

Our growing dependency on foreign business and investors may not be perceived or felt by most Americans at this time. After all, with some major exceptions, many Americans are living fairly well. The problem is, we are living well by borrowing the output of other countries' factories and financial institutions. When we have to pay it back, we will have to consume less as a nation. Then we all will feel it in a lower standard of living than we otherwise would have enjoyed.

There is yet another element to the price we are paying, and that is the structural deficit's restriction of policy options available to our elected officials. As long as the government must increasingly tighten its purse strings to handle a growing debt burden, it has fewer opportunities to respond to emerging problems at home and abroad. We have been seeing sectors of our society and economy experience new problems in recent years. The

problems of our increasingly aging population or farmers come to mind. How can we adequately respond to such developments and future ones that we can not foresee when increasing billions are siphoned off in unproductive debt service?

I am afraid that any reluctance to face the deficit problem we have will lead to a proliferation of proposals for unrealistic, mechanistic approaches to budgeting. This would include rigid formula limitations on budgetary outcomes, such as a constitutional amendment limiting spending growth and requiring a balanced budget.

I would prefer to think that a constitutional amendment is not needed to get our fiscal house in order. In my opinion, it is healthier for our form of government when budgetary decisions can be made through open legislative debate and actions. Furthermore, a constitutional amendment could have unforeseen institutional, economic, and budgetary consequences. This is why it is important to make significant progress on correcting the structural deficit we now face. Unless that is done, we can expect a growing demand for such an amendment.

I should also mention proposals for giving the President line-item veto authority or enhanced rescission powers. These clearly would shift the long-standing balance-of-power over the government's purse toward the executive branch. Exactly how far that shift would go would depend upon the specifics of the proposals. There is a wide variety of line-item veto authorities

at the state level--some broader than others. I am sure that the Congress will want to study the various proposals carefully to weigh the institutional and budgetary implications.

There are, however, steps we can take that do not raise such balance-of-power questions, such as improving the budget's structure and numbers, and streamlining the congressional budget process. These should not be seen as "solutions" to our budget problem, but rather as steps that can help our lawmakers in making decisions and taking actions on the budget and the deficit.

#### IMPROVE THE BUDGET'S STRUCTURE

I think that it's time to rethink the budget's structure. It has been 20 years since the last major reform, when the government's administrative and trust funds were merged into one budget. This was the principal recommendation of the 1967 President's Commission on Budget Concepts. The development of a unified budget was unquestionably a step forward, and we certainly should preserve the unified budget concept in any new reforms we undertake.

There is a problem, however, with the current unified budget. It often confuses rather than clarifies many issues. It should better portray the costs of various programs. Some might say that we should not change what we've become used to, but I think that changes are necessary for a better understanding of our budgetary situation.

Governmental programs and options have evolved over the last 20 years, and the policy choices are now more complex. Officials today engage in more complicated analyses as they consider alternative means of accomplishing policy objectives. For example, there are analyses of whether to aid certain economic sectors by grants, loans, loan guarantees, tax credits, or some combination of these. If we do not periodically update and improve the budget's content, the budget begins to lose its relevance to policymakers and the public.

The treatment of credit programs is one area where we need to do something. Such programs play a much bigger role today than they did in the 1960's, and it is time to make appropriate adjustments in the way the budget measures and reports credit program amounts. Mr. Wolf from our office touched upon some of this last week, Mr. Chairman, in testimony before this subcommittee.

The budget now treats loan outlays the same as regular outlays, even though true loans (unlike regular outlays) entail a flow of funds back to the government. This means that in the initial years of a loan program, the program's outlays in effect overstate costs by not taking into account the repayments. An opposite problem develops in subsequent years as loan repayments flow back to the program. The repayments are netted against new outlays and result in understating the costs.

We therefore need a new reporting procedure that focuses

upon the net cost to the government of its credit programs, including both direct loans and loan guarantees. It is this net amount that should be estimated and budgeted for in advance. That would put credit amounts in the budget on a comparable basis with regular amounts. This, by the way, was a recommendation of the 1967 President's Commission on Budget Concepts.

A similar problem exists in the area of capital investments. Basically, I think we need to treat expenditures for tangible assets the way we propose treating expenditures for loan programs. There should be some budgetary recognition of the fact that the government gets something of value for its initial outlay. In a loan program, the government receives a promissory note and future repayments. In a capital program, it receives a physical asset that has economic value for several years.

In both cases, it makes sense for the budget to focus each year upon the net cost. This is what a capital budget would do for us. The practical effect would be to correct a certain budget scorekeeping bias against capital projects, focus attention on the long-range infrastructure needs of the government, and, I might add, give legislators an additional option for targeting their budget deficit reductions. We should at least consider the practice of many states, where the focus of balanced budget requirements is on the operating side of the budget. Such states generally permit debt financing of their capital projects.

I have to acknowledge, however, that we would need to proceed carefully in developing a capital budget approach. It would be important to keep the capital budget within the unified budget. This would ensure a full disclosure in the budget of all governmental activities and costs. It also would permit account listings and schedules that provide a reporting of total program costs where programs involve both capital and non-capital items. We would not want to go back to the days before program budgeting, when object class budgeting prevailed and it was hard to ascertain total program costs.

We also would need good standards on what to classify as capital and independent auditing of how those standards are applied. This would minimize the chances of officials misclassifying operating amounts as capital amounts, a gimmick that was used in New York City in the mid-1970's and earlier.

I would like to address another concern about capital budgeting. Some believe that it could "take the lid off" of spending for capital projects, and hurt or destroy our deficit reducing efforts. I do not subscribe to that. I think it would help those efforts. As long as we keep capital amounts within the unified budget, we will not lose sight of the impact of capital decisions on governmental outlays and borrowing requirements. Furthermore, as I stated earlier, it would give us an additional option for targeting our deficit reduction efforts.

There are a couple of other budget content matters that I

will only briefly mention at this point. Current reporting is not very informative about the annual surplus or deficit trends within the various fund types of the budget. I am thinking mainly of differences between general and trust funds. Many would be surprised to learn that the annual surpluses in the Highway Trust Fund have produced a fund balance at the end of fiscal year 1986 of about \$12.8 billion. The balance in social security's Old Age and Survivors, and Disability Insurance funds was \$45.9 billion.

It would be helpful to have better budget reporting on the annual trust fund surpluses (or deficits), how these are affected by intrabudgetary transfers involving the non-trust fund accounts, and how the budget's reported overall deficit is affected. There needs to be a better understanding of how the annual trust fund surpluses are used to hold down the reported deficit total. For example, in fiscal year 1986, when the government's reported budget deficit was about \$221 billion, the non-trust part of the budget really ran a much larger deficit--a \$283 billion deficit (after intrabudgetary transfers)--and it was only by counting the trust fund surpluses of about \$62 billion against this that the government was able to bring that reported deficit down to \$221 billion. We continue to believe that governmental trust funds should remain in the unified budget, but think that budget reporting should be improved to better show the effects of the trust funds on the totals.

I am also concerned about the lack of full budget reporting on the future costs of today's commitments. The liabilities of the pension plans come to mind. There are billions in unfunded pension liabilities that must, at some time, be paid for. I think that its critically important that we get a better handle on the accrual each year of these and similar liabilities.

The 1967 President's Commission on Budget Concepts recommended that the budget be put on an accrual basis to permit better control over such amounts, and I think that the federal government should move in that direction. A good first step would be developing a new section on accruals in the budget's Special Analysis document. It would summarize the budget's accrued liabilities, and provide a cross-walk or reconciliation to the budget's cash numbers. This would be a modest but potentially very important step toward better controlling the budget's future costs.

#### IMPROVE THE NUMBERS

We also should do something to improve the timeliness, consistency, and accuracy of the numbers. This is not a new problem, but one that has taken on new importance as the Congress and the administration attempt to address the deficit. For example, we have expressed concern that many of the deficit reduction "savings" for fiscal year 1987 are questionable, since they only shift outlays or collections from one fiscal year to another, with no enduring effect on the deficit. Our concerns

are shared by others, in both houses of the Congress and on both sides of the aisle, who have spoken out about the "blue smoke and mirrors" being used to meet the deficit targets. We could easily see a repeat of the 1986 experience, when optimistic estimates were followed by a dramatic worsening of the deficit situation as the year progressed.

I think we can make progress on this numbers problem in at least two areas. First, we should consider ways of improving the economic and spending projections put forth in various budget documents. This will not be easy, because legitimate differences of opinion exist on such matters. Nevertheless, I am convinced that we can do better. This subcommittee heard suggestions last month for improving economic projections, and I would urge serious consideration of those proposals. I would say that a starting point for achieving better economic and spending estimates would be for officials to base their estimates more on stable economic and financial patterns, and less upon optimistic policy and economic goals.

A second area of possible improvement would be upgrading agency financial management systems and reporting procedures. We can not expect good budget numbers if the needed data simply are not there. Too often agency officials develop their budgets on the basis of antiquated systems and poor data. For example, we've recently reported that one agency couldn't identify the amount of its prior funding for inflation that was no longer

needed because price increases turned out to be less than expected. In that case, the potential excess funding totalled \$55.8 billion.

One final note on the numbers. We think that the discipline and integrity of the budget's amounts would be helped if more federal agencies had audited financial statements. Many statement amounts find their way into the budget, and our GAO financial audits have turned up several discrepancies and problems with these reported amounts. Continued auditing efforts along these lines should have beneficial effects for the budget. At the state level, many states now routinely issue audited financial statements, and, thanks to this committee's Single Audit Act, federal monies provided to states also are audited.

#### STREAMLINE THE CONGRESSIONAL BUDGET PROCESS

Finally, let me turn to the congressional budget process itself. I think that most observers and participants would agree that the budget process needs some streamlining. I think that the objectives should be to reduce the number of revisited decisions, to free-up time for oversight activities, and to ensure an orderly delivery of governmental services. Along these lines, I would like to offer some suggestions.

One possibility is biennial budgeting. There seems to be a revival of interest in this, perhaps stimulated in part by the Department of Defense (DOD) trial effort for the fiscal years

1988-89 period. In the past, I have stated that biennial budgeting warrants consideration as a way of reducing budget workload and improving oversight activities. I think that if adopted, it probably should be tried first on a selected basis, maybe for some of the procurement activities of the government. A possible drawback is that it may lessen congressional budget control. I continue to believe that biennial budgeting deserves consideration, and that the government should proceed carefully on it. I would like to see how the DOD case works out, and then consider future courses of action.

Some form of an automatic continuing resolution also warrants consideration, as a means of minimizing funding gaps and disruption to basic governmental services. We have previously recommended a procedure that would allow the government to obligate but not expend funds until appropriations were passed. Another option would be to allow automatic funding but at decreased or decreasing levels. I must say, though, that none of these automatic funding options is very attractive. I would rather see an emphasis on figuring out how to get the appropriations passed on time.

Finally, the Congress may want to review the layering of functions and committees that has occurred over the years, producing seemingly duplicative, revisited decisions on the same programs. Many programs are addressed each year in the budget resolution discussions and actions, again when the authorizing

legislation is considered and passed, and yet again during the appropriations process. I think that this allocation of workload may get the Congress bogged down in too much detail.

CONCLUSION

This concludes my prepared statement, Mr. Chairman. I would be glad to respond to any questions you may have.

Mr. BROOKS. Thank you very much. And I like that statement. I think it is very informative and helpful.

What weaknesses do you see in the administration's proposal to reform credit programs by selling Government loans?

Mr. BOWSHER. Well, as you remember, Mr. Chairman, we testified here some months back about our concern of selling these loans, especially in the way that they are insisting on selling them, without recourse.

In other words, I can understand that they would like to be rid of them entirely, but what you have got to think about is what kind of revenues are you going to get from these sales, and if you send them out there into the private capital markets on a basis that people are going to be worried about them, why, then you are going to get a good deal less. So that's our major concern about the way these loans are being sold.

Mr. BROOKS. It could cost the Government billions of dollars, couldn't it?

Mr. BOWSHER. It sure could.

Mr. BROOKS. In the aftermath of the *New Haven* court decision, what power does the President have to make policy and programmatic deferrals?

Mr. BOWSHER. I would like Milt Socolar to handle that question, Mr. Chairman.

Mr. BROOKS. Mr. Socolar.

Mr. SOCOLAR. The President no longer has any authority to make policy deferrals. Under the Anti-Deficiency Act, program deferrals are still appropriate for the specific purposes laid out in that act, but policy deferrals have been struck down in that *New Haven* case.

Mr. BROOKS. Does he have any power to make programmatic deferrals?

Mr. SOCOLAR. Yes, he can still make programmatic deferrals. Deferrals that are based on possibilities for savings, to provide for contingencies, and those kinds of things are still appropriate.

Mr. BROOKS. Since annual budgeting allows Congress to exert more control over the executive agencies, how will Congress retain this control under a biennial budget?

Mr. BOWSHER. Well, a biennial budget has a couple of advantages. One, as the previous witness Mr. Miller pointed out, it could give more time for oversight, and I think that is a good feature.

It could also probably help stabilize some of your programs, like some of your major weapons systems in the Defense Department, and some of your construction projects in some of the civilian agencies.

The big problem is the control over the operating budget, you might say, of the Federal Government, and what we have seen, as we look at the States that have used a biennial budget process, is that many of them have to put in an adjustment factor, you might say, the second year and to a great extent the efficiencies of a biennial budget are lost if that isn't done very skillfully, and with the idea of not turning it into really an annual budget under another name.

So I think that if we go to biennial budgeting—and I can see some pluses in it for some of the appropriations—I think we have got to do it very carefully.

Now I think one of the negatives right now is that you have put in the Gramm-Rudman process, which is definitely an annual process, and so here you come putting a 2-year budget process on top of an annual process that has a mechanical process literally looking at the expenditures for each individual fiscal year.

Mr. BROOKS. How would a line item veto most likely be used in the budget process, if it were instituted?

Mr. BOWSHER. Well, I think the President or the OMB people would probably use that mostly to go to reduce some of the programs that they feel should be reduced. I think a lot of people look at the State governments and assume that the line item veto would have as much impact at the Federal level that it does in some of the States, and I think that any time anybody looks at some of the major components of the Federal budget, you will see that it really would have a good deal less impact on that overall deficit of \$200 billion than it would in some of the other levels of our Government.

I think the other thing, of course, that has to be taken into consideration and given a lot of thought is really the transfer of power from the Congress to the executive branch when a line item veto would be put in place, and I think that that is one that should be given a good deal of thought.

Mr. BROOKS. What are the likely economic consequences of implementing Gramm-Rudman as currently written?

Mr. BOWSHER. Well, last fall when we were doing our review for fiscal year 1987, we had a group of economists come in as a panel and advise us. We were told by them that we should be concerned that if you bring down the deficit amount too quickly in any one fiscal year, that this would have to be offset by some dramatic monetary policies, and that they were worried, looking at the economic forecast last September for this fiscal year, that the amounts we were looking at, just based on those numbers at that time, worried them.

Our own economists at GAO thought the same, and of course, if anything, the numbers have softened at this point for the economy, and so if you were to come all the way from where we think you really are, let's say \$170 to \$185 billion dollar level, down to that \$108 billion for fiscal year 1988, why, I think that you might be taking a risk with the general well being of the economy.

Mr. BROOKS. Have you had a look at the proposal that the Budget Committee agreed to yesterday? It cuts a hard \$36 billion out of the budget deficit.

Mr. BOWSHER. Yes.

Mr. BROOKS. And uses the administration's economic indicators and gets the deficit down to \$108 billion. That is going to cut \$38 billion off the deficit by raising \$18 billion in new taxes, and cutting \$18 billion out of programs—half from the Defense Department and half from the domestic programs, and raise \$2 billion from user fees or something already recommended by the President, I believe. Now how do you think that would work?

Mr. BOWSHER. From an economic point of view?

Mr. BROOKS. Yes, from an economic point of view, if we could get that done.

Mr. BOWSHER. I think our people would think that that is much more in the ball park. In other words, that the economy could take that reduction and absorb it rather than if you went all the way down to the \$108 billion.

Mr. BROOKS. What steps, gentlemen, do you think could force the President and the Office of Management and Budget to use more realistic economic assumptions for preparing the budget? You heard what Jim Miller said, that they base their economic indicators on the assumptions that Congress will do what the President says, and that it will affect the business in the world like they predict which I think is pretty much Alice in Wonderland stuff.

Mr. BOWSHER. Actually, as you pointed out there, Mr. Chairman, their economic assumptions have been a good deal more optimistic over the last decade than what has been realized. And what worries me is that too optimistic economic assumptions have been used to keep the hope going that increases the revenue side of the budget, from economic growth, and are going to solve the deficit problem.

So, I would like to see some process where we do get more realistic economic assumptions into the budget process.

Now, I know last week you had other witnesses up here who were giving you certain ideas on how to do this by taking some kind of an average or doing things like that, and I think those ideas ought to be looked at and to see if there is some possibility of that.

You know there is also another idea that we have seen in other governments, especially some of the States, where they actually have the revenue estimates audited by the audit organization to give the State legislature a view as to how realistic these revenue estimates will be. I think if CBO or ourselves, but more likely CBO, were given a more emphatic role on what the economic assumptions are, then it could pull the executive branch more in line. But I think this is important, because I think it's really a disservice to the budget process when you start off the debate with a budget that has unrealistic economic assumptions.

If you think back as to why we were created, and why the Bureau of Budget was created in 1921, the Bureau of the Budget was created so, in theory, that the President would gather the budget submissions of the different departments and the bureaus together and review them and send a better budget over to the Congress. And I think what's happened, unfortunately, in recent years here is that the budget submissions of the departments are coming in and then the big decision is made on the economic assumptions. That decision throws the whole thing into a different ball game, and then everybody puts the President's budget on the shelf practically.

So, I think we have a situation that just isn't working like the original budget process was intended.

Mr. BROOKS. There's no reason why we couldn't get fairly well agreed upon economic indicators, though, with the knowledge that they're not perfect.

Mr. BOWSHER. Sure.

Mr. BROOKS. They're not perfect.

Mr. BOWSHER. We're never going to get one that will hit it right on the mark, but, you know, actually, if you remember in our first Gramm-Rudman report that we issued there in January 1986, we showed the results of various economic projections, and some had a pretty good trend.

Now, if you get a big event like a war or a major financial crisis in the world or something like that, naturally that's going to throw it way off. But if you don't get those events, and we don't get them too often, thank God, why then I think the economists can come in with a pretty reasonable basis. And then if we could get that as the basis of moving forward with the budget, we could focus in on the program issues. That's where the real dollars are.

Mr. BROOKS. Nobody pays any attention to the President's budget; he can't get anybody in Congress to introduce it even.

Mr. BOWSHER. That's right.

Mr. BROOKS. So, it's a tough deal. They have to hunt for people to introduce it, much less vote for it.

Mr. BOWSHER. And if you remember prior to 1981, we really had a pretty orderly budget process here in the Federal Government where the agencies sent their budgets over to OMB, they had the Director's review, they came over here, then the people defended their budgets; and you really had a good dialog between the congressional committees and the various components of the executive branch.

Mr. BROOKS. Well, that way you're talking about the same thing.

Mr. BOWSHER. That's right. You're debating the same issues.

Mr. BROOKS. We have a hope of reaching a budget accord, but that hope is much more viable, if you start with the same economic indicators.

Mr. BOWSHER. That's right.

[Mr. Bowsher's submissions to Mr. Brooks' questions for the record follow:]

MR. BROOKS' QUESTIONS FOR THE RECORD  
FOR CHARLES BOWSER

1. How would a biennial budget control the deficit?

It is not clear what effect biennial budgeting would have on the deficit. To the extent that biennial budgeting would reduce budget workload and thereby permit more congressional oversight, it could have a reducing effect on the deficit--by better identifying where budget savings could be made. However, any reduction in annual attention to, and control over, the budget could have the opposite effect. As I stressed in my testimony, a lasting solution to the deficit problem lies in our making some hard choices regarding additional revenues and program reductions.

2. What effect would a capital budget have on the deficit?

The primary purpose of a capital part within the unified budget would be to recognize that in capital programs the federal government receives, for its outlays, assets that have economic value for several years. It would enable the budget to report, on a comparable basis, the annual net cost of both operating and capital programs. Capital budgeting is not designed to reduce, or increase, deficits. It would, however, give legislators the option of taking deficit reduction actions on the operating and capital parts of the budget as well as on the unified budget total.

3. What problems do you foresee with giving the President enhanced rescission authority?

Giving the President enhanced rescission authority would shift the long standing balance-of-power over spending towards the executive branch. Exactly how much power the Congress would relinquish to the President would depend on the specifics of the proposals. Congress should study any proposals to enhance the President's rescission authority carefully in order to assess their legal, institutional, and budgetary implications.

4. What would be accomplished if the economic forecasts used by the government were standardized?

If it were possible to obtain agreement between the legislative and executive branches on a common set of economic assumptions, some of the confusion now found in budget debates would be removed. Eliminating the differences introduced by the use of different economic assumptions would facilitate focusing the debate on substantive policy choices.

5. What would happen to the operations of the Treasury Department and the nation's financial markets if the federal government were to adopt a pure capital budget where the operating expenses were paid out of current revenue and capital investments were funded through long-term debt instruments?

Capital budgeting would not necessarily require dedicated long-term debt financing of all capital assets. Capital items could be funded through such long-term securities, general tax revenues, or a combination of both types. It is true, however, that if capital budgeting entailed any long-term dedicated financing there would be implications for the operations of the Treasury. Some new debt instruments, marketing practices, and financial reporting procedures would have to be developed. The states have had considerable experience with such securities, and their experience would be helpful. As for the financial markets, they are already familiar with such securities (marketed by the states), and with the long-term instruments now issued by the Treasury.

6. How can we eliminate the structural deficit?

We must successfully address the major imbalance of receipts and expenditures that is at the heart of the problem. This cannot be done simply by reducing government inefficiency and increasing short-term receipts by selling governmental assets. Also, major portions of the budget cannot be "taken off the table" for possible reduction. We need to make difficult choices which will result in sustained increases in the revenue base, and decrease in the overall expenditure level. This will require a close examination of all options, including possibilities for reducing defense and entitlement expenditures.

7. What problems are created when automatic mechanisms like Gramm-Rudman-Hollings are adopted to try to bring discipline to the budget process?

Such automatic mechanisms and their formulas may be too rigid for addressing complex and changing budgetary needs. If the established budgetary goals prove to be unrealistic, strict adherence to the formulas can produce unwanted fiscal and economic consequences, or, to minimize that, "blue smoke and mirrors" budget reporting to avoid full adherence to the formulas. Both results are unfortunate.

8. How can we combine spending and revenue generating decisions to make better economic decisions and improve the budget process?

The 1974 Congressional Budget Act had the goal of bringing about a better integration of spending and revenue decisions. The annual congressional budget resolutions required by the 1974 Act set spending and revenue totals, but do not always result in consistent implementing actions. Fuller integration would be achieved by stricter adherence to the budget resolution totals. The means of bringing this about are matters for congressional determination, involving, as they do, complex questions of congressional organization, rules, and budgetary procedures.

9. The New Haven court decision characterized "programmatic" deferrals as "trivial" and "routine." What types of deferrals would you consider to be "trivial" and "routine?"

Many deferrals are "routine" in the sense that they occur annually in the same accounts and have no detrimental effect on the program. Even before the Chadha decision deferred the Congress from exercising its one-House veto of deferrals, these so-called routine deferrals were not overturned.

The Court in New Haven, in using the term "trivial" as a description of certain kinds of deferrals, was quoting from the report of the House Rules Committee on the bill which, in modified form, became the Impoundment Control Act. We do not read the New Haven decision as adopting the Committee's characterization: the court instead characterizes programmatic deferrals as those intended to advance congressional budgetary policies by ensuring that congressional programs are administered efficiently.

In context, it is clear that the House Rules Committee did not mean that all programmatic deferrals are unimportant. Rather, it was trying to distinguish between those impoundments which could be permitted to remain in effect pending congressional approval, which it styled "trivial," and those "critical and important" impoundments which the Congress could overturn by using the legislative veto.

We would not generally characterize even programmatic deferrals as trivial. Often they involve large sums of money and significant periods of delay.

10. You have indicated that the Mid-Ohio Food Bank case "may definitively resolve the question whether policy deferrals remain lawful." Please explain what remains in doubt after the New Haven decision.

In saying that Mid-Ohio Food Bank may definitively resolve whether policy deferrals remain lawful, we were acknowledging the reality that, despite our conclusion that such deferrals are not authorized, the Executive Branch continues to maintain that they are, and to act on that belief. The courts, in Mid-Ohio, can definitively resolve the question

through the issuance of a decision that policy deferrals are now unauthorized and an accompanying order which will be binding on the Executive. Until then, or until the Congress acts, the question is unresolved in the sense that the Executive Branch cannot be prevented from asserting and exercising the deferral power.

11. In the aftermath of the New Haven decision, you have stated that GAO no longer has enforcement power with respect to deferrals? What steps do you think Congress should take to ensure that unlawful deferrals do not occur?

Various steps are available to the Congress to prevent or deter unlawful deferrals. Our recommendation, as stated on several occasions, is that they be made lawful again, but with congressional control, vitiated by Chadha, restored. This would be done by the enactment of legislation requiring the President to state, with each report of a deferral, a date certain on which the deferral will cease. This date would have to be early enough to obligate the funds in a prudent fashion before their expiration and, for multi-year funds, deferrals would have a maximum duration of 12 months.

As long as the one-House veto was available, the Impoundment Control Act was, in our view, a workable compromise between the Executive's need for flexibility and the Congress' role in the appropriations process. Our proposal would reestablish that kind of mutual accommodation.

Mr. BROOKS. Mr. Horton.

Mr. HORTON. Mr. Chairman, I have a number of questions I'll submit for the record.

There was a lot of testimony from Mr. Miller about Senator Domenici's bill. Have you had a chance to look at that?

Mr. BOWSHER. We have our people looking at it, but we haven't made any final appraisal of it. I think that is the best answer I can give you right now, Mr. Horton.

Mr. HORTON. Offhand you don't have anything that seems like a good approach.

Mr. BOWSHER. I think it would be better to submit that to you in writing.

Mr. HORTON. That would be helpful.

Mr. BOWSHER. As soon as we have it, yes.

Mr. HORTON. Inasmuch as Mr. Miller referred to it on a number of occasions, I think it would be good to have your comments in the record, after your folks have had a chance to look it over.

Mr. BOWSHER. We would be pleased to do that.

Mr. HORTON. You also mentioned Senator Quayle's rescission proposal. You might take a look at that, too.

Mr. Chairman, I have no further questions.

[Mr. Bowsheer's submissions to Mr. Horton's questions for the record follow:]

MR. HORTON'S QUESTIONS FOR THE RECORD  
FOR CHARLES BOWSER

1. At our earlier hearing we heard the suggestion that budget reform should be delayed until deficits are brought down to an acceptable level. Do you agree? Could some reform be initiated, such as biennial budgeting, before the deficit reaches an "acceptable level", however that is defined?

Our most pressing and urgent need is to act decisively to reduce the deficit. It is my belief that the only way to do this effectively is to make hard choices regarding our current revenue and expenditure flows. Budget reform initiatives should be secondary to this. However, I see no reason why we cannot take a hard look at our revenue options and program levels while at the same time initiating sound budget reform.

2. Dr. Charles Schultze testified that in his opinion the federal government would show no lower deficit under a capital budget than under the current accounting definition. Do you share that opinion? Would a capital budget give a more accurate picture of the government's true financial condition?

It is true that the total amount of funds the federal government would need to borrow would be the same if the government were to adopt capital budgeting. However, the capital part of the budget would show what portion of these borrowings are used to acquire capital assets (which will produce a future stream of benefits to the nation). This would provide a more complete and meaningful picture of the uses of federal borrowings, and their relevance to the financial condition of the government.

3. It has been suggested that the budget resolution should be based on the assumption of a steady and sustainable growth rate of GNP, and not on temporary variations, either up or down, from that rate. As a political matter, could this be done if the GNP went down or was flat over a period of a year or two? Would this make sense as good fiscal policy?

Assuming steady and sustainable growth as a basis for multi-year budget projections (for example, by using the longer-term trend rate of growth of GNP) would reduce the probability that these projections will understate potential future deficits because of the use of overly optimistic economic assumptions. A projection based on trend rates of growth of GNP would provide an understandable benchmark for assessing what the government's fiscal policy was. No budget projection can answer the question of what it ought to be. At the same time, use of trend rates of growth to make budget projections would not necessarily produce the most accurate projection of whether a particular deficit target (such as

those contained in the Gramm-Rudman-Hollings legislation) would be met. We have no basis for assessing the political implications of assuming steady and sustainable growth in making budget projections.

4. If Congress continues to fund the government with continuing resolutions, containing appropriations for several if not all of the federal agencies and include other legislative actions, does this argue for a presidential veto power of some type--something similar to what he would have if the 13 traditional appropriations bills were sent to him separately?

An expansion in existing veto authority, even if restricted to comprehensive continuing resolutions, could easily have unforeseen consequences for the traditional balance-of-power between the President and the Congress. We therefore would prefer an emphasis placed upon improving the timing of congressional decisions so that comprehensive continuing resolutions are not needed.

5. What should be the nature of the President's authority to defer or rescind expenditure of appropriated funds? Is the Quayle Proposal (requiring a timely vote on each proposed rescission) a good idea? Will such authority have a significant impact on the budget?

As we have recommended in the past, a workable amendment to the deferral authority would provide that, when the President proposes a deferral, he specify a date at which the deferral would cease. This date could not be so late during the period of availability of the funds that they could not be prudently obligated and, for multi-year funds, could not be more than a year from the President's message. This proposal recognizes both the President's need for flexibility and the Congress' role in the appropriation process.

With respect to rescissions, the present procedure is workable from our point of view. In this connection, the Quayle bill would force a vote on each proposed rescission. Whether such authority would have a significant effect on the budget depends on so many imponderables--the nature of the proposed rescissions, the relation between the President and the Congress, the persuasiveness of the President's argument for rescission, et cetera--that it is impossible to predict.

6. Since only about one quarter of our annual outlays are the result of discretionary appropriations, according to an earlier witness, would multi-year budgeting have a significant impact nonetheless?

It is not clear how multi-year budgeting, such as biennial budgeting, would affect the outlays for the "non-discretionary" programs. Any impact probably would be

indirect--the result of any enhanced oversight activity that would accompany multi-year budgeting:

7. What parts of the budget are now susceptible to a two-year budget cycle. Could you foresee the entire budget ever being on a longer than one year cycle

Some procurement areas are suitable, and are now being subjected to a biennial budgeting test in the Defense Department. It would be a good idea to examine the results the Defense experience before deciding whether to expand biennial budgeting to other parts of the government.

Mr. BROOKS. I would like to bring to your attention that the authors of Domenici's bill are Mr. Dole and Mr. Quayle, Mr. Garn, Mr. Graham, and Mr. Symms. That's an interesting group of people.

I want to thank you all for coming down here today. It's obvious that the different perspectives of today's witnesses have resulted in a notable divergence of opinion as to what is actually wrong with the Federal budget. And more important, it has led to different conclusions as to what needs to be done to solve our current budgetary problems.

As the subcommittee proceeds with this series of hearings on the reform of the budget process, it is apparent we'll have an abundance of suggestions to consider as to how the Federal budget process needs to be changed. As our wealth of knowledge on this matter increases, we will carefully examine every suggestion to determine its merits. And as noted in the previous hearing, should it become clear that one or more of these proposals has merit, we'll proceed accordingly.

At our next hearing on the reform of the Federal budget process we will invite Members of Congress and ask them what they think ought to be done.

The hearing is adjourned.

[Whereupon, at 12:07 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# REFORM OF THE FEDERAL BUDGET PROCESS

THURSDAY APRIL 30, 1987

HOUSE OF REPRESENTATIVES,  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:25 a.m., in room 2154, Rayburn House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks, Barney Frank, Robert E. Wise, Jr., Gerald D. Kleczka, and Robert S. Walker.

Also present: William M. Jones, general counsel; Donna Fossum, professional staff member; Marilyn Jarvis and Ralph Doty, staff members; and Alexander Cook, minority professional staff, Committee on Government Operations.

Mr. BROOKS. The meeting will come to order. This morning the Subcommittee on Legislation and National Security continues its hearings on the reform of the Federal budget process.

The primary purpose of these hearings is to determine whether our current budget problems are a result of a flawed budget process or simply the product of inaccurate or unrealistic budget numbers.

At the first hearing of this series, five of the Nation's foremost private sector experts on the Federal budget agreed that the basic problem is one of a gross imbalance between Federal revenues and outlays. All believe, however, that improvements could be made in the budget process.

At the second hearing, the Comptroller General of the United States testified that bad numbers in particular but also a cumbersome process have contributed to our current budget problems. The Director of the Office of Management and Budget defended the budget numbers and blamed all our budget problems on a faulty budget mechanism.

Today we will hear from key Members of the House of Representatives about what they think has caused our current budget problems and what can be done about them.

Our first witness this morning is the very distinguished and able majority leader of the House of Representatives, Congressman Tom Foley, from the Fifth District of Washington. He is the cochairman, along with Congressman Bill Gray, of the House Democratic Task Force on Budget Reform. We appreciate your being with us here this morning, Mr. Leader. You may proceed as you see fit.

**STATEMENT OF HON. THOMAS S. FOLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON, MAJORITY LEADER, AND COCHAIRMAN OF THE DEMOCRATIC TASK FORCE ON BUDGET REFORM**

Mr. FOLEY. Thank you very much, Mr. Chairman. I appreciate the opportunity and compliment you and the subcommittee for holding these important hearings.

As you have noted, there is an important question before the country as to the need for budget reform and it is a subject which often confuses the public and is somewhat vulnerable to political grandstanding and simplistic approaches, so your serious and workman-like approach to this problem as the chairman of this subcommittee is an important national service.

To begin with, Mr. Chairman, proposals to reform the budget process are not new. The Budget Act itself, originally the product of a sincere desire to control spending and taxes more effectively within Congress, has been amended. It was amended in practice during the Carter administration by developing the first reconciliation instructions. It has also been amended by the far-reaching Gramm-Rudman-Hollings bill. There are currently many proposals which are before the Congress and this subcommittee and other committees regarding specific recommendations.

Mr. Chairman, I would like to preface my remarks by asking with your indulgence that my statement be submitted for the record. I will make some reference to it without reading the statement verbatim.

Mr. BROOKS. Without objection.

Mr. FOLEY. Mr. Chairman, we all know the source of the continued concern about the budget process. Beginning in fiscal 1982, our Nation began to incur ever larger and unprecedented deficits. The cause of this initially was our pursuit of an economic theory which held that revenues would increase dramatically if taxes were cut. The effect of that policy, combined with dramatic increases in defense spending and the terrible recession that began in 1981, left the Government with a huge unprecedented peacetime budget deficit.

The deficit continued to grow until fiscal 1986, when it exceeded \$220 billion, over 7 times as large as it was in fiscal 1979.

Unfortunately, to listen to some speeches, one would think these deficits had been rammed into law by a determined and spendthrift Congress over the valiant efforts of a frugal President. That is hardly the case. For 3 straight years prior to the enactment of the Gramm-Rudman-Hollings bill, the President's own budget called for deficits in excess of \$180 billion. His budget for fiscal 1985 proposed to reduce a projected \$195 billion budget deficit by a grand total of \$5 billion.

David Stockman, the Director of the Office of Management and Budget, over the first 5 years of this administration, estimated that if Congress had gone along with all the President's budget requests and proposals since the President had taken office, the deficit this year would be about \$350 billion, roughly twice the amount that is currently estimated by the Congressional Budget Office.

I cite these facts, Mr. Chairman, not to score debating points in a war of words with the White House, but to illustrate that the Federal budget deficit is a problem to which the answer is at once simpler and more complicated than installing more budget reforms, although such may be necessary.

We need substantive agreement both within Congress and between Congress and the President on how to actually reduce the deficit. Without it, no mechanistic budget process can truly solve the problem. This is not to suggest that budget reform is pointless or a waste of time. Budget reform could obviously save confusion and time, might save aggravation, might increase efficiency. It will not by itself and without the cooperation of the President and Congress save money. For that, we need a more substantive agreement and compromise. No mechanistic process can be substituted for it.

I want to address very briefly two proposals which have been advanced by the President repeatedly. One is a balanced budget amendment and the other is the line item veto. To take up the line item veto first, I would just point out that those closely associated with the budget process have recognized that the effect of a line item veto would be more political than fiscal. The President would have an opportunity to turn the majority rule of the Congress around, to a rule of his own judgment plus one-third of one body. Mr. Miller, the current Director of OMB, when we have appeared together, has candidly admitted that the line item veto would have a political dimension, a policy dimension, and in some cases more than a fiscal or budget dimension.

His predecessor, David Stockman, recently wrote:

An item veto would not accomplish much in terms of fixing the fiscal problem. It would largely be an instrument of political control and discipline. There is not enough money in the appropriated budget, other than for defense, to make a large difference.

I'd like to point out that opposition to the line item veto is not partisan. During the recent 6 years that Republicans controlled the U.S. Senate, the Senate did not pass a line item veto in any form. President Lyndon Johnson was denied by a Democratic Congress a line item veto when the President requested it.

An amendment to require a balanced budget has been discussed many times. I'm not going to go into an elaborate discussion of it again but point out that the Congress has in recent years rejected such a balanced budget amendment in both the House and the Senate. No rule or statute or constitutional amendment can require human beings to agree to something. I think there is an extraordinary difficulty in drafting a proposed constitutional amendment which would not create enormous tensions and problems that cannot be easily resolved.

I tend to be, and I think others are, constitutional conservatives and we should be extremely cautious before we attempt to solve this problem by amending the basic organic document of our national life.

There are other proposals that have been offered, Mr. Chairman. The Budget Committee in its recent report issued by its distinguished chairman, Mr. Gray, who is present today, recommended that we examine three different areas. One was to examine the 2-year budget process as a possibility for reform. A second was to ex-

amine the question of the structural versus the cyclical deficit. Finally, to examine the possibility of restoring the automatic trigger or some form of that automatic trigger to the Gramm-Rudman-Hollings sequestration procedure, which was, because of a suit brought by a distinguished member of this committee, Mr. Synar, declared unconstitutional by the U.S. Supreme Court.

Mr. Chairman, the task force which you have mentioned, which the Speaker has asked the chairman of the Budget Committee, Mr. Gray, and myself to cochair, will be working to attempt to bring about some recommendations and consensus which we would hope to share with the responsible committees of Congress, and this is a principal committee in terms of the budget reform process. Again, we have not reached the point yet to make specific recommendations.

We feel it is important to undertake that review and again we compliment you, sir, on leading the effort in this distinguished subcommittee, so that the proposals that will be debated in the coming months can have the benefit of a wide review, not only within the Congress, both parties, but as you have noted, from distinguished individuals in the private sector and from those in the executive branch.

Mr. Chairman, I appreciate the opportunity to appear before this subcommittee today and I thank you for your courtesy.

[Mr. Foley's prepared statement follows:]

## Statement of Rep. Foley on Budget Reforms

Thank you Mr. Chairman for the opportunity to appear this morning before the committee to discuss the budget process. You and the committee are to be complimented Mr. Chairman for the hearings you are holding on this topic; you are focusing much needed review and attention on a subject which often confuses the public and is all too vulnerable to grandstanding and simplistic approaches.

To begin with, Mr. Chairman, proposals to reform the budget process are not new. The Budget Act itself was originally the product of a sincere desire to control spending and taxes more effectively within Congress, and to stop the abuses with respect to impoundment which were occurring in the executive branch at that time.

The Budget Act was enacted in 1974. Since then I would note two other significant changes. Beginning in 1980, the last year of the Carter administration, we began to issue reconciliation instructions in the First Budget Resolution. Up to that time the First Resolution did not contain such instructions. And, of course, in late 1985 we passed Gramm-Rudman-Hollings, a measure which made sweeping budget process changes. These not only affected the congressional budget process, they created a revolutionary new process of sequestration. Since then the Supreme Court, in the case brought by our distinguished colleague and member of the committee the gentleman from Oklahoma Mr. Synar, has constitutionally invalidated the automatic trigger in the original bill and we are now operating under the back-up process which the bill included to cover this eventuality.

Mr. Chairman, we know the cause of the agitation for further reforms in the budget process. Beginning in fiscal 1982 our nation began to incur ever larger and unprecedented budget deficits. The cause of this, initially, was our pursuit of an economic theory which held that revenues would increase dramatically if taxes were cut. The effect of that policy, combined with dramatic increases in defense spending and the terrible recession which began in 1981 left the government with a huge, unprecedented peacetime budget deficit. The deficit continued to grow until in fiscal 1986 it exceeded \$220 billion, over 7 times as large as it had been in fiscal 1979.

Unfortunately, Mr. Chairman, to listen to some partisan speeches one would think these deficits had been rammed into law by a determined and spendthrift Congress over the valiant objections of a frugal President.

Hardly.

For three straight years prior to the enactment of Gramm-Rudman-Hollings the President's own budget called for deficits in excess of \$180 billion. His budget for fiscal 1985 proposed to reduce a projected \$195 billion deficit by a grand total of \$5 billion.

David Stockman, the Director of the Office of Management and Budget over the first five years of this administration, recently estimated that if Congress had gone along with all the President's budget proposals since he took office, the deficit this year would be about \$350 billion, roughly twice the current CBO estimate.

Mr. Chairman, I cite these facts not to score debating points in a war of words with the White House, but to illustrate that the federal budget deficit is a problem, the answer to which is at once simpler and more complicated than installing more budget reforms. We need substantive agreement both within Congress and between Congress and the President, on how to actually

reduce these deficits. Without it, no mechanistic budget process can truly solve the problem.

This is not to suggest that budget reform is pointless or a waste of time. Many members of both parties have made proposals worthy of serious consideration. Some are aweeping in scope, others are proposals for incremental improvements. They all deserve a serious hearing. There are undoubtedly some which will be enacted and, if they perform as their sponsors hope they will, they could save effort.

They could save confusion and time.

They might even save aggravation.

But they will not, by themselves and without the cooperation of the President and Congress, save money. For that we need substantive agreement and compromise and no mechanistic process can be truly relied upon to force that agreement.

I should address two proposals which the President and a number of Members favor, constitutional amendments to "require" a balanced budget and to allow the President a line-item veto.

With regard to the line-item veto, many people, myself included, fear that such a device would have very little to do with reducing deficits but would be used instead to vastly increase the President's control over policy, in effect requiring every minute congressional decision to be either supported by the President or passed by a two thirds majority. When I suggested this in a bi-partisan budget conference held earlier this year, James Miller, the current Director of the OMB, candidly agreed with me and admitted that the line item veto would often be used for non-budget reasons.

His predecessor David Stockman recently wrote, "(A)n item veto would not accomplish much in terms of fixing the fiscal problem. It would be largely an instrument of political control and discipline. There is not enough money in the appropriated budget, other than for defense, to make a large difference."

Opposition to the line-item veto is not partisan. The Senate, during the recent six years of Republican control, could not pass an item veto in any form. And a Democratic Congress refused to grant one to President Johnson.

An amendment to "require" a balanced federal budget has been proposed as the ultimate procedural solution to a substantive problem. But I fear it suffers from the same basic flaw as other procedural solutions. No rule or statute or constitutional amendment can require human beings to agree on something. And we will not solve the deficit without hard work and compromise. I have not seen a constitutional amendment which proposes to deprive the President of his veto or which proposes to prohibit Members and Senators from voting "no" on budget proposals they dislike. With or without a constitutional amendment a deficit solution requires the same thing, a majority of both houses and the President's signature.

In addition to this basic flaw, some proposals to require a balanced budget require reductions which may not be economically possible; some prohibit revenue increases; and some do not require the President to submit a balanced budget. All such flawed proposals would have the ironic effect of making balanced budgets more difficult to attain, not less so.

As you know, Mr. Chairman, the Speaker has asked the distinguished chairman of the Budget Committee, Mr. Gray and myself to convene an informal task force to review proposals for budget reform, including amendments to the Gramm-Rudman-Hollings sequestration procedure which might be designed to repair the constitutional fault found by the Supreme

Court. We will also consider changes which would focus Gramm-Rudman-Hollings on the reduction of the structural deficit.

Some of the other reform proposals which have been raised as possibilities include more stringent enforcement of the spending and revenue instructions in the budget through tougher rules and points of order and the exploration of the feasibility of a multi-year budget process.

But no matter what changes are adopted they cannot absolutely guarantee deficit reduction. For that there is no substitute for hard work and compromise on the substantive issues.

In the House we have taken the first step. Under the leadership of Chairman Gray we have reported and passed a budget resolution which reduces the deficit by an honest \$38 billion. If we succeed in implementing such a budget the savings will be even greater in future years. But that is the point. We must succeed on the substance. It will take hard bargaining and the cooperation of the President. Without that, I do not see how any procedural reform will solve this problem.

Mr. BROOKS. Thank you very much, Mr. Leader. I would just observe that I opposed a Gramm-Rudman trigger and I said it was unconstitutional.

Mr. FOLEY. Yes, sir, and your judgment proved to be sustained by the decision of the U.S. Supreme Court, which again I think is testimony to your legal accumen.

Mr. BROOKS. I also said it was a rotten bill, born in iniquity and raised in sin, and that it would haunt everybody who voted for it. Apparently, it is beginning to haunt them.

What is likely to happen to the Nation's economy if Federal budget deficits are not reduced pretty soon?

Mr. FOLEY. I think, Mr. Chairman, that is the critical question. I personally believe that that is the most important problem that faces this country in terms of its fiscal policy. If we don't begin seriously to reduce the Federal deficit and continue it on a declining path in coming years, the inevitable turn in the business cycle, which will come sooner or later, will rapidly increase the pressures on the Federal deficit through a falloff in Government revenues. We face the possibility of a flight of capital from the United States, as overseas investors withdraw their money. That would require a sharp increase in the interest rates on Federal securities and the eventual result of that would most likely be a deep recession.

We would have the problems of both a severe recession and perhaps strong inflationary pressures as well. At that time, it would be extremely difficult for us to take the appropriate action to reduce the Federal deficit because increases in revenues or sharp decreases in public spending would both contribute to the declining cycle.

I think we face a potential crisis unless we begin promptly to renew the effort to reduce Federal deficits. I know that the Speaker, Speaker Wright, and you and others are dedicated to that effort. I think it is one in which we need to engage the President. I still believe that it is possible, and I hope that it will be achieved this year, that we can have a bipartisan agreement on proceeding with deficit reductions. I know of no problem more important to the future economic growth of the country.

Mr. BROOKS. One other thing I'd like your opinion on. What would be accomplished, Mr. Foley, if the economic forecasts used by the entire Federal Government were standardized—that is if everyone were to use the same growth rate, the same GNP, the same estimates?

Mr. FOLEY. Well, I think it would simplify the budget process if we could have a common standard. The problem, of course, is how is that to be achieved. I personally think the Congressional Budget Office has probably been more accurate than other forecasters in assessing economic growth and other critical economic indicators.

I must say that I am disappointed sometimes in the performance of the Office of Management and Budget, which I feel occasionally responds to political pressures or imperatives rather than economic requirements of forecasting.

If it were possible to get a standard that was both accurate and consistent and uniform, it would be of great benefit.

Mr. BROOKS. I certainly appreciate your coming down, Mr. Foley. Mr. Kleczka, do you have any comments?

Mr. KLECZKA. No, Mr. Chairman.

Mr. BROOKS. I thank you again, Mr. Foley, for coming down and for your continued interest.

Mr. FOLEY. Thank you.

Mr. BROOKS. Our second witness is the chairman of the House Budget Committee, Congressman William H. Gray III, from the Second District of Pennsylvania. He is cochairman along with Congressman Foley, of the House Democratic Task Force on Budget Reform.

We welcome you and look forward to hearing your comments.

**STATEMENT OF HON. WILLIAM H. GRAY III, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA, CHAIRMAN OF THE HOUSE BUDGET COMMITTEE, AND COCHAIRMAN OF THE DEMOCRATIC TASK FORCE ON BUDGET REFORM**

Mr. GRAY. Thank you, Mr. Chairman and members of the committee. I am delighted to have the honor to come before you and offer my views on the question of budget reform. Let me join with the majority leader in commending you in having these very timely and appropriate hearings on a subject that is much discussed.

Mr. Chairman, I shall highlight some of the parts of my testimony and not bother to read all of it. However, I hope that it will be submitted in its entirety for the record.

Mr. BROOKS. Without objection, so ordered.

Mr. GRAY. Mr. Chairman, members of the committee, I appreciate the opportunity to testify before your committee to discuss prospects for reform of the Federal budget process.

As you know, I, with Majority Leader Foley, am heading up a task force to examine proposals for process reform. Let me begin by saying that we must assume the proper perspective in looking at budget reform. Much of the clamor for reform stems from a Federal deficit which despite Congress' significant efforts at deficit reduction, continues to threaten the Nation's economic stability and growth and from a perception that Congress does not have a process which instills budget integrity or provides for sufficient enforcement of our spending and revenue decisions.

As chairman of the House Budget Committee, I will be among the first to admit that our process is not perfect. But, Congress has been reducing the deficit. Budget enforcement and fiscal integrity are not matters of congressional processes. Rather, they are issues of national politics and our responsibility as elected representatives.

No set of rules and regulations can substitute for political fortitude and a collective will to address this Nation's fiscal problems. The President's absence from the process is regrettable. Congress can only do so much alone. The President, like us, was elected to lead.

Process reform, Mr. Chairman, has become a buzz word to avoid real political leadership in addressing the budget. The tone of the budget debate so far this year illustrates the problem. Last month, when the House Budget Committee was drafting the budget resolution for fiscal year 1988, the Republican committee members and

later the Republican leadership, insisted that we agree to changes in the process before they would participate in the debate on the numbers.

It is ironic that the President, while blaming the Congress for missing budget deadlines, now seems to be insisting on budget process reform as a precondition to any meeting with congressional leaders on the budget. This could push agreement on critical budget implementation decisions well into the summer.

I urge the President to join with Congress as soon as possible in considering the Nation's budget priorities—not to delay even until we have passed a final budget resolution. We and the President should talk as soon as the Senate has passed its budget.

Let me turn to specific reform proposals. In general, I support efforts to strengthen and streamline both the executive and congressional budget process. The Budget Committee report accompanying the fiscal year 1988 budget resolution highlighted three elements of process reform which we believe should receive the fullest consideration: A constitutional mechanism for automatic sequestration pursuant to Gramm-Rudman-Hollings; potential modification of Gramm-Rudman-Hollings' targets to address the problem of structural and cyclical deficits; and multiyear budgeting by both the executive and legislative branches of Government.

I support the restoring of an automatic trigger as part of the sequestration process of Gramm-Rudman-Hollings. Such a trigger should not only meet the test of constitutionality but also maintain congressional prerogatives and the constitutional role of the Congress in legislating national fiscal policies.

I should note that last July I appeared before this committee, Mr. Chairman, and specifically opposed the restoration of the automatic trigger as contained in the Senate amendment to the debt ceiling bill, the so-called Gramm-Rudman II amendment, opting instead for a chance with the fallback procedures. At that time, it was my hope that the President would join our efforts to reduce the deficit and that he was serious when he talked about being concerned about deficit reduction.

However, my hopes have not been realized. The President continues to sit on the sidelines and offer only rhetoric.

Although I am institutionally opposed to the automatic approach, politically I think it is the only way to engage the President in this debate. However, again, such a trigger must protect the Legislature's constitutional prerogatives.

Second, the deficit targets of Gramm-Rudman-Hollings were established in December 1985 with no regard for potential fluctuations in the country's economic performance. As a result, despite Congress' best efforts, deficit reduction based upon legislative action has been frustrated by factors outside of our control such as a weak economy and slow growth bringing in lower revenues. As a result, our deficits are higher than would have been had not the economy been weak.

I think we ought to define the targets and take into consideration this structural and cyclical differential.

Third, I support this committee's consideration of proposals for multiyear budgeting as a potential solution to the problem of often duplicative budget decisions Congress faces annually. Budget delib-

erations have become more and more complex, cumbersome, repetitive, and time consuming at the expense of more effective congressional oversight of Federal programs and activities.

While I am concerned about the potential pitfalls of a biennial budget resolution and appropriations process, given the economic uncertainties of predicting the future, I do believe a 2-year cycle could leave more time for thoughtful deliberations on key spending decisions.

Let me also comment on two other matters that have often been mentioned with regard to budget reform. Reconciliation is the most valuable tool currently available to Congress in addressing uncontrollable spending. While I endorse maintaining the integrity of reconciliation legislation, I urge the committee not to yield to efforts to ban inclusion of extraneous matters in reconciliation if such a ban would jeopardize the significant budgetary savings Congress has been able to garner through the process. I believe the practice of the Rules Committee reviewing what matters are inappropriate in a reconciliation bill has worked well in the past. It provides an opportunity for both the minority side and the majority side to make decisions with regard to extraneous material.

I personally would like to see those materials kept to an absolute minimum but I think the current process of the Rules Committee, which has representation from both sides of the aisle, making that decision is an appropriate one.

Finally, let me comment on appropriations process reform. An area of budget reform often mentioned is enforcement of appropriation bills. It should be pointed out that within the overall spectrum of deficit reduction, the House Appropriations Committee generally has met its targets and does not present one of the major problems with regard to deficit reduction goals.

While Congress neither appropriates nor specifically controls outlays, they are critical to calculating the size of the Federal deficit. Proposals to enforce outlay allocations to committees should be viewed as political matters rather than matters of process. The Budget Act currently prohibits breaches of aggregate outlay levels in the budget resolution and Members have proven on numerous occasions their resolve in controlling that which Congress can control.

Mr. Chairman and members of this distinguished committee, in closing, let me reiterate my feeling that the task of reducing the Federal deficit is great indeed. The effort requires every Member to assess the priorities of our Nation. We all should look to the budget process not as a way to avoid political leadership, but as a way to promote political leadership. Reform of the budget process should be helpful but it is no substitute for political leadership that makes tough decisions. It is incumbent upon both Congress and the President to provide that leadership now.

Thank you.

[Mr. Gray's prepared statement follows:]

THE HONORABLE WILLIAM H. GRAY, III  
TESTIMONY BEFORE THE COMMITTEE ON GOVERNMENT OPERATIONS  
U.S. HOUSE OF REPRESENTATIVES  
APRIL 30, 1987

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO TESTIFY BEFORE YOUR COMMITTEE TO DISCUSS PROSPECTS FOR REFORM OF THE FEDERAL BUDGET PROCESS. AS YOU KNOW, I, WITH MAJORITY LEADER FOLEY, AM HEADING UP A TASK FORCE TO EXAMINE PROPOSALS FOR PROCESS REFORM. LET ME BEGIN BY SAYING THAT WE MUST ASSUME THE PROPER PERSPECTIVE IN LOOKING AT BUDGET REFORM. MUCH OF THE CLAMOR FOR REFORM STEMS FROM A FEDERAL DEFICIT WHICH, DESPITE CONGRESS' SIGNIFICANT EFFORTS AT DEFICIT REDUCTION, CONTINUES TO THREATEN THE NATION'S ECONOMIC STABILITY AND GROWTH, AND FROM A PERCEPTION THAT CONGRESS DOES NOT HAVE A PROCESS WHICH INSTILLS BUDGET INTEGRITY OR PROVIDES FOR SUFFICIENT ENFORCEMENT OF OUR SPENDING AND REVENUE DECISIONS. AS CHAIRMAN OF THE HOUSE BUDGET COMMITTEE, I WILL BE AMONG THE FIRST TO ADMIT THAT OUR PROCESS IS NOT PERFECT. BUT, CONGRESS HAS BEEN REDUCING THE DEFICIT. BUDGET ENFORCEMENT AND FISCAL INTEGRITY ARE NOT MATTERS OF CONGRESSIONAL PROCESSES. RATHER, THEY ARE ISSUES OF NATIONAL POLITICS AND OUR RESPONSIBILITY AS ELECTED REPRESENTATIVES. NO SET OF RULES AND REGULATIONS CAN SUBSTITUTE FOR POLITICAL FORTITUDE AND A COLLECTIVE WILL TO ADDRESS THIS NATION'S FISCAL PROBLEMS. THE PRESIDENT'S

ABSENCE FROM THE PROCESS IS REGRETTABLE: CONGRESS CAN ONLY DO SO MUCH ALONE.

THE PRESIDENT, LIKE US, WAS ELECTED TO LEAD.

PROCESS "REFORM" HAS BECOME A BUZZWORD TO AVOID REAL POLITICAL LEADERSHIP IN ADDRESSING THE BUDGET. THE TONE OF THE BUDGET DEBATE SO FAR THIS YEAR ILLUSTRATES THE PROBLEM. LAST MONTH, WHEN THE HOUSE BUDGET COMMITTEE WAS DRAFTING THE BUDGET RESOLUTION FOR FISCAL YEAR 1988, THE REPUBLICAN COMMITTEE MEMBERS, AND LATER THE REPUBLICAN LEADERSHIP, INSISTED THAT WE AGREE TO CHANGES IN THE PROCESS BEFORE THEY WOULD PARTICIPATE IN THE DEBATE ON THE NUMBERS. IT IS IRONIC THAT THE PRESIDENT, WHILE BLAMING THE CONGRESS FOR MISSING BUDGET DEADLINES, NOW SEEMS TO BE INSISTING ON BUDGET PROCESS REFORM AS A PRE-CONDITION TO ANY MEETING WITH CONGRESSIONAL LEADERS ON THE BUDGET. THIS COULD PUSH AGREEMENT ON CRITICAL BUDGET IMPLEMENTATION DECISIONS WELL INTO THE SUMMER. I URGE THE PRESIDENT TO JOIN WITH CONGRESS AS SOON AS POSSIBLE IN CONSIDERING THE NATION'S BUDGET PRIORITIES -- NOT TO DELAY EVEN UNTIL WE HAVE PASSED A FINAL BUDGET RESOLUTION. WE AND THE PRESIDENT SHOULD TALK AS SOON AS THE SENATE HAS PASSED ITS BUDGET.

NONE OF THIS IS TO SAY THAT OUR CURRENT BUDGET PROCESS DOES NOT CONTRIBUTE TO OUR EFFORTS TO REDUCE THE DEFICIT. IT DOES HELP US, BY GIVING US THE TOOLS TO WORK OUR WILL ON FEDERAL FISCAL POLICY.

LET ME NOW TURN TO SPECIFIC REFORM PROPOSALS. IN GENERAL, I SUPPORT EFFORTS TO STRENGTHEN AND STREAMLINE BOTH THE EXECUTIVE AND CONGRESSIONAL BUDGET PROCESSES.

THE BUDGET COMMITTEE REPORT ACCOMPANYING THE FISCAL YEAR 1988 BUDGET RESOLUTION HIGHLIGHTED THREE ELEMENTS OF PROCESS REFORM WHICH WE BELIEVE SHOULD RECEIVE THE FULLEST CONSIDERATION: A CONSTITUTIONAL MECHANISM FOR AUTOMATIC SEQUESTRATION PURSUANT TO GRAMM-RUDMAN-HOLLINGS; POTENTIAL MODIFICATIONS OF GRAMM-RUDMAN-HOLLINGS TARGETS TO ADDRESS THE PROBLEM OF STRUCTURAL AND CYCLICAL DEFICITS; AND MULTIYEAR BUDGETING BY BOTH THE EXECUTIVE AND LEGISLATIVE BRANCHES OF GOVERNMENT.

#### AUTOMATIC SEQUESTRATION TRIGGER

I SUPPORT RESTORING AN AUTOMATIC TRIGGER AS PART OF THE SEQUESTRATION PROCESS OF GRAMM-RUDMAN-HOLLINGS. SUCH A TRIGGER SHOULD NOT ONLY MEET THE TEST OF CONSTITUTIONALITY, BUT ALSO MAINTAIN CONGRESSIONAL PREROGATIVES AND

THE CONSTITUTIONAL ROLE OF THE CONGRESS IN LEGISLATING NATIONAL FISCAL POLICIES.

SINCE THE SUPREME COURT'S DECISION IN SYNAR VS. U.S. LAST YEAR, WE HAVE BEEN OPERATING UNDER A FALLBACK PROCEDURE SET FORTH IN THE GRAMM-RUDMAN-HOLLINGS LAW. DESPITE OUR SUCCESS UNDER THIS PROCEDURE, I THINK IT IMPERATIVE THAT WE USE ANY EFFORT AT PROCESS REFORM AS AN OPPORTUNITY TO BRING THE EXECUTIVE BRANCH INTO THE BUDGET PROCESS.

A NUMBER OF PROPOSALS FOR A CONSTITUTIONAL FIX OF THE SEQUESTRATION TRIGGER HAVE BEEN CIRCULATING, INCLUDING ONE BY LEADER FOLEY WHICH WOULD GIVE THE PRESIDENT THE OPTION OF SIGNING OR NOT SIGNING A SEQUESTRATION ORDER PRESENTED HIM BY THE COMPTROLLER GENERAL. PROPOSALS ALSO HAVE BEEN MADE TO MODIFY THE SEQUESTRATION BASE, LIMITING OR ELIMINATING EXISTING EXEMPTIONS, OR SOMEHOW INCLUDING REVENUES IN A SEQUESTRATION ORDER. SEQUESTRATION ORDERS CURRENTLY ARE CONFINED TO SPENDING CUTS. I ENDORSE NO SPECIFIC PROPOSAL AT THIS TIME, BUT URGE THIS COMMITTEE TO EXAMINE ALL POTENTIAL OPTIONS FOR RESTORING THE AUTOMATIC TRIGGER.

I SHOULD NOTE THAT LAST JULY I APPEARED BEFORE THIS COMMITTEE AND SPECIFICALLY OPPOSED THE RESTORATION OF THE AUTOMATIC TRIGGER, AS CONTAINED IN

THE SENATE AMENDMENT TO THE DEBT CEILING BILL -- THE SO-CALLED GRAMM-RUDMAN II AMENDMENT -- OPTING INSTEAD FOR A CHANCE WITH THE FALLBACK PROCEDURES. AT THAT TIME, IT WAS MY HOPE THAT THE PRESIDENT WOULD JOIN OUR EFFORTS TO REDUCE THE DEFICIT. HOWEVER, MY HOPES HAVE NOT BEEN REALIZED. THE PRESIDENT CONTINUES TO SIT ON THE SIDELINES.

SO ALTHOUGH I AM INSTITUTIONALLY OPPOSED TO THE "AUTOMATIC APPROACH," POLITICALLY I THINK IT IS THE ONLY WAY TO ENGAGE THE PRESIDENT IN THIS DEBATE.

#### MODIFICATIONS OF GRAMM-RUDMAN-HOLLINGS TARGETS

THE DEFICIT TARGETS OF GRAMM-RUDMAN-HOLLINGS WERE ESTABLISHED IN DECEMBER 1985 WITH NO REGARD FOR POTENTIAL FLUCTUATIONS IN THE COUNTRY'S ECONOMIC PERFORMANCE. AS A RESULT, DESPITE CONGRESS' BEST EFFORTS, DEFICIT REDUCTION BASED UPON LEGISLATIVE ACTION HAS BEEN FRUSTRATED BY FACTORS OUTSIDE OF OUR CONTROL. WE HAVE SEEN OUR HARD-WON EFFORTS AT DEFICIT REDUCTION DISAPPEAR AS THE ECONOMY WORSENS. I DO NOT SUGGEST THAT WE ABANDON THE BASIC GOAL OF GRAMM-RUDMAN-HOLLINGS: NAMELY, DEFICIT REDUCTION. I DO, HOWEVER, SUGGEST THAT THE DEFICIT TARGETS OF THE LAW COULD BE MODIFIED TO REFLECT WHAT IS FEASIBLE, BOTH PRACTICALLY AND POLITICALLY, IN ACHIEVING DEFICIT REDUCTION.

MULTIYEAR BUDGETING

I SUPPORT THIS COMMITTEE'S CONSIDERATION OF PROPOSALS FOR MULTIYEAR BUDGETING AS A POTENTIAL SOLUTION TO THE PROBLEM OF OFTEN-DUPLICATIVE BUDGET DECISIONS CONGRESS FACES ANNUALLY. BUDGET DELIBERATIONS HAVE BECOME MORE AND MORE COMPLEX, CUMBERSOME, REPETITIVE, AND TIME-CONSUMING AT THE EXPENSE OF MORE EFFECTIVE CONGRESSIONAL OVERSIGHT OF FEDERAL PROGRAMS AND ACTIVITIES. WHILE I AM CONCERNED ABOUT THE POTENTIAL PITFALLS OF A BIENNIAL BUDGET RESOLUTION AND APPROPRIATIONS PROCESS, GIVEN THE ECONOMIC UNCERTAINTIES OF PREDICTING THE FUTURE, I DO BELIEVE A TWO-YEAR CYCLE COULD LEAVE MORE TIME FOR THOUGHTFUL DELIBERATION ON KEY SPENDING DECISIONS. IT IS, HOWEVER, A VERY COMPLICATED AREA WITH MANY UNRESOLVED QUESTIONS, AND SHOULD BE THOROUGHLY REVIEWED BEFORE DECIDING ON ENACTING HOW THE TWO-YEAR CYCLE SHOULD WORK.

I HAVE COMMENTED ON THE THREE MAJOR AREAS OF PROCESS REFORM WHICH ARE OF MORE CRITICAL CONCERN TO ME AND NOW WOULD LIKE TO COMMENT BRIEFLY ON A NUMBER OF OTHER POTENTIAL REFORM IDEAS.

ALTERING THE EXISTING GRAMM-RUDMAN-HOLLINGS "FALLBACK" PROCESS

SHOULD THE EXISTING FALLBACK SEQUESTRATION PROCESS OF GRAMM-RUDMAN-HOLLINGS BE RETAINED, I SUGGEST THAT IT BE MODIFIED SO THAT THE FINAL OCTOBER SNAPSHOT TRIGGERS THE PROCEDURES. CURRENTLY THE "AUGUST" WARNING SNAPSHOT REQUIRES ACTION BY THE TEMPORARY JOINT COMMITTEE.

CREDIT REFORM

CONGRESS HAS TAKEN GREAT STRIDES TOWARD GAINING BETTER CONTROL OVER FEDERAL CREDIT ACTIVITIES. BEGINNING WITH FISCAL YEAR 1981, CREDIT HAS BEEN PART OF THE ANNUAL BUDGET RESOLUTION.

IN 1985, WE BEGAN ENFORCING CREDIT LIMITS DOWN TO THE SUBCOMMITTEE LEVEL. SOME HAVE PROPOSED THAT CREDIT ACTIVITY BE BETTER DEFINED AND BETTER ENFORCED THROUGH AN ASSESSMENT OF EACH CREDIT PROGRAM'S SUBSIDY COST. THE FEDERAL CREDIT BUDGET DESERVES REVIEW WITH AN EYE TOWARD ITS IMPACT ON FEDERAL FISCAL POLICY.

RECONCILIATION REFORM

RECONCILIATION IS THE MOST VALUABLE TOOL CURRENTLY AVAILABLE TO CONGRESS IN ADDRESSING "UNCONTROLLABLE" SPENDING. WHILE I ENDORSE MAINTAINING THE INTEGRITY OF RECONCILIATION LEGISLATION, I URGE THE COMMITTEE NOT TO YIELD TO EFFORTS TO BAN INCLUSION OF "EXTRANEOUS MATTERS" IN RECONCILIATION IF SUCH A BAN WOULD JEOPARDIZE THE SIGNIFICANT BUDGETARY SAVINGS CONGRESS HAS BEEN ABLE TO GARNER THROUGH THE PROCESS. I BELIEVE THE PRACTICE OF THE RULES COMMITTEE REVIEWING WHAT MATTERS ARE INAPPROPRIATE IN A RECONCILIATION BILL HAS WORKED WELL IN THE PAST.

APPROPRIATIONS PROCESS REFORM

AN AREA OF BUDGET REFORM OFTEN MENTIONED IS ENFORCEMENT OF APPROPRIATIONS BILLS. IT SHOULD BE POINTED OUT THAT WITHIN THE OVERALL SPECTRUM OF DEFICIT REDUCTION, THE HOUSE APPROPRIATIONS COMMITTEE GENERALLY HAS MET ITS TARGETS AND DOES NOT PRESENT ONE OF THE MAJOR PROBLEMS WITH REGARD TO DEFICIT REDUCTION GOALS.

WHILE CONGRESS NEITHER APPROPRIATES NOR SPECIFICALLY CONTROLS OUTLAYS, THEY ARE CRITICAL TO CALCULATING THE SIZE OF THE FEDERAL DEFICIT. PROPOSALS

TO ENFORCE OUTLAY ALLOCATIONS TO COMMITTEES SHOULD BE VIEWED AS POLITICAL MATTERS RATHER THAN MATTERS OF PROCESS. THE BUDGET ACT CURRENTLY PROHIBITS BREACHES OF AGGREGATE OUTLAY LEVELS IN THE BUDGET RESOLUTION AND MEMBERS HAVE PROVEN ON NUMEROUS OCCASIONS THEIR RESOLVE IN CONTROLLING THAT WHICH CONGRESS CAN CONTROL.

AN AUTOMATIC CONTINUING RESOLUTION HAS BEEN PROPOSED AS A WAY TO DEAL WITH THE ANNUAL GAME OF POLITICAL CHICKEN, WHICH SOMETIMES HAS FORCED THE CLOSING DOWN OF THE FEDERAL GOVERNMENT. I AM WARY OF SUCH A PROPOSAL BECAUSE, WHILE IT IS INTENDED TO BE AN ACTION-FORCING MECHANISM, IT COULD FORESTALL ACTION ON REGULAR APPROPRIATION BILLS FURTHER.

MR. CHAIRMAN, IN CLOSING, LET ME REITERATE MY FEELING THAT THE TASK OF REDUCING THE FEDERAL DEFICIT IS GREAT INDEED. THE EFFORT REQUIRES EVERY MEMBER TO ASSESS THE PRIORITIES OF OUR NATION. WE ALL SHOULD LOOK TO THE BUDGET PROCESS NOT AS A WAY TO AVOID POLITICAL LEADERSHIP, BUT AS A WAY TO PROMOTE POLITICAL LEADERSHIP. REFORM OF THE BUDGET PROCESS WOULD BE HELPFUL, BUT IT IS NO SUBSTITUTE FOR LEADERSHIP. IT IS INCUMBENT UPON BOTH CONGRESS AND THE PRESIDENT TO PROVIDE THAT LEADERSHIP NOW.

Mr. BROOKS. I want to thank you very much, Mr. Gray. I have a couple of questions I wish you would answer for us.

How do you think we can eliminate the structural deficit, the roughly 40 percent of the budget that is already committed, before Congress makes any spending cuts?

Mr. GRAY. I think that what we ought to do with regard to the structural deficit is to continue on a downward course. The spirit of Gramm-Rudman talked about trying to achieve \$36 billion a year of real deficit reduction.

Now, we ought to be big enough to admit that we made a mistake, that there was a miscalculation. I remember your criticisms of Gramm-Rudman. This was one of the points you made.

Mr. BROOKS. In which you joined me, and neither of us signed the conference report because it was so bad.

Mr. GRAY. And I agree totally with you. We calculated, in Gramm-Rudman-Hollings, that economic growth was going to be around 4 percent. It wasn't. It wasn't even close to that. So as a result, we looked at and projected a deficit for 1986 of about \$180 billion, and thus the decision to reach the targets was based upon a \$36 billion subtraction every year for 5 years. So you take 36 from 180: 144; 36 from 144: 108; 36 from 108, et cetera. Nice and logical.

But some of us pointed out, and you were among those, and I did too, that what if we were wrong? What if our guesstimate of economic growth turned out to be inaccurate by 1 percentage point? We could miss the target by \$15 billion or so. We were told not to worry about it, that there would be a threshold of \$10 billion so that if you didn't hit 144, you could just get under 154.

The fundamental reality was that we guessed wrong. When we wrote the bill and had those optimistic assumptions in 1985, we missed it. The deficit was much larger than \$180 billion. It turned out to be about \$220 billion.

Mr. BROOKS. We did not guess wrong. We said it was wrong. They planned it wrong. They picked numbers that were so high they could not reach that end result. We said it was badly crafted at the time, that it would not work, that the numbers were erroneous, that they couldn't guarantee them, and that they wouldn't stand up.

Mr. GRAY. That was exactly the comments of the chairman.

Mr. BROOKS. I don't say we guessed. They planned to do it wrong and then they did it wrong.

Mr. GRAY. I would say to the chairman he did make that statement. I concurred with that statement. There were those of us who said it was done wrong from the beginning. The problem now is that there needs to be corrective action or else we are in a situation where you cannot have an orderly process trying to reach a hard, inflexible target of \$108 billion when the starting line, instead of being at the 50, was actually at the 100 yardline.

So the bottom line is that there were those—and the chairman is absolutely right, he was one of them—who said this is absolutely wrong from the beginning. What I am suggesting is that we ought to redefine that target, make it more logical, make it more sensible. The Congress does not control the entire economy. We control the Federal budget. If economic growth is 2.2 percent rather than 4 percent, then that means a significant difference in the deficit at

the end of the year, one that will be greater because of a loss of revenues. That is not something that we can control no matter how hard we try.

So I think we ought to have a law that recognizes that reality. We have had now Gramm-Rudman for a year and a half. Why don't we make the decision and face the reality, as some are calling for, including Mr. Gradison on my committee, a Republican, that we ought to make that change of definition?

Mr. BROOKS. One other question, Mr. Chairman. Since annual budgeting allows Congress to exert more control, allegedly, over executive agencies, how will Congress retain this control under a biennial budget?

Mr. GRAY. I think, Mr. Chairman, that it is possible to control the process and the priorities, that a Congress would do that as it convenes. Let's say the 100th Congress convened this January. They would write a 2-year budget which would be for their term. However, as you point out, how do you make adjustments and control the process? We could have a second budget resolution in the following year where you could reassess your economic assumptions, look at any critical needs out there, changes and adjustments in the priorities. Therefore, you would have a 2-year budget but you could have something like a second corrective resolution similar to what we do in the appropriations process, where you have an appropriation bill and then a supplemental so that you can make corrections.

So thus, a Congress as it convenes would write a 2-year budget for the life of that Congress. It would then have an opportunity to make corrections based on seeing where the economy was really going, seeing what national needs and priorities were. It is, as I said, a complicated subject. I think it deserves close scrutiny to see if we can work out all the difficulties involved and if it can help to streamline the process.

Mr. BROOKS. Thank you very much.

Mr. Walker, any questions or comments?

Mr. WALKER. Thank you, Mr. Chairman.

Do you agree with the action that was taken in the Senate yesterday to waive the super-majority vote required under Gramm-Rudman-Hollings in order to bypass the economic assumptions problem?

Mr. GRAY. I am not totally familiar, Congressman, with the Senate, and not being a Member of that body, I don't want to pass judgment on what they did and why they did it. I didn't hear the debate nor have I read the debate or talked with Senator Domenici or Senator Chiles.

I think clearly the question of definition of the target is an attempt to deal with the realism of where we really are. One can use assumptions which can be slightly optimistic, that can reduce your burden of deficit reduction by \$15 billion. There will be those who could say that is optimistic. You could use Blue Chip assumptions, which would be very conservative. You could use CBO assumptions.

Gramm-Rudman does not say what set of economic assumptions one must use. So I would say to those who are so concerned about the economic assumptions that maybe one of the correctives you want to do is put into Gramm-Rudman whose set of economic as-

sumptions you want to use. Now, we did do that with the August snapshot. We said we will use CBO and OMB and average it.

But when you get to the question of point of order and waiving the point of order on the target, there is no mention, to my knowledge, about whose set of assumptions you should use. The President's assumptions, which I used and which, quite candidly, as you know, Congressman Walker, I was critical of, are slightly optimistic. Under those assumptions, we reached 107.6 in the House-passed budget.

If you want to use Blue Chip, I suppose Blue Chip might say that our budget deficit would be something else. If you want to, use CBO. I personally used OMB economic assumptions simply because we wanted to have a level playing field. The President thought they were realistic. You know, I am not going to debate the President of the United States on that. I thought they were optimistic.

Using a level playing field let us compare priorities and get down to the real issues of whose budget reduces the deficit the most. As I see it on the floor of the House, our budget reduces the deficit the most under any set of economic assumptions that you want to use, that you want to compare with.

So I would probably say if there is a problem with economic assumptions, maybe a corrective would be in the reform to say in the law that CBO economic assumptions will be used, or an averaging of CBO and OMB, like we do with the snapshot, would be appropriate. Then you would have something to measure your point of order by, and then you could say it does or does not meet the targets.

The problem right now is that when somebody comes to the floor with a budget, how do you measure whether they hit a \$107.8 billion deficit or not? There is nothing in the law that gives you that rod. You could use an averaging of OMB and CBO, or you could say OMB or you could say CBO.

Mr. WALKER. I guess my problem with it is the fact that anytime it becomes inconvenient around here for us to follow that which we have committed to, we simply find ways to get ourselves around the rules because of the inconvenience. We do it all the time in the House on budget waivers.

How often does the Budget Committee, when they are asked to waive the Budget Act in order to enact one bill or another, turn down those requests for waivers?

Mr. GRAY. Oh, I could give you and I will give the committee the number of times that we have denied waivers. We have on numerous occasions, Congressman, denied waivers. Let me inform you of how that process works in the Budget Committee because I think there are a lot of people who are not aware of how we actually do that.

What we do is we poll all the members of the committee. We poll the majority and the minority members and ask the question: Do you want to grant a waiver on H.R. 543? We even state why that bill is in violation. Then each Member says yes or no. Then after each Member is polled, we total it up and the majority controls.

I then am required to write a letter stating what that vote is. I would point out to the gentleman that historically, since I have been chairman, most of the waivers that have been granted have

been bipartisanly granted. So there have been both Democratic and Republican Members who have voted for waivers.

We don't ask them why they voted the way they did. It is just a yes or no. I am required to send a letter saying whether a majority voted in favor or in opposition to a waiver. However, it should be pointed out that even if we send a letter expressing our opposition to a waiver, that is not the final judgment.

The Budget Committee has no power to enforce that denial under the budget process rules. That is determined by the Rules Committee. They take note of our letter and then they have the right to make the decision whether to allow a bill to come to the floor. So that is the way the process works.

Mr. WALKER. The fact is it is a fairly powerful argument for them to come to the floor suggesting that the Budget Committee has informed them that this waiver is totally all right. Yet it makes their argument a good deal easier when they have stuck that waiver in the bill. Isn't it also true that what sometimes happens is that if the original polling doesn't come out the way the committee wants it, you go back and repoll until the right kind of answer comes out of the Budget Committee to take to the Rules Committee?

Mr. GRAY. Under my chairmanship we do not do that, sir. I cannot speak for past chairmen. We have one poll. However, if Congressman Walker's staff says that he votes no, and as we compose the letter or continue the voting, which may take several hours as we carry it out, you or your staff call back and say the Congressman wants to vote yes, then it is changed based upon your request. It is similar to the kinds of procedures you have here, I would imagine. In our Budget Committee rules, if a vote is being taken and a member who is not present at the time of the vote and you continue to go around, that before the final tabulation they can come in the room and say, "How am I recorded?" or they can offer to change their vote.

Under my chairmanship, I cannot ever remember ordering a recount, but have we had occasions where Members on both sides of the aisle have changed their vote? Yes.

Mr. WALKER. The great difference between the way we do it here is that we are recorded. The point is that nobody knows how people voted in the process that you have taking place, so if, in fact, somebody is called and told that maybe you don't want to vote the way you originally recorded, and maybe your staff ought to call back, that we can never take note of that.

I guess my question is why don't we have record votes on these things? Why wouldn't it be appropriate for the Budget Committee to have a record vote on each budget waiver so that we would know exactly, bipartisanly, who it is on the Budget Committee who is voting all the time to grant these waivers?

Mr. GRAY. First of all, as I just stated, the Budget Committee does not grant waivers of the Budget Act; that is the function of the Rules Committee. The Budget Committee indicates its position on waivers of the Budget Act through an informal process within the rules of our committee. Therefore, we would have to change our practice and convene a formal meeting in order to have a re-

corded vote. You would be talking about as many as 150 meetings each Congress just to "have a vote."

Second, I would say to you, Congressman, the vote is not taken in secret. If you are a member of the committee, you can request the status of the tally. So if Congressman Walker wants to know how his fellow members are voting, it will be read to you.

Mr. WALKER. So each time, I could call the committee and find out how the people on the committee voted on that poll?

Mr. GRAY. Yes. As a member of the committee, you can find out—

Mr. WALKER. No, not as a member of the committee, but as a Member of Congress, can I call and find out how that committee was recorded in voting?

Mr. GRAY. I can give you the written tally of every vote on a waiver request considered by the Budget Committee for the last few years if you want one.

Mr. WALKER. I would appreciate that for the record of this hearing.

Mr. GRAY. I would be glad to. I think there is a lot of misunderstanding in that process because I think what you will find out, Congressman, is that there is a lot of bipartisanship.

Mr. WALKER. Oh, I am sure of that.

Mr. GRAY. I would also say to you that again, remember our letter on a waiver is an advisory to the Rules Committee. It is only advisory to the Rules Committee.

Mr. WALKER. I understand that.

Mr. GRAY. But you are right, it can be utilized by someone supporting legislation to say, look, we have gotten an advisory that says the Budget Committee supports the waiver. So in that sense, it could help someone argue their case before the Rules Committee, but it is only advisory in nature, and the Rules Committee, which is bipartisanly constructed, can say no, and they have said no on many occasions.

Mr. WALKER. I would hope that we could have provided for the record that particular record. I think that would be very useful.

Thank you, Mr. Chairman.

Mr. BROOKS. Give it to him personally. I don't want it for the record. Give it to him.

Mr. WALKER. Mr. Chairman, I am here representing the minority. I think as the minority, we would—

Mr. BROOKS. Would you want it?

Mr. WALKER. Yes, we would like to have that.

Mr. BROOKS. We will accept it for the record.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. BROOKS. We may not print it.

Mr. WALKER. Mr. Chairman, I think it would be very useful to have it printed.

Mr. GRAY. Mr. Chairman, could I make a correction? I was told that I mentioned it is part of our committee rules, the way we do the polling process. I want to stand corrected, Mr. Chairman. It is a part of our committee practices, it is not a rule, but that is the way we get each other's viewpoints.

Mr. WALKER. So in other words, the practice could be changed without changing the rules.

[The information follows:]

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MAY 15 1987

HOUSE COMMITTEE ON  
GOVERNMENT OPERATIONS

The Honorable Jack Brooks  
Chairman  
Committee on Government Operations  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

At last Thursday's budget process hearing conducted by the Subcommittee on Legislation and National Security, Congressman Walker requested background on the Budget Committee's record on waivers of Budget Act points of order against measures scheduled for consideration by the House.

I should note that in addressing the need for Budget Act waivers, the Budget Committee acts only in an advisory capacity. When a bill is scheduled to be considered under a rule, I inform the chairman of the Rules Committee whether a "majority" of House Budget Committee Members support or oppose any particular waiver based upon a poll of the Committee membership without indicating the actual number or individual Members for or against a waiver.

The Committee's role in advising the Rules Committee is similar to our role in advising the Speaker and the Leadership on the status of bills scheduled to be considered under suspension of the rules. On June 5, 1979, the Speaker announced the policy that Members would not be recognized to move consideration of bills under suspension that violate the Budget Act, without the concurrence of the Budget Committee. (Congressional Record, June 5, 1979, H4037-38.)

We have always treated our polling process more as a voice vote or show of hands rather than a recorded vote. In fact, if the Budget Committee held a formal meeting on such matters, it is unlikely that many recorded votes would be requested since the bulk of the waivers are noncontroversial.

Polls conducted are not part of the Committee's permanent records and, consequently, are not retained beyond consideration of the bill in question. However, Committee staff has been able to reconstruct most of the polling results from the second session of the 99th Congress and the 100th Congress.

A summary of those results is attached. It should be noted that the Budget Committee generally indicates its opinion on waivers for only the introduced bill and Committee amendments to be considered and, generally, cannot anticipate other amendments which the Committee on Rules may allow under any particular rule.

Finally, I should note that in polling Members, Committee staff undertakes every effort to ascertain the views of Members toward waivers only and not towards the disposition of any Member on the merits of particular legislation. On numerous occasions, HBC Members have supported Budget Act waivers solely to permit consideration of a measure so that they may offer amendments to conform the measure to budget ceilings and allocations. Such was recently the case with H.R. 1827, Supplemental Appropriations for Fiscal Year 1987.

With best wishes,

Sincerely,



WILLIAM H. GRAY, III  
Chairman

MHG:a1

Attachment

cc: The Honorable Robert S. Walker

<u>Date</u>	<u>Measure Requiring Waiver</u>	<u>Budget Act Violation(s)</u>	<u>Total y-n</u>
<u>99th Congress - Second Session</u>			
1/27/86	H.R. 4055 - Protection and Advocacy for Mentally Ill	402(a)	19-7
1/27/86	H.R. 3010 - Health Planning Amendments	402(a)	19-7
1/27/86	H.R. 3456 - Consumer Product Safety Amendments	402(a)	19-7
3/4/86	H.R. 4105 - Amending Farm Payments Yields	311(a), 401(b)(1)	4-22
3/4/86	H.R. 4079 - Farm Programs Adjustment Act of 1986	311(a), 401(b)(1)	6-20
3/14/86	H.R. 4151 - Omnibus Diplomatic Security and Anti-Terrorism Act	303(a)(4), 311(a), 401(b)(1)	17-6
4/10/86	H.R. 4515 - Urgent Supplemental Appropriations	302(f)(1)	17-10
4/28/86	H.R. 4409 - Panama Canal Commission Authorization Act	311(a), 302(f)	23-0
5/7/86	H.R. 1 - Housing Act of 1986	311(a), 302(c), 302(f), 402(a)	17-11
5/13/86	H.R. 4800 - Trade and International Economic Policy Reform Act	303(a)(2)	18-1
5/19/86	H.R. 2672 - Federal Employees Retirement System Act	311(a), 302(c), 302(f), 401(b)(1), 303(a)	19-5
6/13/86	H.R. 4868 - Anti-Apartheid Act	311(a)	18-3
7/24/86	H.R. 3129 - Surface Transportation Act	302(f)	15-17
9/22/86	H.R. 3810 - Immigration and Nationalization Act	401(b)(1), 302(f)(1) 311	8-15

<u>Date</u>	<u>Measure Requiring Waiver</u>	<u>Budget Act Violation(s)</u>	<u>Total y-n</u>
<u>100th Congress - Second Session</u>			
3/17/87	H.R. 2 - Surface Transportation and Uniform Relocation Act	303(a)	22-4
3/30/87	H.R. 1320 - Land and Water Conservation Fund Act	303(a)(1)	18-9
4/20/87	H.R. 1827 - Supplemental Appropriations Act	302(f), 311(a)	18-16
4/24/87	H.R. 3 - Trade Bill	401(b)(1)	20-10
4/24/87	H.R. 3 - Trade Bill	303(a)	21-9
4/27/87	H.R. 1748 - Defense Authorization Act	303(a)	19-6

Mr. BROOKS. Mr. Kleczka.

Mr. KLECZKA. Mr. Chairman, I have no questions of Chairman Gray except to thank him not only for his testimony today but also for the fine work you have done on the Budget Committee.

Mr. GRAY. Thank you very much.

Mr. BROOKS. We thank you very much. Now we have a vote on an amendment to H.R. 3. The first bell was at 11 o'clock. We will recess the committee and come back. We will then proceed with Mr. Whitten.

Mr. Chairman.

Mr. GRAY. Mr. Chairman, let me thank you and your colleagues for the opportunity to testify.

There is one comment I want to make again. I didn't get to say it. It was in response to something that Congressman Walker said. He mentioned that we make a commitment and then we don't carry it out. I think the problem about the point of order on reaching the target is that we did not make the commitment in writing as to what the economic assumptions should be, and I think the way to solve that problem is available by a change that would say the point of order would be based on "CBO economic assumptions, OMB, or a combination of the two or Blue Chip." Unless you put a measuring rod there, members of the committee, you really have met your commitment. Right now there is no standard so therefore we get into this argument about whose economic assumptions are right.

If you want to have a measuring rod and know what our real commitment is, you put it in there.

Thank you.

Mr. BROOKS. Thank you very much.

[Recess taken.]

Mr. BROOKS. The subcommittee will come to order.

The next witness is the distinguished Jamie L. Whitten from the First District of Mississippi. He's chairman of the House Appropriations Committee. He's dean of the Mississippi delegation. He's dean of the 100th Congress. He's a delightful friend and a wonderful legislator.

We are pleased to have you here this morning.

**STATEMENT OF HON. JAMIE WHITTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI AND CHAIRMAN OF THE HOUSE APPROPRIATIONS COMMITTEE**

Mr. WHITTEN. Mr. Chairman, I appreciate those kind remarks.

I received a birthday cake the other day, and it said for my first birthday in the 100th Congress. I wrote them back and told them I understood why they were very successful.

I do appreciate the statement. I appreciate this chance to speak before your committee.

I appreciate the invitation to appear before your committee in connection with the budget process and a proposal to have 2-year appropriations, which I presume carries with it at least 2-year authorizations.

Mr. Chairman, I served as the district attorney in the circuit of eight courts in Mississippi, one session in the Mississippi Legisla-

ture, and, as you know, a number of terms here in the House of Representatives and for the last 8 years as chairman of the Committee on Appropriations. In each position, I've been invited to serve on a special committee to change the rules. I've refused, stating that I was going to spend my time trying to learn existing rules, that by the time we got the rules changed, I might prefer the old rules.

In 1965, I did appear before the Joint Committee on the Organization of Congress and recommended a 2-year authorization and appropriation process.

Mr. Chairman, I'm reminded that no matter how things change, how much they stay the same. At that time, I said—and may I point out, Mr. Chairman, you were a member of that committee at that time—modesty keeps me from quoting what you said about that testimony, but I do appreciate it—and I quote what I said in 1965 before the committee of which you were a member:

This will enable the executive departments and agencies to plan and carry out their programs far more effectively. . . . I think such a change would be worth its weight in gold. I would point out that since 1921, when annual appropriations were required by the Budget and Accounting Act, the annual appropriation followed by Federal programs of the executive departments and agencies have increased from \$4.8 billion for fiscal year 1921 and \$3.9 billion for fiscal year 1922 to the present workload and programs of the executive branch and agencies and of the Congress to the present annual budgets of about \$100 billion each fiscal year. You can see clearly that what is needed by both the Congress and the executive department is time to properly handle this increased governmental activity.

Now this was in 1965. And may I say that the situation has continuously gotten more complicated and with more and more problems.

Our problems will not go away by a mere change in the rules, though it does appear that some change might make it easier to handle our problems. When I came here, we had few, if any, annual authorizations. Actually, the organic law creating most departments really authorized much that they are currently doing.

Annual authorizations, according to my recollection, started with Congressman Carl Vinson of Georgia. There were doubtless many reasons, but it also kept him in the saddle and in the forefront.

Since then practically all legislative committees have an annual review process with time limits on authorizations. For many reasons, the legislative committees now seldom act in time. They are also constrained by the late passage of the budget resolution each year. The result is that we are forced to have continuing resolutions which probably reached its zenith last year, when everything, all the good and all the bad, showed up in Public Law 99-500, because the Senate never got around to acting on all the bills individually in a timely way.

I add that the House of Representatives did have hearings, reported 13 bills, and passed 11 of the regular bills, and I will insert at this point, the committee's record last year. I won't read that, because it's before you.

[See prepared statement.]

Mr. WHITTEN. I was cochairman of the study group back in 1972 which recommended the creation of the Budget Act of 1974. The purpose of that legislation was to permit the Congress to address both sides of the budget process, revenue and spending. Originally

it was proposed that a majority would consist of members of the Ways and Means and Appropriations Committees, along with representatives of the legislative committees. The prime purpose was to limit entitlements and backdoor spending which led to deficits. It was proposed that a target be made and later made firm.

The Budget Act and committee has worked somewhat differently from that original makeup. Now a majority is made up of members of legislative committees. Some delays in handling appropriations have been caused by the failure of the House and Senate to agree on a budget resolution in a timely manner. However, this has not served to require a continuing resolution.

The budget process has several facets. In the broadest terms, it deals with raising revenues and the allocation of spending of those revenues. The spending side, the portion of the process which generally gets most attention, is further broken into permanent spending, entitlement spending, and discretionary spending.

I would point out that only a small part is discretionary. In the budget submitted to the Congress for fiscal year 1988, what we have before us now, \$312 billion is for military spending; \$19.1 billion is for international affairs; \$445.3 billion is for mandatory payments to individuals.

Listen to these figures. Of the total of \$1.1 trillion requested in the President's budget, only \$268 billion is classified as relatively controllable under existing law and subject to the discretion of the Congress.

Unfortunately, when people start talking about budget reform, it is this small portion which inevitably appears to draw everyone's attention.

The original recommendation of the Joint Study Committee also addressed the timing of authorizations. It is that point I wish to focus on now.

The proposal then was that authorizations would be enacted a year in advance. That way, authorizations would be in place, so that the executive branch agencies in preparing their budgets would use enacted law, embodying legislative priorities as a basis for their budget requests. That way, the authorizing committees in their report to the Budget Committee would make recommendations to implement an authorization already in place, not one which had yet to be reported.

Unfortunately this process has not been followed. There have been some instances, such as foreign aid, where 2-year authorizations have been enacted. However, such is not the case for fiscal year 1988.

In my opinion, a more prudent use of the legislative committees' time would be to authorize for 2 years and then keep 1 year ahead. The same can be said of the armed services authorization, as well as other major authorizations. This could be done in a manner which would still permit frequent reviews by the appropriate committees of the need for policy change for programs within their jurisdictions.

I would hope that the advantages of such an approach would be recognized.

Another matter which frequently is raised for consideration, is that of biennial budgeting, that is, biennial appropriations. Many

States now use this process. Many States also have a special session which deals only with supplemental appropriation bills. We presently provide advance funding for many educational programs and for the Corporation for Public Broadcasting.

In those instances, the committee provides appropriations every fiscal year for at least the year beyond, and the recipients of those appropriations have the funds in hand in a timely manner. In these instances, the Appropriations Committee, through its annual review process, can also review the dollar requirements for the on-going fiscal year. For my part, I am certainly willing to consider, on an experimental basis, advance or biennial appropriations for more of our programs. Again, we would develop a bill for 2 years and keep a year ahead.

I call attention to the fact that our Appropriations Committee has met its targets.

Mr. Chairman, you will be hearing from many in the course of your hearings on this matter. I hope as the material presented to you is reviewed, and considered, and proposed for legislative changes, that you will keep in mind the performance of the Committee on Appropriations. The Appropriations Committee meets its pending targets. The Appropriations Committee meets its time targets, to the extent that we are not delayed by breakdowns in the budget resolution process and the authorization process. It may be necessary to resort to continuing resolutions, but because of the bills brought to the House by its Appropriations Committee, the Government continues to operate.

I call attention to the line item veto, Mr. Chairman, and I hope you note this. The line item veto is another panacea proposed. If the President were given the power to withhold or appropriate by item, we might just as well abolish Congress. For the President to propose and the Congress to dispose is deeply set in our Constitution.

Mr. Chairman, another area that I want to mention is the sequestration process. One of the flaws of the sequestration process is that the focus again is on the spending side. The sequestration process now in place provides that when the CBO and OMB make their reviews, if legislation in place does not result in meeting the deficit target, reductions in discretionary appropriations be made that would permit that target to be reached.

No thought is given to looking at the equation and saying that if revenue assumptions are not met, that the President be required to automatically increase revenues—and all this deals with finances—our medium of exchange.

This is not our real wealth, and if ever imposed, in many cases would result in deterioration of any real wealth or physical wealth.

Mr. Chairman, I hope the results of any budget reform will indeed contribute to a solution of our serious economic problems, rather than simply be another impediment to completing the required business of the committee and the Congress.

Let me say two or three things where I differ from a whole lot of people. There is quite a difference between money and wealth. Money is our medium of exchange. The fallacy of the Gramm-Rudman, in my opinion, is, by limiting the paper money, keeping it in balance—and I'm for doing something to stabilize our curren-

cy—it results in our bridges getting weak, it results in oil and land going down, it results in our harbors being left undredged. It is directed only to money.

And I point out here, all sequestration looks to is the spending. They don't do anything like saying, "Why that's worthwhile; we can't lose that. We'll raise your taxes to pay for it." It's one-sided. And yet sequestration points a finger to the one committee that's done its job, and that's the Committee on Appropriations.

We listen to our colleagues. We have several hundred of our colleagues a year come before us. We have tried to rearrange money that had to be carried over in other areas, rearrange it to look after the essential things.

But let me say again, Gramm-Rudman and all of it has to do with controlling your money, and whatever the effect on the country doesn't count.

So I just say, Mr. Chairman, we're going to continue to handle our job. We're doing it now; we're going to continue to do it. And if somebody turns it down, it will be them and not us.

I supported the Budget Act, I promoted the Budget Act, I've voted for it since, but it's supposed to set a target, based on assumptions and projections. Every day that passes, fact is substituted for assumption, and if after a year, you'll see how many places—and I heard the testimony of my colleague and friend—the assumptions have proved wrong. Therefore, when we make it apply, we should see what the facts are at that time and not look to an assumption a year old.

Now you all know—and I have no condemnation of anybody—if you base anything on an assumption, you can change the assumption a little bit and come out with any answer you want. So it's sound as a target, and may I say it works good. If there's been any money saved by the Budget Act, it's because we keep the American people supporting us in trying to hold down on appropriations, which we do.

So I'm glad to appear here. Of course, as I say, I appeared before you, Mr. Chairman, in 1965, and modesty keeps me from repeating what you said on that occasion. I'm sure you remember every word I said, but I have a copy here for you in case you had a few places where you didn't quite remember.

Mr. BROOKS. To refresh our memories, Mr. Chairman, let me remind you that in 1965 I said:

I think that Mr. Jamie Whitten knows a lot about that Appropriations Committee and his idea of a 2-year appropriation period for most of the appropriations is one that if he thinks it will work, it is pretty good evidence that it could be done on the House of Representatives side and I would think on the Senate side. I think we ought to really look into it.

Mr. WHITTEN. It's nice to sit with you and my colleagues here. May I say we're going to continue to do our—and we appreciate anybody helping us hold down. But I do say if it saves any money, it's because of the public reaction about trying to hold down.

But you can't cut out basic programs, and anything we do is going to have to have public support and a sound economy. If we don't take care, we'll lose a whole lot of public support, and we've just about lost our economy by failing to move into world trade,

what we produce and don't need, which every country in the world does except us.

[Mr. Whitten's prepared statement follows.]

STATEMENT OF  
HONORABLE JAMIE L. WHITTEN, CHAIRMAN  
HOUSE APPROPRIATIONS COMMITTEE  
BEFORE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS

APRIL 30, 1987

Mr. Chairman:

I appreciate the invitation to appear before your Committee in connection with the budget process and a proposal to have two year appropriations which I presume carries with it at least two year authorizations.

Mr. Chairman, I served as District Attorney in a circuit of eight courts in Mississippi, one session in the Mississippi legislature and as you know, a number of terms here in the House of Representatives, and for the last eight years as Chairman of the Committee on Appropriations.

In each position, I have been invited to serve on a special Committee to change the rules. I have refused, stating that I was going to spend my time trying to learn existing rules; that by the time we got the rules changed, I might prefer the old rule.

However, in 1965, I did appear before the Joint Committee on the Organization of Congress and recommended a two year authorization and appropriations process. Mr. Chairman, I am reminded that no matter how things change, how much they stay the same. At that time, I said:

"This would enable the executive departments and agencies to plan and carry out their programs far more effectively . . .

"I think such a change would be worth its weight in gold. I would point out that since 1921, when annual appropriations were required by the Budgeting and Accounting Act, the annual appropriations, followed by Federal programs of the executive departments and agencies, have increased from \$4.8 billion for fiscal year 1921, and \$3.9 billion for fiscal year 1922, to the present workload and programs of the executive departments and agencies and of the Congress, where present annual budgets are about \$100 billion each fiscal year. You can clearly see that what is needed by both the Congress and the executive department is time to properly handle this increased governmental activity."

Our problems will not go away by a mere change in the rules -- though it does appear that some change might make it easier to handle our problems.

When I came here, we had few if any annual authorizations. Actually, the organic law creating most Departments really authorized much that they are currently doing.

Annual authorizations, according to my recollection, started with Congressman Carl Vinson of Georgia. There were doubtless many reasons, but it also kept him in the saddle.

Since then practically all Legislative Committees have an annual review process, with time limits on authorization. For many reasons the Legislative Committees now seldom act in time. We are also constrained by the late passage of the Budget Resolution.

The result is that we are forced to have Continuing Resolutions, which probably reached its zenith last year when everything, all the good and all the bad, showed up in Public Law 99-500, because the Senate never got around to acting on all the bills individually in a timely way.

I add that the House of Representatives did have hearings, reported thirteen bills, and passed eleven of the regular bills. I will insert at this point the Committee's record last year:

<u>Bill</u>	<u>Date Reported To the House</u>	<u>Date Passed The House</u>	<u>House Vote Yea-Nay</u>
Agriculture	July 16	July 24	329- 49
Commerce-Justice-State	July 15	July 17	273-136
Defense	Aug. 14	No Action	
Dist. of Columbia	July 15	July 24	296-117
Energy and Water	July 15	July 23	329- 82
Foreign Assistance	Aug. 5	No Action	
HUD-Independent Agencies	July 31	Sept. 12	295- 46
Interior & Related Agencies	July 24	July 31	359- 51
Labor-HHS-Education	July 24	July 31	328- 86
Legislative Branch	July 17	July 29	266-146
Military Construction	June 19	June 25	249-174
Transportation	July 18	July 30	329- 87
Treasury-Postal	July 30	Aug. 6	302-118

I was co-Chairman of the study group back in 1972 which recommended the creation of the Budget Act of 1974. The purpose of that legislation was to permit the Congress to address both sides of the budget process -- revenue and spending. Originally, it was proposed that a majority would consist of Members of the Ways and Means and Appropriations Committee along with representatives of the Legislative Committees. The prime purpose was to limit entitlements and back door spending which led to deficits. It was proposed that a target be made and later made firm. The Budget Act and Committee has worked somewhat differently from that original make up. Now a majority is made up of Members of Legislative Committee. Some delay in handling appropriations bills has been caused by failure of the House and Senate to agree on a budget resolution in a timely manner. However, this has not served to require a general Continuing Resolution.

The budget process has several facets. In the broadest terms it deals with the raising of revenue and the allocation or spending of those revenues. The spending side, the portion of the process which generally gets most attention, is further broken into permanent spending, entitlement spending, and discretionary spending.

#### ONLY A SMALL PART IS DISCRETIONARY

In the budget submitted to the Congress for fiscal 1988, \$312 billion is for military spending, \$19.1 billion is for international affairs, and \$445.3 billion is for mandatory payments to

individuals. Of the total of \$1.1 trillion requested, only \$268 billion is classified as relatively controllable under existing law and subject to the discretion of the Congress.

Unfortunately, when people start talking about budget reform it is this small portion which inevitably appears to draw everyone's attention.

#### ADVANCE AUTHORIZATIONS

The original recommendation of the Joint Study Committee also addressed the timing of authorizations. It is that point which I wish to focus on now.

The proposal then was that authorizations would be enacted a year in advance.

- That way authorizations would be in place so that the Executive Branch agencies in preparing their budgets would use enacted law, embodying legislative priorities, as the basis for their budget request.
- That way the authorizing committees in their report to the Budget Committee would make recommendations to implement an authorization already in place, not one which had yet to be reported.

Unfortunately, this process has not been followed. There have been some instances such as Foreign Aid where two year authorizations have been enacted. However such is not the case for FY 1988. In my opinion a more prudent use of the Legislative Committee's time would be to authorize for two years and then keep a

year ahead. The same can be said of the Armed Services authorization as well as other major authorizations. This could be done in a manner that would still permit frequent reviews by the appropriate committees of the need for policy change for programs within their jurisdiction. I would hope that the advantages of such an approach would be recognized.

#### BIENNIAL APPROPRIATIONS

Another matter which frequently is raised for consideration, is that of biennial budgeting, i.e., biennial appropriations. Many states now use this process. Many states also have a special session which deals only with Supplemental Appropriations Bills. We have advance funding for many education programs and for the Corporation for Public Broadcasting. Even in those instances the Committee provides appropriations every fiscal year and the recipients of those appropriations have the funds in-hand in a timely manner. In these instances, the Appropriations Committee through its annual review process can also review the dollar requirements for the ongoing fiscal year. For my part I am certainly willing to consider on an experimental basis advance or biennial appropriations for some of our programs. Again, we could develop a bill for two years and keep a year ahead.

#### APPROPRIATIONS COMMITTEE HAS MET ITS TARGETS

Mr. Chairman, you will be hearing from many in the course of your hearings on this matter. I hope as the material presented to you is reviewed and considered and proposed for legislative changes,

that you will keep in mind the performance of the Appropriations Committee. The Appropriations Committee meets its spending targets. The Appropriations Committee meets its time targets to the extent that we are not delayed by breakdowns in the budget resolution process and the authorization process. It may be necessary to resort to Continuing Resolutions, but because of the bills brought to the House by its Appropriations Committee, the government continues to operate.

#### LINE ITEM VETO

The Line Item Veto is another panacea proposed. If the President were given the power to withhold or approve, we had just as well abolish Congress. For the President to propose and the Congress to dispose is deeply set in the Constitution.

#### PROBLEMS WITH SEQUESTRATION

Mr. Chairman, another area that I want to mention is the sequestration process. One of the flaws of the sequestration process is that the focus again is on the spending side. The sequestration process now in place provides that when the CBO and OMB make their reviews, if legislation in place does not result in meeting the deficit target, reductions in discretionary appropriations be made that would permit that target to be reached. No thought is given to looking at the equation and saying that if the revenue assumptions are not being met, that the President be required to automatically increase revenues -- and all this deals with finances -- our medium of exchange.

This is not our real wealth -- and if ever imposed in many cases would result in deterioration of any real wealth or physical wealth.

Mr. Chairman, I hope that the results of any budget reform will indeed contribute to a solution of our serious economic problems, rather than simply be another impediment to completing the required business of the Committee and the Congress.

Mr. BROOKS. I want to thank you very much, Mr. Chairman.

I've got an amendment on the floor, but I'm going to come back. We appreciate your testimony and your contributions to this hearing. We acknowledge and appreciate what the Appropriations Committee has done. I think it's an outstanding record that nobody likes to admit—that you passed all but one of the appropriations bills by August and sent them to the Senate, every one except foreign aid, which they didn't want to send to the floor because they didn't think they had the votes.

Mr. WHITTEN. Well, may I thank you for that, and may I point out, too, that we do our best to do a good job. Since most of the 1987 bills had not been in conference, I recommended the appointment of each member of the subcommittee to the conference. So our folks handled the item in the conference as though we had had a conference with the Senate, which I think is sound.

Mr. BROOKS. Thank you very much.

Does anybody have any questions?

Mr. FRANK [presiding]. I have no questions, because I agree with what I heard the chairman say. I thought the distinction between money and wealth was a very important one, and the mindlessness of sequestration where you cut the good things and the bad things.

I've asked people when I've spoken to them about this in my own district, "Look, if someone told you you had to reduce your family expenditures by 10 percent, would you reduce all the expenditures across the board? I mean, would you cut back 10 percent on the food for your kids and also 10 percent on the movies you went to?" And nobody has yet told me that if they had to reduce expenditures in their family, they would do anything remotely like sequestration as an ideal.

So I appreciate that. And also your point dealing with assumptions when we could go with facts later on.

Mr. WHITTEN. The facts take the place of assumptions daily, and we have to look at facts, and I have no criticism of the assumptions, if that's the best you can do. But we all know that as time passes, assumptions have been modified.

Mr. FRANK. Well, my understanding was—and I can see Mr. Obey who's following—when Gramm-Rudman came up, he was one of those who worked very hard to do precisely what you're suggesting, as you know, Mr. Chairman, which is to have a mechanism which said, as the facts come in, for instance, on the revenues, to the extent that they differ from the assumptions, let's adjust the process so that we can take account of the facts. And the authors of the bill were very offended by that. They have a very firm preference for assumption over fact over there.

I was told that there was some proposal in the Senate that they wanted to make the economic assumptions binding, and I wasn't sure how you did that unless you said that if we didn't reach 4-percent economic growth, Senator Gramm went to jail. I don't know how you make economic assumptions binding, but apparently that's generally what they are considering in the Senate.

Mr. WHITTEN. One other weakness we have in this, our colleagues on the other side want to limit outlays. That's not within the control of Congress. That's completely in the control of the executive branch. They can pay it out this fiscal year or the next

fiscal year. When we let them control outlays, in effect, you're letting the Senate have an item veto.

But again, we need to hold down—and our committee has a record of trying; we've been under the President's budget. We have rearranged it to look after the basic things which have to support our country, and we expect to continue, and this is no threat. Our committee expects to continue to bring you sound appropriations bills. If somebody blocks it, they'll just have to block it, because it's our obligation to bring you a bill that works.

And may I say again, we need to regulate our money. We need to make it stable. But we don't need to cut it out if thereby we let the country go to the dogs. Our country is our real wealth.

Thank you very much.

Mr. FRANK. Mr. Wise.

Mr. WISE. No questions.

Mr. FRANK. Mr. Chairman, thank you for sharing that with us.

Mr. WHITTEN. Thank you very much, Mr. Chairman.

Mr. FRANK. As Mr. Brooks explained, he's got to be on the floor because a piece of the trade bill that I think came out of this committee is being debated right now.

And we appreciate it, Mr. Chairman, and we will now hear from our colleague, Mr. Obey.

**STATEMENT OF HON. DAVID R. OBEY, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF WISCONSIN**

Mr. OBEY. Thank you, Mr. Chairman.

I think that anybody who knows me knows that I'm not in love with the budget process, and, in fact, for a number of years I have been trying to persuade people to take a look at a quite sweeping change in that process. I sponsored it on the Democratic side, along with Mr. Gephardt and Mr. Murtha, and on the Republican side, it was sponsored by Mr. Petri and Mr. Edwards and Mr. Gingrich, probably the oddest combination of Members you'll ever find together on one bill.

So I think that demonstrates that I'm not in love with the existing budget process, because I do think that it is fundamentally flawed and that it does not require us to deal with macroeconomic issues and microprogrammatic issues at the same time. When you don't do that, your macronumbers are likely to wind up being all fudge and no real value.

But having said that, I want to take issue with a wide variety of articles that have been written, speeches that have been made, the self-analytical tomes which keep asking the question: What is wrong with the budget process? Usually it's put: What is wrong with the congressional budget process?

And I simply want to state that I think that's the wrong question. Since 1921, the administration has been given the responsibility under the Budget and Accounting Act of submitting to the Congress its budget in one piece. And that means that since 1921, the administration, regardless of which party is in control, has been the big gorilla on the block. They have begun the process. The law gives them the right and the responsibility to initiate the process and to set the framework in which that debate occurs.

I've been here 18 years. Every single administration I have served under, Republican and Democrat, up until now has always submitted a budget which you could take seriously. You might disagree with the content of it, but it was certainly a serious effort to deal with our budget problems, and they were, on the whole, fairly largely based on legitimate numbers.

This is the first administration I have ever served under which has sent up budgets which are so wildly unrealistic and so incredibly false in terms of the numbers upon which they're based that no thoughtful person gives it serious consideration. I had never thought I would see the day when a budget proposed with a straight face by the President of the United States would be declared dead on arrival by Members of both parties before it ever got here. And that is what has happened.

And what that means is that when the branch of Government which has 90 percent of the resources of the Government in putting together a budget, and the branch of Government which also has the responsibility to use those resources to initiate the budget debate and set the terms of the debate, when that administration in essence acts so irresponsibly that you're starting out in Alice in Wonderland World, the rest of the process is simply condemned to wallow around in confusion, because you can't recover from that first act of irresponsibility and irrationality.

That's really the situation we've been faced with. Instead of continuing to describe my concern about the fundamental failure that we've had on the part of the executive branch for the last 6 years, I think I simply ought to read a statement which another distinguished member of the administration wrote some time ago.

What it says is: Ronald Reagan's fiscal plebiscite reduces to this. Had the President gotten his way entirely during the past 5½ years, the 1986 deficit would have exceeded 8 percent of GNP or \$350 billion, reflecting a permanent and destructive fiscal disequilibrium of banana republic proportions. As it was, the actual 1986 deficit was only \$225 billion, still a record, but far below what might otherwise have happened, due only to the concessions forced on a grudging White House by the remainder of Government. Part of the reason the President's fiscal plebiscite escaped the ridicule and scorn it deserves is that official Washington has permitted White House hype to falsely define the fundamental terms of the debate. But the real issue is that in 1986, the Federal Government again spent 24 percent of GNP compared to a pre-1980 norm of about 20 percent. Why? Because the White House has no semblance of program or political will to spend any less. Relative to the scale of \$1 trillion annual budget, Ronald Reagan cannot possibly be considered an antispender. After discounting for one-time asset sales in every manner of budget gimmickry, his most recent official budget contained real cuts of less than 1 percent, \$10 billion.

I continue quoting from this former administration official. The Reagan administration has never hesitated to turn the substance of the budget into an occasion for political theater, and Congress and the press has never failed to take the bait. For the last several seasons, for example, the White House has trumpeted a list of 40 programs slated for the fiscal graveyard. Every one of these ankle-

biters deserves that fate for programmatic reasons, but what they don't deserve is to be treated as serious budget cuts. Most of them amount to microscopic blips.

Likewise, on the last day of fiscal 1986, the President rushed once again to the barricade, threatening to shut down the entire Federal Government, rather than accept the biggest spending bill in history, an omnibus appropriation bill for fiscal 1987.

In fact, the White House's major objection to that spending front was that not enough of it was provided for defense weapons, military bases, security systems, foreign aid, and a host of other items. The alleged budget-busters on the domestic side were too minute even to measure, when rounding the numbers to the nearest billion.

Then he went on to say that Ronald Reagan has no comprehension that Congress saved his fiscal lunch.

I would close by simply quoting this last paragraph. He then goes on to point out that as a result of this frustration, Congress passed Gramm-Rudman. And then he says, but the language of this brute legislative force has not brought the President one step closer to the bargaining table. Instead, it has only forced the legislators to embrace the most blatantly dishonest budget accounting yet in order to prevent the Gramm-Rudman bludgeon from coming down on their own heads in the limited areas of domestic budget not originally exempted.

In the final analysis, only one conclusion is possible, he goes on to say, the American economy and Government have literally been taken hostage by the awesome stubbornness of the Nation's 40th President. That is how the history books will eventually explain the debt spending spree of the 1980's.

Now Dave Obey didn't say that. A fellow by the name of Stockman said it. David Stockman, who was there at the creation of this budget mess, who was there at the creation of the administration budgets for the first 5 years of this administration. Those are his words. Not mine. And so I would suggest that that is the real problem. If we want to deal with the real problem, we will simply focus on the fact that this is not a problem of process, it is a problem of politics. It is a problem of will, it is happening to us because of a determination to use the budget as theater, rather than as a device to deal with serious national problems. And I regret that fact, but I have to bluntly say that that's my views.

Having said all of that, I would suggest that if we did have a serious determination on the part of the White House to play seriously with this budget problem, then it would be very useful indeed to have a number of process changes in the way the Congress itself deals with the budget. Biannual budgets? Well, let me simply suggest I think that debate is irrelevant.

I would be very happy, frankly, if we could get to an annual cycle. We still haven't gotten to a real annual cycle. We are still running this country on continuing resolutions, which isn't my idea of how we ought to be running this country. I would be happy to look at a biennial budget when we can get on a real annual budget. We haven't even gotten there yet.

Second, capital budget. I suppose maybe if you could define it tightly enough so that it wouldn't be used as an excuse to run

through every piece of spending somebody wants to be called something other than spending, I would be willing to consider a tightly defined capital budget because most States have them.

I think the best description of the flaws in item veto have been laid out by Congressman Mickey Edwards, who the last time I looked is not exactly a certifiable liberal. And he correctly makes clear that the item veto has nothing whatsoever to do with spending. It has a whole lot to do with whether or not anyone is going to have any say about priorities, except the President of the United States. The Congress' only fundamental power in preventing the President from eventually controlling massive power in this country, not just economic, but social and political as well, is the power of the purse. Mr. Edwards has eloquently and effectively many times pointed out the fact that if Lyndon Johnson had been President while he had had the item veto, it is not hard to imagine him going up to someone and saying, "Well, now, Barney, I know you're uneasy about the Vietnam War, and I know—but, you know, I also know that you're concerned about the program at NIH that funds what's going on at Northeastern University or at Tufts or at Harvard, and I just have to tell you, I'm going to have a terrible time supporting those provisions if you can't see your way clear to support me on the Vietnam War." And I tell you, he would have turned that budget into a man-handling, one-man show, and would have destroyed the ability of Congress to deal with the President on foreign policy issues crucial to the welfare of the country.

The other point I would simply make is that it doesn't have anything to do with spending, because item veto applies only to appropriation bills and, as you know, the Appropriations Committee has consistently, in all but one year since Ronald Reagan has been President, actually spent less money than the President has asked for. So it doesn't save money; it simply transfers power.

I do think that if you want to look at process in terms of the way we deal with the budget, we ought to ask what are the problems with the existing process. I think one problem that it does encourage is cheap-shotting, because any time you want to use a difference of economic assumptions, which are essentially false, you can always make real numbers look bad. So I think you have a problem there. I think the fundamental problem is that we don't deal with both microprogram considerations at the same time we deal with macroeconomic considerations, and it devours an incredible amount of time.

In most sessions since the Budget Act has come into play, we have had more legislative days pass by between the time the Congress started and the budget resolution actually was completed than we had left for the remainder of the legislative session to actually implement what we needed to do after the budget resolution passes.

I think the other problem with our process is that it does tend to postpone decisions, and you have no final winners and no final losers, because people who lose at one stage like to take another shot, and so you kept fighting the same argument three times.

In the end, we are going to wind up, I suppose, most of the time with running the country on a CR, along with reconciliation. I really believe this year we ought to send the President two pack-

ages. I think the President ought to have to make a choice. I think the President ought to have to make a choice between the spending that would be allowed with revenues and the spending that would be allowed without revenues, so that he has to, in the end, take the consequences for his actions as we would have to take consequences for ours.

Right now the President can avoid making hard choices in specific terms, dealing only in generic terms, and I think that disadvantages the Congress as an institution, and I think it disadvantages the country because it hides issues and confuses them.

I do think that if you are looking at really fundamental reform, it's not the main problem. But if we were going to change the way we deal with issues and with the budget process, then I would urge you to at least take a look at the sheet which I supplied to the committee. It was written in 1984, so it is somewhat out of date. The dates in terms of the time sequence would need to be adjusted. But basically it seems to me that eventually it would be useful if we could establish a system under which when we vote on a budget, we are voting on a real budget, not just a promissory note outlining what we are going to be doing over the next 7 or 8 months.

If I had my way, I would have the Budget Committee do exactly what it does now, report out a budget resolution, but instead of taking that budget resolution to the floor, I would simply have it referred to the Rules Committee, and then within 30 or 60 days—I don't much care what the time is—I would then require every appropriation subcommittee to report its bills, let the Appropriations Full Committee report those 13 bills to the Rules Committee. They would become the first 13 titles in an omnibus budget—not budget resolution, but omnibus budget.

Then I would require any authorizing committees who were asked to take reconciliation actions to report their actions. I would require the revenue-producing committees, the Ways and Means Committee, to produce whatever actions they thought appropriate, and then I would put it together in one omnibus package. The first 13 titles would be the appropriation bills, the next titles would be the entitlement bills. The next to the last title would be the revenue title, if any, and then the final title of the bill would be the macroeconomic numbers laid out in the budget resolution.

If the Appropriations Committee had met the budget targets in macroterms laid out by the Budget Committee, then the Budget Committee would have no role for their portion of the bill. They could proceed to wade through those titles on the floor, and Members could vote up or down on whatever amendments were proposed.

When that was disposed of, you would then move to your entitlement actions, and then finally your revenue actions. Every time you made a substantive change, you would also have to change the numbers to reflect what you had done. And in the end, if what you had done on a substantive basis did not match the overall macroeconomic numbers reported by the Budget Committee, then you would require an amendment be passed by the House to reconcile those numbers before it went over to the Senate.

I think that would have the virtue of deciding things once in this House rather than three times. It would enable each Member to

review each program within the context of the entire budget, rather than 13 separate appropriation bills, as we do now, and I think it would force people to take into account the greater needs of the whole.

It would also, I think, force reality in the establishment of the original macroeconomic numbers. People will argue against it. They will say, well, that is really complicated. It is no more complicated than the system that we follow now. They will also say it will take a lot of time. I think it would probably take a good month on the floor to pass this package. That is not as much time as it takes now to pass the budget resolution, 13 separate appropriation bills, and the reconciliation bill. We take more time than that now.

I think what it would do, if I could compare it, I would compare it in a way to what happened under Gramm-Latta. It would enable the Congress to make many decisions at one time in a comprehensive way, but it would give every authorizing committee an opportunity and every appropriations subcommittee an opportunity to have the substance of their concerns considered in an orderly way, so that you had an orderly way of wading through this budget.

Right now in the House we have lost the distinction between authorizing and appropriations. We are going to have a big fight on the floor next week on the Armed Services bill. People who know me know that I don't like to see those big increases in the military budget, so I will vote to bring that bill down. But I will vote to bring it down simply because I think it ought to be brought down, not because I think there ought to be an obligation on the part of an authorizing committee to meet a specific number in the budget resolution.

The budget is supposed to bind actual spending, not programmatic designs. I think the authorizing committees ideally here ought to be entitled to lay out what they would like to see spent if we had an ideal world and could afford the items that they are bringing to the floor. But then I think you have got to hold accountable the actual items which spend money, be it entitlement actions by authorizing committees or appropriation actions by the Appropriations Committee. That's the way I think we ought to enforce spending.

Otherwise, in the end, you lose any real reason for an authorizing committee, and I don't for the life of me understand why that is smart. I don't think authorizing committees ought to be held to the same standards that appropriations ought to be held to in terms of spending. Their job is to design programs and the Appropriations Committee's to decide if you can afford the full boat commitment or not. And so long as you maintain tight enforcement on appropriations, we shouldn't be blurring the two. If we continue to, then we don't have any reason for this three-tiered process and somebody ought to go. That's the blunt institutional reality.

[The information follows:]

**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**

November 29, 1984

THE OMNIBUS BUDGET BILL PROPOSAL

Dear Colleague:

As you may know, the Frost Committee of the Democratic Caucus has approved our suggestion to change the budget process in the House to provide for the consideration of all budget-related spending and revenue legislation in a single Omnibus Budget Bill. We are enclosing a brief summary of the proposal and a comparison of the omnibus approach to the existing budget process.

We are writing to urge your consideration of this proposal and support for it when the Democratic Caucus meets next week.

WHY DO WE WANT A CHANGE?

Anyone who has served in the past five sessions of Congress knows that the budget process has broken down. Even though we have spent more and more time on the budget process, it has become less and less real each year. The existing system is devouring the legislative schedule and leaving very little time for anything else. We spend enormous amounts of time and effort trying to pass so-called "target budget resolutions" based on vague assumptions of what will happen in future months and then have incredible difficulties in producing legislation which actually meets the targets laid out in those resolutions.

In the past 5 years, it has taken an average of 83 legislative days to pass a First Budget Resolution leaving an average of only 60 legislative days each year for everything else we have to do around here. That situation squeezes the time other committees have to bring their bills to the floor and makes it virtually impossible for the House to complete action on a whole range of important matters, including appropriations, authorizations, tax, and all other legislation.

The current budget process has produced budget resolutions that contain great promises of things to come, but after that the process has fallen apart. For example, even when the Appropriations Committee has met its spending targets as defined under the budget resolution, it has still been subjected to harassment on the floor from all sides. All too often this lengthy but phoney process ends up requiring last-minute continuing resolutions because we run out of time to deal with regular appropriations bills. That is the antithesis of the intelligent planning and orderly decision-making which was supposed to be the result of having a budget process in the first place.

The current budget process also has been used unfairly to invade authorization committee jurisdictions (e.g. the Gramm-Latta reconciliation package in 1981 which changed authorizations) rather than being used to deal only with spending matters that have an effect upon the deficit. In addition, we have had a terrible time matching what the budget resolution has asked for in revenues to what has actually been produced in revenues bills.

WHAT ARE WE RECOMMENDING?

We strongly believe that the only way to create an honest, rational, and efficient budget process, that also restores a sense of order to the House, is to have a system that requires us to deal with both the macro-economic budget problems (i.e. the overall spending, revenue, and deficit numbers) and micro-policy decisions simultaneously.

As long as people can pose for political holy pictures on deficits without being specific about how they are reducing those deficits, responsible Members of the House are at a disadvantage. As long as people can propose spending amendments without also having to take the heat for the effect they have on the deficit, responsible people in this institution are also at a disadvantage.

Nothing would be better for the morale of the House and nothing would be better for the reputation of the House of Representatives in the country than to have us be able to complete all of our budget-related work by the time we go home for the summer recess. That is what this proposal is intended to accomplish.

What we try to do is create a system which requires Congress to look at the big picture — the overall economic impact of our actions on spending and tax measures — in an orderly way, at the same time that it preserves for each of the committees (who know most about the specific subject matters that go into determining the overall totals) a fair opportunity to present to the House its methods of dealing with those matters. And it allows the House to work its will in a balanced and disciplined fashion.

We do not pretend to argue that our proposal is a perfect solution. But in our view this is the last chance we will have to avoid a repeat of the frustrating, chaotic sessions like the ones we have experienced in the past five years.

We are proposing the changes as revised House rules rather than as revisions to the law because they are experimental. We want to be sure that we can change the process if it develops serious problems. Some people say it is beyond the ability of the House to deal with budget issues in this forthright and comprehensive manner. We disagree with that. We do not believe that our political system is so crippled that it can not rise to the challenge of the problems we face in an innovative and courageous way.

What we want to do is take all of the energy and all of the effort that is now focused on passing a budget resolution which is neither real nor binding, and instead focus our attention on efforts to pass legislation which is real, which appropriates money, which deals with revenues, and which actually affects the deficits in the federal budget. We think this is the most responsible, orderly, and fair way to do it, in a way which preserves the legitimate prerogatives of the great committees of the House.

The proposal has widespread support among Members on both sides of the aisle. We believe it is something we should put to the test of a real try in the coming year.

If you have any questions, please call either of us or Elliott Fiedler in Congressman Obey's office at 225-3365.

Sincerely yours,

Dick Gephardt  
Member of Congress

Dave Obey  
Member of Congress

Enclosure

11/84

THE OMNIBUS BUDGET BILL PROPOSALA BRIEF SUMMARY

The proposal calls for the House to consider and vote on a single Omnibus Budget Bill which includes all appropriations bills, all revenue bills and all other legislation that adjusts real spending or real revenues.

The process would work as follows:

- (1) By April 15th, the House Budget Committee reports an overall Budget Plan. That plan includes aggregate totals for budget authority, outlays, credit authority, revenues, tax expenditures, the surplus or deficit, and the public debt.

The report accompanying the Budget Plan would be similar to the report now prepared for the 1st Budget Resolution under the current process. For example, it would include:

- (a) functional budget categories and a description of how the Budget Committee reached its aggregate totals;
- (b) comparisons with the President's budget; and
- (c) other relevant information, data, and comparisons.

The report would also contain a distribution of budget amounts to committees similar to the so-called "Section 302(a)" allocations now provided to committees in the conference report on the 1st Budget Resolution.

- 2) By May 15th, the various House committees with jurisdiction over spending, entitlements, credit and revenues would report their legislative actions in response to the Budget Plan and submit it to the House Rules Committee. For example, the Appropriations Committee would report all 13 appropriations bills to the Rules Committee; Authorizing Committees with jurisdiction over entitlements for which changes were recommended by the Budget Committee would report to the Rules Committee whatever action they considered appropriate in those areas; and the Ways and Means Committee would report whatever action it considered appropriate in the revenue area to the Rules Committee.
- 3) The Rules Committee would take the entire package of proposals presented to it by various committees and have the Congressional Budget Office compute a set of aggregate budget totals (i.e. budget authority, outlays, revenues, deficit/surplus, etc.) that would result if the sum total of those Committee actions were to become law. Those aggregate budget numbers would become the last title of the Omnibus Budget Bill.
- 4) The Rules Committee would then package all of the bills submitted to it into a single Omnibus Budget Bill, with each Committee reserved a separate title for its spending, credit, entitlement, or revenue legislation. The Rules Committee would also recommend a rule for the terms of debate and the process for consideration of the Omnibus Budget Bill by the Committee of the Whole.

- 5) The Committee of the Whole would then consider the bill under the five-minute rule and would work its will on amendments to each title.
- 6) When each title is considered it would be compared to the target proposed for it by the Budget Committee and the Budget Committee could offer an amendment to bring the total amount in the title into line with the overall target figure for that title. For example, the first title is Appropriations. If the Appropriations Committee title exceeded the overall spending target, then the Budget Committee would be assured priority recognition to offer an amendment to the Appropriations title to conform it to the original Budget Plan numbers.
- 7) When the Committee of the Whole completes consideration of the Appropriations title of the bill, it would move to the next titles (e.g. entitlement bills under the jurisdiction of the respective authorizing committees) and would consider amendments to them. Each title would be reserved for a separate Committee.
- 8) If a Committee title reached the overall target for budget reduction proposed in the Budget Committee plan, the Budget Committee would have no role in consideration of that title even if the method by which that Committee reached the target was different from the method used by the Budget Committee.
- 9) However, if a Committee did not meet its budget reduction target proposed by the Budget Committee, the Budget Committee would have the right of recognition to offer an amendment bringing the Committee title into conformance with the Budget Committee plan. The Committee of the Whole would again work its will on those alternatives.
- 10) When the House has completed consideration of the entitlement titles of the bill, it will then move to consideration of revenue titles and the same process will apply.
- 11) As each Committee title is considered under this process, amendments offered to it will have to contain both the specific line item change in the program(s) or provision(s) affected by the amendment and the corresponding changes in the aggregate budget totals (including the spending, revenue, or deficit numbers) to reflect the additions or reductions that would be provided under the amendment.
- 12) As each amendment is considered and adopted the aggregate budget totals in the last title of the bill will be adjusted simultaneously.
- 13) If after completing all debate and consideration of amendments on all Committee titles of the Omnibus Budget Bill, there are differences between the Budget Plan aggregate totals as originally reported by the House Budget Committee and the aggregate totals produced as a result of the actions of the Committee of the Whole on all of the preceding titles of the Omnibus Budget Bill, the House Budget Committee shall have a final opportunity to offer amendments to any titles of the bill which have not reached the deficit reduction goals proposed in the Budget Committee plan. The Committee of the Whole will work its will on those amendments and report the bill to the House for final passage.

THE OMNIBUS BUDGET BILL APPROACH  
PROCESS COMPARISON

<u>EXISTING BUDGET PROCESS</u> (according to law but not necessarily current practice)	<u>VS.</u>	<u>NEW OMNIBUS BUDGET BILL PROPOSAL</u>
<u>on or about:</u>		
Jan. 15: President submits budget for new FY to Congress	Same	
Mar. 15: House Committees send views & estimates on budget to Budget Comm.	Same	
Apr. 15: House Budget Committee reports 1st Budget Res. to the House		House Budget Committee reports a Budget Plan including aggregate totals for budget authority, outlays, credit authority, revenues, tax expenditures, the surplus or deficit, and the public debt
May 15: Congress completes action on 1st Budget Resolution		Appropriations, Ways & Means and all other Committees with jurisdiction over spending, entitlements, credit and revenues report their bills and submit them to the Rules Comm.  Rules Committee packages all of the bills submitted to it into a single Omnibus Budget Bill including separate titles for: -- Appropriations; -- Each Committee with spending, entitlement or credit bills; -- Ways & Means revenue measures; -- Aggregate budget totals  and sends the bill to the House floor with a rule setting terms of debate and amendments
June 1: House begins to consider appropriations bills		Begin consideration of the Omnibus Budget Bill in the Committee of the Whole as set forth in the rule  If a Committee title does not reach the Budget Plan target as proposed by the Budget Comm., the Budget Committee may propose an amendment to conform that title to its plan
July 1:		Action completed on the Committee titles of the Omnibus Budget Bill.  If the sum total of actions taken on all the Committee titles do not conform to the aggregate totals in the original Budget Plan, the Budget Committee may offer amendments to any Committee titles which were out of line with the target proposed by the Budget Committee.  The Committee of the Whole will work its will on those amendments and report the bill to the House for final passage.

Mr. FRANK. I thank the gentleman. I have no real questions, because I am substantially in agreement with what I thought was a very thoughtful and decisive statement. We will call it the Obey-Stockman position on the budget. The one sentence I would just like to single out, and I was delighted the gentleman said it, he has spent a lot of time trying to improve the process so he could not be accused of indifference to it, but when he said that the problem with the budget is a political problem, in the broadest sense of political, as well as other things, but in conflicting values, et cetera, and not a process problem, I think that's a point we have to get across. Too many of our colleagues and even more people in the media and commentators are looking for a procedural way out of difficult substantive problems. There are not procedural answers that avoid difficult substantive issues, and I think too much of what I see about the budget process has been precisely that, and too many of our colleagues succumb to it, because it would be nice to think that there would be some process that would take from us the necessity to make some choices that otherwise are very difficult. And it comes with very good grace from the gentleman from Wisconsin, because he is someone who has spent a lot of time trying to improve the process. So his statement that it's more of a substantive problem than a process one is very important.

That doesn't mean you don't focus on the process. But as a matter of fact, I think what happened is you undermine your abilities to improve the process if you overload it.

Mr. OBEY. Absolutely.

Mr. FRANK. To expect procedural improvements in process changes to be able to resolve more than they can in fact resolve, then you discredit that and you wind up not accomplishing what you could accomplish.

We will recognize the gentleman from Pennsylvania.

Mr. WALKER. I thank the gentleman.

I, too, appreciate the gentleman's presentation. It seems to me the only way that the process would work under the guidelines that you have outlined is if we do obey the rules with regard to no appropriations unless you have authorizations. That is where we have totally walked out on the authorization process around here in recent years. The Appropriations Committee has become the be-all and end-all of policymaking. It is not only setting the standards for spending, it is in fact the programmatic committee as well. In many instances we might as well not even have authorizing committees as the process now stands, because all they exist for is to ratify budget decisions and/or in the aftermath ratify Appropriations Committee decisions.

It seems to me that if those rules weren't obeyed, the process you have outlined would become simply a vehicle for the Appropriations Committee to be the only action in the Congress.

Mr. OBEY. Not at all, Bob. What I am trying to do is to recognize what's happening now. Right now you have the Appropriations Committee in the end deciding what's going to go on in almost all aspects of government. What I am trying to say is look, the reason they do that is because the CR is an omnibus approach, that's what it is in the end, minus revenue, and minus reconciliation. It's an omnibus spending approach.

I think we are going to be stuck with that, given the complications of government, for as long as any of us are here. What I am looking for is a way to move that timetable forward in the year so that yes, we will continue to look at things in a coordinated way, but you will do it under a timeframe and through a process which gives every committee with jurisdiction its day on the floor or its hour on the floor, so that it can make its points and then the House chooses up or down.

All I am trying to do is move that timetable up 3 months, so that authorizing committees can have a say, in contrast to 1981, when they had no say. For instance, in Gramm-Latta, not only did they reconcile actual appropriations or actual entitlement spending, but they also reconciled additional authorization spending which was not even an entitlement.

Mr. WALKER. It's not just 1981. Authorizing committees haven't had any say for the last 5 or 6 years around here. They haven't had any say in large part because consistently when the Appropriations Committee brings bills to the floor, they simply waive all the relevant rules with regard to what the authorizing committees are supposed to be doing, so they can go ahead and appropriate despite the fact that—

Mr. OBEY. I don't like that any more than you do. I'm trying to suggest a process by which we would have a chance to avoid that.

Mr. WALKER. What I am saying is that if we would obey the rules as the rules now exist, rather than consistently waiving them, we would in fact put some limits in the process that would go far down the road toward what you are trying to achieve. Simply by obeying the rules that are there now, by saying that we are not going to appropriate any money that isn't authorized, that would force the authorization process to live up to the very standards that you said it ought to live up to, that is, set the programmatic limits.

We are not doing that at all at the present time.

Mr. OBEY. My observation is that rules are followed unless there is a practical reason that requires they be changed. That's what normally happens around here. We're going to have an interesting test of that.

Mr. WALKER. What was the real need to waive the rules with regard to legislating an appropriation bill on the arms control issue that we had out on the floor the other day? The fact is 2 weeks later we were going to have that issue before the House, anyhow, as a part of the defense bill. There was no real world need for that, other than the fact that there was a political need.

Mr. OBEY. You will have to ask somebody else that question. The Appropriations Committee certainly didn't seek that.

Let me simply make the point, we are going to have an opportunity to test your theory. I am going to a meeting in about an hour and a half with the Speaker, and at that time we are going to be discussing what happens to foreign aid, if there is no authorization. It is my view that if the authorizing committee is not able to pass a bill, there should be no foreign aid next year.

Mr. WALKER. That's fine.

Mr. OBEY. The administration is going to strenuously resist that, because the administration is trying to wait until we get to a con-

tinuing resolution, and then try to fold foreign aid into a continuing resolution to avoid the limitations on power which the authorizing committees have placed on the authorizing bill. So that's where we are. I will be interested to see whether the gentleman supports the administration's position come October 1 on this issue, or whether he supports mine.

Mr. WALKER. Well, this gentleman would simply say that I will support that position so long as you are consistent with it. If we can't get an authorization through for FTC, we ought not fund them either. If we can't get authorizations through for the housing bill, we ought not have a housing program. If the gentleman is willing to go that far, this gentleman is willing to do that in foreign aid. But we ought to have a consistent pattern around here because the fact is we can't pass a lot of these things at the present time. We ought not just pick on one area. But we sure would tighten up the system if in fact we would get back to those kinds of rules.

Mr. OBEY. I don't happen to have anything to say over those bills. There's only one bill I happen to have something to say over, and that's the bill I'm talking about.

Mr. WALKER. But the gentleman serves on the Appropriations Committee that is largely taking these matters into its own hand. He has a vote as a member of that full committee. All I am suggesting is that it is fine for the gentleman to suggest it in one area, in foreign aid that we're going to do this, because he wants to kick around the administration a little bit. I'm perfectly willing to deliver that kick, too, as you saw the other evening. But the point being that it also is applicable in a lot of other areas as well, and there I don't see any desire whatsoever on the Appropriations Committee to—

Mr. OBEY. Well, I suggest the gentleman is looking in a reverse mirror. The fact is that 9 times out of 10, the Appropriations Committee takes the actions necessary because the fiscal year is over and it is being requested to. I was requested, for instance, last year by the Banking Committee to include a number of items under the jurisdiction of the Banking Committee in the CR. Neil Smith is requested to do the same thing. Bill Natcher is requested to do the same thing. It is not that the Appropriations Committee seeks to do that.

Mr. WALKER. I understand that.

Mr. OBEY. The problem is that we run out of time, and then authorizing committees ask the Appropriations Committee to do it.

Mr. WALKER. I understand that.

Mr. OBEY. I think you have an obligation to remember that.

Mr. WALKER. No, I know very well that is happening, because the authorizing committees have figured out that's the way out of their dilemma. If they can't get passed what they want—it is usually not the full committee that's requesting that, it is usually the committee chairman. So therefore we have a nice little almost incestuous system that suggests that we can't get done what we are supposed to get done, so you take care of our problem for us. The very fact that the problem gets taken care of thereby diminishes the need for the authorizing process to ever work. That is exactly where we have not been setting the programmatic limits that are

driving the process forward that then results in a continuing resolution. And I think it is a bad process.

Mr. OBEY. Well, my only response would be that I think it is perfectly understandable that authorizing committee chairmen would want to do that, because in contrast to some around here, they have an obligation to try to solve problems, and so if they don't get the preferred avenue, then they have to take a less preferred avenue, and I don't quarrel with them on it, because you have to deal with these issues at some point.

Mr. WALKER. I understand that, too, but in many cases what they are also avoiding is the debate that they know will take place on the floor with regard to provisions that they don't want to lose on the House floor. So therefore they do an end run around the process so they can avoid having a real debate about the issues that are before them. We ran into that problem for years with FTC. We could never get an FTC bill passed because they were afraid when the House worked its will that it would do certain things that the powers that be didn't want done. Therefore we continued to fund FTC through the appropriations process because we couldn't pass an authorization bill. And that's just plain wrong. That's the wrong way to proceed. It's causing a great deal of the problem that we've got around here in the budget process as well as the appropriations process.

Mr. OBEY. I would suggest that if you want to argue that, you argue it with the authorizing committee. The Appropriations Committee generally does what it is asked to do.

Mr. WALKER. No, if the Appropriations Committee would simply refuse to appropriate that which is not authorized, you soon would get a total change of attitude around here with regard to authorizing committees. If you guys would refuse it, that would end it pretty quickly.

Mr. OBEY. Well, if you remember, Mr. Smith has done that on numerous occasions; Mr. Natcher has done that on numerous occasions, and it's drawn them about as much criticism on your side of the aisle as well as mine as they received when they have done it the other way. My only point is that you are not going to leach the politics out of politics through process. You are always going to have these arguments. I simply suggest that if you want to avoid them, there are some things you can do with the process, but that isn't going to solve the basic problem.

Mr. WALKER. All I'm suggesting is that maybe what we ought to do as a part of the process is at least obey the rules we set for ourselves.

Thank you, Mr. Chairman.

Mr. FRANK. Thank you. I would just add I think it's a useful debate, and I think this year it might be different, and I think our party is going to be put to a test, because for 6 years we had the unusual situation of divided party control of Congress which just came through the longest period. And I think when we look at the budget process, it's got to be factored in. We have just come through what I believe is the longest period in American history since we have had our two-party system, anything like what we've had it, when control of the Congress was divided, not Congress versus the President, and I think that has added to procedural

shortcutting on both sides, because some of these differences became intercameral differences from the standpoint of some of the authorizing committees. House authorizing committees sometimes went to the Appropriations Committee because Senate authorizing committees weren't acting, and vice versa. And I think that also contributed to the fact that there were appropriations. The test now is whether that's going to be different or not, and it's going to be an effort to get, for instance, the housing authorization bill which hasn't been before partly because of intercameral differences. And I think there's some responsibility, now the Democrats have taken back control of the Senate, some of the explanations, excuses, defenses that we could have had in the past aren't going to be there. So I think this is going to be a tough period. But it is certainly the case that when you have divided party control of two Houses, I think part of the problem is that the rules, procedures, the whole Constitution didn't anticipate that, and that causes some problems.

I thank the gentleman from Wisconsin for his testimony.

Mr. WALKER. Mr. Chairman, there are a couple of unanimous consent requests in that regard from Senator Roth and from Congressman Clay Shaw that we would like statements submitted.

Mr. FRANK. Without objection, those will also be put into the record.

[See appendix.]

Mr. FRANK. We will now hear from a panel, two of our Members who have agreed to testify together. The gentleman from Ohio, Mr. Regula, who is chairman, I believe, of the Republican Task Force on the Budget; and the gentleman from California, Mr. Panetta, who has had the great distinction and fun of being the Democrat who has been in charge of reconciliation for most of my time here, which has probably been the least popular job that anybody in the Capitol has had, and he has done it with distinction, as have both of our colleagues. So we will hear the two of them together.

**STATEMENT OF HON. RALPH REGULA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO AND CHAIRMAN OF THE REPUBLICAN RESEARCH TASK FORCE ON BUDGET REFORM**

Mr. REGULA. Thank you, Mr. Chairman.

The statement speaks for itself. I address the problem of a 2-year budget. I would like to just as an aside make a couple of observations.

We have asked our industrial world to become competitive. We have said you need to improve quality, you need to improve efficiency, you need to compete. We operate the biggest business in the world, the U.S. Government. We deliver services for money collected from people in the form of taxes. We have a monopoly, and this monopoly is oftentimes not very efficient.

It seems to me that your committee has one of the great challenges of this session, and that is to examine ways in which Government can become more efficient in the delivery of services. If we fail to do that, either services are going to suffer or we are going to take an inordinate amount of resources out of the econom-

ic stream that would be better utilized for expansion of our ability to compete in the private sector.

It seems to me we ought to say "Physician, heal thyself," and as we ask others to be competitive, as we ask the private sector to be competitive, that we, in turn should examine ways in which we in Government, while not having competition, can encourage our companies and our industrial enterprises to be more efficient and thereby provide more jobs, provide the necessary revenues for schools, for local government, et cetera.

What we are proposing here is a first step, if you will, in saying let's at least operate on a 2-year cycle. Can you imagine a major company—just as an example, IBM—purchasing all of their supplies on a 1-year contract and how much it would add to the cost of their operations?

I hope that your committee examines carefully the potential for making Government more efficient, making our enterprise operate in a way that will reduce the demand that we put on the capital markets. If we can do that, we will have made a great achievement in this session of the Congress. It is perhaps the greatest challenge we now face. As I look at the free world, I see a growing competitiveness on the part of other countries, and therefore, we must reduce the demands that we make on the economy if at all possible and still deliver quality services.

Thank you.

[Mr. Regula's prepared statement follows:]

TESTIMONY OF THE HONORABLE RALPH REGULA, OHIO  
BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS

April 30, 1987

The Congressional budget process is riddled by an incompleteness not addressed in the original act of 1974 or the recent Gramm-Rudman-Hollings law. And when at some future date, if not corrected, will continue beyond inefficiency and waste to the collapse of the budgeting system.

Early in our nation's history, our modern multidivisional, decentralized corporations were faced with the same general problem now confronting Congress. In his memoirs, Alfred Sloan, Jr., discusses the organization structure of General Motors in 1920. The company was composed of a pool of competing divisions with no overlaying system for control of appropriations. Each individual division would receive its maximum request without any efforts to coordinate or reconcile their amount with other divisions and the total aggregate of available resources. Sloan wrote how the decentralized structure began to threaten the survival of the corporation. Submit the terms 'committee chairman' and 'budget committee' for 'divisions' and 'corporation' and the similarities become striking.

The successful story of General Motors is well known. But the reason for this success has been the systematic reforms used to reconcile decentralization with coordinated control. GM was able to preserve the fruits of decentralization through the maturation of their system. At present, we are in the early stages of development of the congressional budget process, just as American industry was in the early 1900s. By its nature, which is a combination of political pluralism and difficult

consensus building, the budget process requires further procedures that promote decentralization. Authorizing and appropriation committees must retain their jurisdiction while ensuring oversight and reconciliation by the Budget Committees.

So far, the two step process of authorizing and appropriating has caused confusion and the waste of precious resources. We are plagued by an inability to enact all the necessary authorizations and appropriations by the beginning of the new fiscal year. Continuing resolutions have become the rule and not the exception. 1986 marked the 10th straight year this institution has failed to complete the budget on schedule. 1976 was the last year all of the appropriations bills were passed before the beginning of the fiscal year. Last year, none of the 13 regular appropriation bills were passed before October.

One specific problem which I would like to discuss is the problem of timing. The number of annual re-authorization bills is a major cause of the recurring problems of enacting appropriations in accordance with House and Senate budget schedules. Just by the bulk of the work, authorizing committees find it difficult to get their bills to the floor in time. Appropriations has also responded to the process unexpectedly. I can remember, beginning in the mid 1970s, with the abortion riders to Labor HEW appropriations, the use of appropriation bills to address policy issues not addressed by the authorizing committees. This clash in unmet schedules and jurisdiction enfeebled the budget process.

It is not the process which is at fault, but the aberrations which have developed over the course of its short lifetime. The decentralized

decision-making of Congress cannot have budgetary control unless these problems are corrected by appropriate procedure. In fairness to Congress, many of the problem's with the process could be resolved with a revised budget schedule.

First introduced in 1977, the Biennial Budget proposed a two year budget schedule for 90% to 95% of the budget. This approach offers more oversight on existing programs, opportunity for long-range budgeting, and more time to consider non-budget matters. With a two year budget, the conflicts between authorizing and appropriating could be largely eliminated by expanding the original timetable to permit the committees time to act. Military procurement and other long-term spending activity would experience a stability currently absent. Also, it will enable policy-makers to formulate a rational budget plan for the coming decades rather than being consumed with simply meeting the year's deficit target. Budgeting would be removed from the realm of crisis.

Support for the approach is widespread. Ms. Alice Rivlin, former CBO director, states "making the federal budget every other year would be a major advance". Senator Pete Domenici of the Senate Budget Committee has voiced strong support for multi-year budgeting. Even the Packard Commission, the President's panel on defense management, stated "a two-year appropriation for defense would stop the yearlong chaos of budget making we now have."

Alongwith my distinguished colleague from California, Leon Panetta, I have introduced legislation, HR22, which would establish a two year schedule for all budget action. The first year would be used for oversight and work on

a two-year budget resolution, the second year would be spent on authorization and appropriation bills.

The traditional criticisms against this approach are that it requires budget projections even farther into the future and the opportunities to review and amend executive decisions would be reduced. Some fear that an omnibus budget/appropriations/tax bill might be so massive and controversial as to fall of its own weight.

As the sophistication of the two-year budget proposals have risen the viability of these arguments has decreased. Of course, a major event such as a declaration of war or a dramatic economic shift, are better dealt with under annual budgets. But these instances are quite rare and can be handled easily under a biennial budget which permits certain reopenings of the budget in mid-stream. Although the legislative vehicle of reconciliation would be reduced to once every two years, authorizing committees would be able to devote more time to needed substantive changes in the law in the second year of the process than now available.

Furthermore, the argument that economists cannot accurately forecast for a multi-year budget is true. Yet, recent estimates demonstrate the same danger is present in annual budgets. Whether the budget is annual or biennial fiscal policy remains hazardous.

Finally, the concern of massive omnibus budget bills is inapplicable under HR22. Instead of establishing such aggrandized legislation the process would simply be broadened to the two year cycle. No new omnibus legislation would be created. Although the numbers would be greater the actual outlays for programs will not have changed. It will be the same

decisions as before.

Momentum continues to build for this change. Recently, the President's FY88 budget transmitted appropriation requests for 1988 and 1989 for all of the Department of Defense military accounts, the related accounts in the national defense function, and selected nondefense accounts that seem to be particularly suited to a multi-year budget.

Although budget process reform will not solve all of the ills of federal fiscal policy. It will enable us to spend more effectively and efficiently. The biennial budget is a firm step in that direction.

Mr. FRANK. Thank you.

Mr. Panetta, and then we will subject both of you to merciless cross examination. I just would like to point out that I am not enjoying this cigar; it just seemed to me incumbent in replacing Mr. Brooks that I smoke it.

**STATEMENT OF HON. LEON PANETTA, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. PANETTA. Thank you very much, Mr. Chairman. I appreciate your cooperation in allowing me to appear with my colleague, Mr. Regula, who has cosponsored the proposal on a 2-year budget.

Having worked with the budget process and having worked with budget resolutions and reconciliation, I guess it is important to preface all of what you do—and I am sure other speakers have, but if they haven't, let me state it, and if they have, let me reemphasize, hopefully, what they have stated—by saying that no degree of budget process reforms, no constitutional changes, no changes in terms of the discipline of the operation ultimately is going to replace the courage and the guts that Members need to make tough choices.

It may make it a little easier, it may force those decisions a little more quickly, but it can never replace the kind of guts and courage that you just simply have to have if you are going to make what are inherently very tough choices. There are just no longer any easy choices in dealing with budget resolution issues. There just aren't. Everybody would like to find the magic answer, whether it is the Grace Commission or whether it is a line item veto or whether it is a constitutional amendment or whatever it is.

I understand the need to try to seek those kind of magical answers. There are not any. Ultimately, people have to make very tough choices. That is what we are elected to do, and I would expect that under any changes that are made in the budget process this year, next year or in the next 25 years, they are not going to make a heck of a lot of difference unless Members are willing to vote on tough choices relating to defense, entitlements, and revenues. Those are the issues that we are going to have to deal with, and you can't gloss over it through any kind of budget process reform changes.

Having said that, let me indicate several areas where I think changes are required right now. One is a proposal that I have introduced over the last 10 years to establish a 2-year budget cycle. Initially there was a lot of opposition to the idea, both from the standing committees as well as the Appropriations Committee and others, who thought that it didn't make very much sense to stretch it to a 2-year period. There were a lot of jurisdictions that liked to be able to deal with these issues on a year-to-year basis and deal with those constituencies on a year-to-year basis. That is the way they are able to satisfy their political requirements back home.

So there was a lot of inherent opposition to a 2-year budget. Gradually as time has gone on and we faced increasing chaos in the year-to-year budget resolutions, I think there has been a greater sympathy toward trying to develop a more rational way to approach the whole budget issue.

The year-to-year process is out of control. It is chaotic. We no longer finish 1 year of budget debates and battles and appropriation debates and battles than we are right into it the very next year. We seem to spend all of our time fighting over the same issues, the same debates, the same consternation. It seems to me that what would be helpful is if we could try to at least inject some degree of planning and oversight into this process.

That is really something we don't have enough of right now. Committees don't spend enough time in oversight. We don't spend enough time in planning ahead in terms of where their budgets are going, and as a result, we just kind of tumble and turn between the budget resolution and the appropriations process, and nothing makes very much sense any more.

It is not to say that the 2-year cycle is going to solve all of those problems, but I think what it will do is inject at least some time, some additional time to try to project ahead for 2 years in terms of where we are going on issues. Certainly it needs to be done on the authorization level. I think if you are looking at bills now, there are less than 40 percent that are not multiyear budgets. If you look at the committees that have multiyear budgets and ask them does it make sense to have multiyear budgets, almost all of them will say yes.

For example, on the Agriculture Committee we deal with the 4-year farm bill. It makes a lot of sense to put things on that kind of timeframe because it stabilizes the system, to some extent. It sends a message out there that this is the program for the next few years, and although, sure, there are pressures to make changes, those changes become much tougher as a result of the multiyear approach.

I think the same thing is true for defense. I think the same thing is true for other areas on the authorizing side. So I think there is a clear mandate to try to do something with regard to the authorizing side.

On the appropriations side, frankly, I feel the same way. It is a little touchier on that side, obviously, but I think that if we can get multiyear authorization bills, there is no reason why we can't get 2-year appropriations bills. Yes, we will probably have pressures to do supplementals, and I understand that. But right now we get supplementals on year-to-year budget appropriations bills. In the very least, we would establish a 2-year program. It would make it much tougher to break it.

We saw last week, for example, even on the MacKay amendment to bring the supplemental down, that there is a great deal of pressure to stick to the discipline that is locked into a budget resolution when it comes to a supplemental. Supplementals are much tougher to break that ceiling with these days, and I think that that would be true under a 2-year process.

We would basically lay out a 2-year process. It has gotten a lot of support now both from the Senate side as well as OMB, as well as Alice Rivlin and a number of others who have looked at this issue closely. I think it is a change whose time has come, and I would urge the committee to really take a close look at the 2-year budget cycle.

The second area I would just mention to the committee is the whole area of Gramm-Rudman, which I think needs some attention. I am not going to just debate the trigger issue, although that likely is to become a matter of debate in these next few weeks, but under the present backup process in Gramm-Rudman, there are several changes that need to be made.

One is that the date on which the trigger is implemented is August 20. I have always argued that the date for that trigger ought to be earlier. It ought to be April, so that once that trigger is pulled, we know where we stand and the numbers don't keep changing over the next few months. Suddenly what we enact in May and April and June is out of date by the time we get to August, and while things change and I know numbers change, I would much rather have a snapshot date that is earlier in the year than in August.

Second, on the backup process, I think the joint committees ought to have the responsibility to propose alternates to both the House and Senate floors, that they just simply ought not to be mandated to send the orders to the floor as they are now but ought to have the alternative of doing that.

Third, with regard to the deficit targets, we all recognize right now that we are talking about a \$36 billion reduction in both the House and the Senate budget resolutions. We ought to recognize that reality and adopt it as our budget target with regard to Gramm-Rudman so that in each year we try for a \$36 billion reduction,

The last point I would make is please work on a common baseline. These differences between CBO and OMB make no sense at all because each plays their own game based on their own numbers and their own projections. I think what you have to do is at least take part of the Gramm-Rudman formula, which was to take OMB and CBO projections, divide them, divide their differences and develop a common baseline on which we can argue apples and apples with the administration and with the Senate and with others so that we are all operating off of that kind of common base.

Those are some of the areas that I would recommend to you. Obviously, there are others in the appropriation process that I think also need to be looked at, but those are the primary ones, with the major focus being on some kind of 2-year budget cycle.

[Mr. Panetta's prepared statement follows:]

STATEMENT BY REPRESENTATIVE LEON E. PANETTA  
HOUSE GOVERNMENT OPERATIONS COMMITTEE  
APRIL 30, 1987

BUDGET PROCESS REFORM

Chairman Brooks and members of the House Government Operations Committee, I appreciate this opportunity to testify on budget process reform.

I would like to comment first on the two-year budget proposal and then discuss other reforms to the process.

TWO-YEAR BUDGET

In recent years our work on the Federal budget has come to dominate the congressional agenda. We begin the debate on spending cuts, tax changes, the impact of deficits on the economy and the political implications of budget votes within hours of our arrival in the House Chamber for the beginning of the new session, and these issues monopolize our time and energy through the spring, summer and fall, pushing aside other issues of national importance.

Also, because we begin the budget debate so quickly we get virtually no chance to do any serious thinking about what our long-term goals for the Federal budget should be and the best path to achieve those goals. We start making basic decisions on taxes and spending before our greatest resources on the budget - House committees - get a chance

to hold hearings and debate policy alternatives.

This failure to do the proper budget groundwork results at the end of the year in the crisis of continuing resolutions - huge spending bills which must be passed to avoid a government shut down. 1986 marked the tenth straight year Congress failed to complete its budget work on time - 1976 was the last year we passed all of our appropriations bills before the start of the fiscal year. Our record last year: none of the thirteen regular appropriation bills were enacted before October 1.

This deterioration of the budget process paints an embarrassing picture of the Congress and the Federal government for the rest of the country, to say nothing of the implications for spending policy. Who believes we are really doing a good job of debating spending issues when we are faced with a \$600 billion bill passed in the last minutes of the congressional session?

Yes, there are some spending and tax issues we need to debate on a yearly basis. But why not clear the budget underbrush by placing that 90 to 95% of the budget which does not change dramatically on a two-year appropriations track? This would leave us more time to focus on the real issues, allow Federal agencies to plan, and set the stage for a more orderly budget process at the end of each congressional session.

The bill Ralph Regula and I have introduced, H.R. 22, would place

Congress on a two-year schedule for all budget action.

First introduced in 1977, the Biennial Budgeting Act proposes that the first year of each congressional term be devoted to formal oversight of programs and agencies, to the reporting by the Budget Committees of a budget resolution, and the reporting by the legislative committees of all authorizing legislation. Early in the second year authorization bills and a budget resolution would be passed, making way for consideration of biennial appropriation bills, which would be adopted before the beginning of the 2-year fiscal period.

This approach would yield three basic benefits: more oversight by Congress of existing programs, more time for thoughtful planning of a new budget, and more time to consider nonbudgetary matters. It would take us away from the stop and go funding we now engage in, where too many decisions result from last minute panic instead of proper planning and extended debate.

Specifically, the bill would provide for the following schedule.

#### First Year

The committees of each House would spend the first 6 months of the first session conducting oversight hearings on existing programs and policies. Following these hearings, the authorizing committees would have another six months to report out new legislation. The Budget Committees would report out a concurrent budget resolution by November

30, which would allow legislative committees time to incorporate guidelines within the resolution into their work.

#### Second Year

Each House would devote itself to working on new authorizing legislation, with a deadline of March 10 for passage of these measures. March 31 is set as the deadline for passage of a budget resolution covering the next two fiscal years, after which two-year appropriation bills would be considered. By April 15, the Appropriations Committees are to report out their bills. Under the Act action on appropriation bills is to be completed by the seventh day after Labor day.

#### SUPPORT FOR TWO-YEAR BUDGET

Support for a two-year budget schedule has increased in recent years. The Packard Commission (the President's Blue Ribbon Commission on Defense Management) report stated that "a two-year appropriation for defense would stop the yearlong chaos of budget making that we now have."

Senator Pete Domenici has introduced legislation, S. 832, which proposes a two-year budget. The major difference between his bill and ours is that the work on a two-year budget resolution and two-year spending bills is begun and completed in the first year of the congressional session. H.R.22 proposes to finish that work in the second year of the congressional session. S. 832 also proposes an automatic Gramm-Rudman-type deficit snapshot and across-the-board cuts

(if necessary) to reach the deficit targets of \$72 billion in FY 89, and a balanced budget in FY 91.

The current administration has expressed an interest in two-year budgeting. The President submitted in his Fiscal Year 1988 budget request a two-year budget for defense. He has also commended the Domenici bill and his OMB Director, Jim Miller, stated in testimony before your committee that a two-year process would:

- " o Reduce repetitive, time-consuming, and potentially unnecessary annual actions.
- o Allow more time for appropriators to provide needed oversight of programs.
- o Reduce opportunities for budget gimmicks, such as moving spending from one year to the next.
- o Provide more time for improved consideration for using reconciliation to address areas like entitlement spending."

Defense Secretary Caspar Wienberger has said that biennial defense budgeting would save "a tremendous amount of time and resources", and former Congressional Budget Office Director Alice Rivlin continues to be strong advocate of the idea. In the Summer 1986 issue of The Brookings Review, Ms. Rivlin outlined the following advantages of a two-year budget.

The managers of federal programs and the recipients of federal grants could plan programs more effectively if they could assume funding for a longer period. They could spend more time managing and less time preparing and defending budgets and adjusting to funding changes. And Congress, relieved of annual budget battles, could devote more attention to long-run issues and more careful oversight of federal programs.... It is time to move the whole process to a two-year schedule.

At the end of the 98th Congress the House Rules Committee Task Force on the Budget Process considered the 2-year budget as one of

its four major budget process reform options. In the task force report a first step toward 2-year budgeting was recommended: two-year authorizations. The Committee on Rules report on the bill that evolved from the Task Force, H.R. 5247 (Rept. 98-1152), also recognized the need for this first step, stating that:

Extending the duration of authorizations (making them multi-year) would certainly reduce the time spent on authorization legislation in hearings, markup, floor debate and conference, and would increase the likelihood that authorizations will be in place before the House should begin consideration of appropriation bills. There is no doubt that requiring all annual authorizations to be extended to multiyear authorizations would help resolve some timetable difficulties.

The committee report also encouraged studies of the feasibility of placing some annually financed programs on a two-year appropriation cycle.

I am pleased that the idea of a 2-year budget is attracting more attention and I hope Congress will take a close look at the advantages of a biennial timetable during its 100th session. Yes, it is always difficult to focus on the budget process while the debate rages over how to reduce the budget deficit, but with your committee and the entire House facing the issue of whether to revise the Gramm-Rudman process, I hope we will not overlook other budget process reform ideas, including a two-year budget.

I think it is time for Congress to at least experiment with the two-year process. The President should be commended for sending us a two-year defense budget last February and he should be encouraged to repeat this in his next budget submission. I would also like to see

spending for additional areas proposed on a two-year basis by the Administration. Then it will be up to the Congress to encourage House and Senate committees to experiment in certain programs with two-year authorizations and appropriations. It will be tough to change decades of one-year funding, but we owe it to ourselves to take a modest first step and try a two-year process in certain areas. I believe there will be immediate advantages which will set the stage for a more substantial commitment to a two-year process in the future.

#### OTHER BUDGET PROCESS REFORMS

We should also consider a number of changes in the Gramm-Rudman process. One of the most important is moving up the deficit snapshot to April 1 so Congress is not faced, as it was last year, with an end of the session rush to deal with a deficit reduction number released on August 20 (as required by Gramm-Rudman).

The problem with the current process is that we spend the first eight months of the year deciding what the total deficit reduction needs to be and designing a budget resolution which hopefully achieves that number. Then on August 20 a deficit snapshot is delivered by CBO and OMB which may or may not reflect what we have been talking about in terms of the budget resolution. This is a crazy system that can be fixed by moving up the deficit snapshot to April 1 or thereabouts. This would guarantee that the deficit reduction goal does not change on us in midstream. Congress would be given a deficit reduction target early in the year and all of our actions thereafter would be

based on that number.

I also think it also makes sense to 1) examine various options for adjusting the deficit target based on changes in the economy, and 2) allow the Joint Budget Committee an opportunity to design an alternative to across the board sequestration in the Gramm-Rudman back-up process. Finally, if we can make the process more realistic with changes like these it would allow us to ban asset sales as a means of deficit reduction for purposes of Gramm-Rudman.

#### Raising the Deficit Target

Because of the difficulty in reaching a \$108 billion deficit in FY 1988 the idea of adjusting the deficit target will receive a great deal of attention this year.

Such an adjustment can be justified in a number of ways. When the Gramm-Rudman law was passed Congress was looking at a deficit starting point of \$172 billion - the budget resolution deficit goal for FY 86. Instead we ended up with a deficit of \$221 billion for that year and the \$36 billion-a-year reduction envisioned by Gramm-Rudman has grown to almost \$60 billion a year.

Changes in the economy and technical revisions of the budget deficit are forcing us to consider larger and larger deficit reductions with every passing year. In other words we can do our job and make the targets, but because of worsening economic conditions we find ourselves in a deeper and deeper hole. Many are questioning whether it makes sense to make deeper cuts in social programs and

defense to offset faulty economic assumptions underlying the original Gramm-Rudman law.

Also, many are asking why a \$108 billion deficit figure is so special. After all, our most important goal is to get the deficit on a solid downward path heading toward a balanced budget. Whether the budget deficit hits a target of \$100 billion or \$120 billion in any given year is irrelevant as long as that deficit is on a downward path and headed for a balance between spending and revenues in the near future.

If we choose to alter the deficit target what approach makes sense? One idea is to start with the \$221 billion deficit we had in FY 1986 and subtract \$36 billion from that figure. This approach would give us a deficit target of \$149 billion for the upcoming fiscal year.

Another option is to develop a formula which adjusts the deficit target based on changes in the economy. This would neutralize the deficit target against fluctuations in economic conditions which impact on the deficit. We would not be forced to cut programs to make up for swings in GNP growth, unemployment, interest rates and inflation: changes which Congress has little or no control over. Another idea is to base the deficit targets on the structural deficit - that part of the deficit which reflects a permanent gap between spending and revenues not associated with weakness in the economy. Finally we could simply stretch out the Gramm-Rudman targets, reaching a balanced budget in FY 92 instead of FY 91. This would give us the same deficit target in FY 1988 as we had in FY 1987: \$144 billion.

## SUMMARY

The options on budget process reform - whether it is to the original budget process or the Gramm-Rudman process - are numerous, and your committee faces a tough job in determining which are worthwhile and which will only complicate our attempt to achieve the real goal: producing budget resolutions which reduce the deficit and then enforcing them.

Budget process reforms cannot guarantee any result. Frankly, leadership and a commitment to taking those tough steps needed to reduce the deficit are more important. However, I believe there are budget process reform ideas out there that can make the process more rational and our job a little easier. I hope your Committee will review them in the coming months and help all of us in the House understand their implications as we try to develop a process that is both workable and that achieves the goal of deficit reduction.

Mr. FRANK. I thank you both. I have no questions. We have the statement of the gentleman. We appreciate your coming. Mr. Walker. We thank you.

Yes, Mr. Regula. Do you have a question for Mr. Panetta?

Mr. REGULA. No. I would just like to add two observations to support the statement of my colleague, and that is that in the appropriations process, we don't have enough time to do oversight on how well programs are working. That is a management responsibility that devolves on the Appropriations subcommittees. If we were to appropriate on a 2-year cycle, we could then use time to examine whether or not we are achieving efficiency in operation.

Second, many people who are out in the field have said to me we don't know until October 1, perhaps October 15, what we are going to have to work with in our park or our national forest, in the case of Interior, so it creates so much uncertainty that it is very difficult for them to plan in a way that will make their use of the funds effective and efficient. That is why I think that a minimum of a 2-year cycle would have those advantages.

Mr. FRANK. I appreciate that. I seriously would not be discharging my obligation, I think, to this committee and to the chairman not to note that obviously the oversight function is important; a substantial amount of it, I believe, is done in a bipartisan way by this committee. It may be that, human nature being what it is, we don't work closely enough.

Mr. Walker pointed out, I think with a great deal of accuracy, the problems of not properly coordinating between authorization and appropriation. Obviously, the Government Operations' piece ought to get back into that. It has been my experience, and I think this is a useful point, from my own chairmanship of a subcommittee here, it is probably the case, and maybe it was a failing on our part, that we worked more closely with our authorizing committee than with the Appropriations Committees. My experience with the subcommittee work I did was that there was a lot of conversation between the Government Operations subcommittee and the relevant authorizing committee, not as much with the Appropriations Committees. I think that is an area where there could be some improvement.

Mr. REGULA. But Appropriations spends money, and that really ultimately does determine the—

Mr. FRANK. Oh, I appreciate that. I should add that the lack of full communication between the Government Operations subcommittees I have served on and the Appropriations Committee was not our fault. We do not always find the Appropriations Committee as amenable.

We have been joined now, and I appreciate it, by the minority leader who accommodated his two colleagues, and we are glad to have Mr. Lott, who has been doing a lot of work on this, both as the assistant Republican leader and as a high-ranking member of the Rules Committee. He always deals very seriously with these issues.

So we will be glad to hear from Mr. Lott. Mr. Brooks, we suspect, is on the way back because the Government Operations amendment that he was over there defending was kept in the bill. It was a voice vote, divisions.

**STATEMENT OF HON. TRENT LOTT, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MISSISSIPPI**

Mr. LOTT. Thank you, Mr. Chairman. I want to thank this subcommittee for having this hearing. I note that the title of this subcommittee is Subcommittee on Legislation and National Security, an unusual combination, but I'm glad they are interested in this topic because it is one I'm certainly interested in, because I'm very much committed to having a budget process and one that works.

As a member of the Rules Committee, as a member of the leadership, I'd like for us to have a system that does what it was intended to do.

I want to acknowledge at the outset the problem with budgeting is not the process. The problem is the problem, and that is that we can't find a way to get spending under control: You would do it one way; I would do it another. That's what this system is all about—to try to have a process that forces us to deal with the problem.

I'd like to ask at the outset that my prepared statement be made a part of the record.

Mr. FRANK. Without objection.

Mr. LOTT. I do have an attachment to that—a summary of a bill that I am introducing today that I would like to be made a part of the record, too.

Mr. FRANK. Your statement and accompanying documents will be made a part of the record.

Mr. LOTT. While I agree with the commonly expressed view that no amount of budget process tinkering will cure our deficit problem, I would hasten to add that the very nature, operation, and credibility of our process can either facilitate or impede our deficit reduction efforts. Some people around here would like to kill the whole process. I used the expression one time that the budget process is either a sacred cow or an endangered species. It's a sacred cow because it is really kind of the only thing that tries to force us to deal with the budget deficit problem. It's an endangered species because there are so many people who would like to kill it right away and particularly our friends on the Appropriations Committee.

Then you ask yourself, then why is it still alive? It's because this cow, either endangered or sacred, still is used to give milk to one and all. It has become a process that we use to get extracurricular spending, legislation or appropriations bills. It is being used as cover to do some of the things that the budget process is actually supposed to stop.

I guess I am somewhere in between. I'm very frustrated with the whole process. I voted for the Budget and Impoundment Act of 1974. I have voted for a lot of the budgets, possibly voted for more than I have voted against, but I am frustrated. I am about ready to junk the whole process, like a lot of other people.

Being the incurable optimist, I'd like to see us correct this problem, not just tinker with it, not just use this problem we have now to make a little adjustment in the targets, and come up with some system for sequestration. Let's use this opportunity to really fix some of the problems that are there and not just tinker around with it.

I support, among other things, what the gentleman from California has just advocated, Mr. Panetta, that biennial funding or authorizations and appropriations make good common sense. I think we ought to go to that kind of system, just like going from a 2-year to a 4-year term for Congressmen. It's long overdue. Common sense says we ought to do it.

But it's just taking the bull by the horns and doing it. Now, if you consider the present sorry state of affairs, budget appropriations and authorizations, it is just not working. Budget deadlines are being routinely missed. Spending ceilings are regularly breached. Budget rules are habitually violated and waived. In fact, in the 99th Congress alone, there were 106 specific Budget Act waivers. I mean, there is one of the main reasons why the thing is not working at all. Deficits continue to mount. Authorizations are squeezed out and consequently tacked on the omnibus bills such as reconciliation and appropriation measures. Regular appropriation bills are not enacted on time, and the list goes on and on.

In short, this breakdown in budgetary and budgetary machinery has adversely affected every facet of our legislative branch of Government. The budget process is a mess and it gets into the authorizations and appropriations process, too.

The time has clearly come to revisit the Budget Act and fix what's broken. Again, I want to caution against half measures and minor adjustments.

For instance, some will suggest that all that needs to be done is fix the targets and sequestration. Adjusting the deficit targets simply opens a way for even greater game playing and deficit overruns than we now experience. Restoring automatic sequestration makes no sense if we don't at the same time improve our ability to avoid sequestration through stricter enforcement of our own budget ceiling priorities and reductions that we are supposedly committed to.

Without such a renewed and reinforced commitment to implementation of our own budget, sequestration will tend to become a self-fulfilling prophecy. Let's try to make it into a situation where we won't have to have sequestration.

For these reasons, I have today introduced a bill entitled the Budget Process Reform Amendments of 1987. It's a package of nine amendments to House Rules, the Budget and Impoundment Act, and the Gramm-Rudman-Hollings Emergency Deficit Control Act. I am joined in that by Congressman Del Latta who is vice chairman of the Budget Committee and our Republican leader, Bob Michel. I have a summary of these amendments attached to my prepared remarks.

The House Rules will be amended in several ways. First, explanations, justifications, and cost estimates would be required in the Rules Committee reports on any Budget Act waivers proposed in a rule. Separate votes would be demanded on each such waiver.

Second, extraneous matters would be absolutely prohibited in reconciliation bills. It's getting worse and it's going to get even worse. If we don't prohibit extraneous matters, it will happen not just out of the Energy and Commerce Committee. Every committee is going to get on that band wagon. We have to stop it cold. We have to stop it now.

Third, a formula would be established for short-term continuing appropriations measures, those effective for 30 days or less. Such measures could only contain the spending levels from the current year's bills as reported or passed, or the previous year's enacted spending levels, whichever are lower.

Fourth, long-term continuing appropriations bills would be subject to the same prohibitions on legislation and unauthorized provisions as now apply to regular appropriations bills. A three-fifths vote would be required to waive points of order against provisions in a CR not previously adopted by the House. We ought to have these super majorities required, if we are waiving a major provision of what the law requires in trying to deal with the deficit.

The Budget and Impoundment Act would be amended in four ways. First, enforcement would be required for the outlay suballocations made by committees. This is already required in the Senate. Second, enforcement would be required for our overall budget outlay ceiling as is now required in the Senate. The House now operates under the so-called Fazio exception, whereby a committee bill can breach the outlay ceiling if the committee itself is still within its overall allocation for budget authority.

Let's face it. The Appropriations Committee uses this process to breach the ceiling year after year after year, because they say, we will be in this overall ceiling but we can change it at the sublevels. Plus, I think if we would enforce these suballocations, it would keep the committee from moving around funds that are actually contrary to what the whole House intends within subcommittees.

No appropriation bill could be considered until all had been reported. This is important to avoid games and ensure that the committee does adhere to overall allocation. Just take a look at what the Appropriations Committee does. They do it every year. If we would require that they all be reported, we could look at the overall allocation and I think we could avoid some of the games appropriations are very expert in handling and bringing to the House.

The fourth amendment goes to the Impoundment Control Act and would give the President special rescission authority over the long-term continuing appropriations measures which cover two or more regular appropriations bills for more than 30 days. Under this procedure, the President could submit a special rescission message within 3 days after a CR is enacted. This would take effect unless a joint resolution is enacted disapproving all or a part of each message within 30 days. As it is now, we don't have to do anything. We don't do anything. The rescissions are never considered. They don't go into effect.

We have to find a way to force the Congress to act on rescissions. Disapprove them or approve them, but do something.

Finally, title III of my bill amends Gramm-Rudman-Hollings by substituting a commission on deficit reduction for the Comptroller General in the sequestration process and thereby restores the automatic nature of that process. We need a trigger. We need sequestration. We need for it to not be politically motivated. The commission would consist of six members to be appointed by the President, not more than three of whom would be from the same political party. This will address the constitutional question. It would not be a full-time paid commission but rather one that would receive per

diem for the days it actually meets. It is expected it would only require a small core staff which would be full time.

In conclusion, Mr. Chairman, while I do not pretend that this package is a panacea, and I do favor such other provisions as credit reform and biennial budgeting, I think the amendments contained in my bill represent some essential steps which should be taken now to fix the budget process.

We can do it; it's just a question of will we do it. We ought to use this brick wall that we are coming up against now with the targets that we are not going to make. The debt ceiling facing us. Are we going to address the question of our targets, address the question of our Gramm-Rudman-Hollings' fix? This could be an occasion to have some badly needed overall budget reform, but not as a part of the debt ceiling problem.

Why should we continue to wait and wrestle with this mess we have now? As Dick Bolling said several years ago in his book, the House is out of order. Let's fix the budget process or let's do away with it. To me, it doesn't make much difference which one. I would prefer to fix it. If we are not going to fix it, I'm ready to vote with my chairman of the Appropriations Committee and throw the whole thing out the window.

[Mr. Lott's prepared statement follows:]

STATEMENT OF THE HONORABLE TRENT LOTT  
BEFORE THE SUBCOMMITTEE ON LEGISLATION & NATIONAL SECURITY  
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS  
THURSDAY, APRIL 30, 1987

Mr. Chairman and Members of the Subcommittee: I am grateful for this opportunity to testify before you today on budget process reform, and I commend you on your ongoing oversight and activity in this area.

While I would agree with the commonly-expressed view that no amount of budget process tinkering will cure our deficit problem, I would hasten to add that the very nature, operation and credibility of that process can either facilitate or impede our deficit reduction efforts. And, I would go on to assert that our budgetary machinery today is in a sad state of disrepair and badly in need of fixing. Some would even urge that we junk it altogether and either dust-off the old Model-T or get ourselves a new X-model. I must confess that I often share that frustration and sentiment, though my optimistic side usually regains control.

Consider, if you will, the current, sorry state of our budget-appropriations-authorization processes: budget deadlines are routinely missed; spending ceilings are regularly breached; budget rules are habitually violated and waived (106 specific Budget Act waivers in the 99th Congress alone); deficits continue to mount; authorizations are squeezed-out and consequently tacked onto omnibus bills such as reconciliation and appropriations measures; regular appropriations bills are not enacted on time, if at all, forcing increasing reliance on omnibus, continuing appropriations measures on which there is little deliberation or amendment.

In short, this breakdown in budgetary machinery has adversely affected every facet of the Legislative Branch of Government and greatly inhibited our ability to function as the deliberative and representative body the Framers intended. Instead of prudently managing the purse strings, which is our principal power and responsibility under the Constitution, we are becoming increasingly entangled and strangled by those purse strings. Budgetary matters occupy more and more of our time, but with fewer and fewer results: we're budgeting more now and enjoying it less.

The time has clearly come to revisit the Budget Act and fix what has been broken. But, I would caution against half-measures and minor adjustments that do not address our root problems. For instance, some will suggest that all that needs to be done are some adjustments in our deficit targets and restoration of automatic sequestration. But, taken by themselves, such proposals do not offer real solutions: they simply attempt to redefine the problem and defer and detract from a responsible solution.

Adjusting the deficit targets simply opens the way for even greater games-playing and deficit overruns than we now experience. And restoring automatic sequestration, makes no sense if we do not at the same time improve our ability to avoid sequestration through stricter enforcement of our own budget priorities, ceilings, and reductions. Without such a renewed and reinforced commitment to implementing our own budget, sequestration will tend to become a self-fulfilling prophecy. We should keep in mind that sequestration was intended as a deterrent to backsliding and not as a desirable alternative.

For these reasons, I have today introduced the "Budget Process Reform Amendments of 1987," a package of nine amendments to House Rules, the Budget and Impoundment Act, and the Gramm-Rudman-Hollings Emergency Deficit Control Act. I am joined in sponsorship by our Republican Leader (Mr. MICHEL) and our ranking Budget Committee Republican (Mr. LATTA).

These amendments, a summary of which is attached to my statement, are designed to require stricter compliance with and enforcement of our budget resolutions; discourage the resort to omnibus, continuing appropriations resolutions; and restore automatic sequestration.

House Rules would be amended in several ways. First, explanations, justifications, and cost estimates would be required in Rules Committee reports on any Budget Act waivers proposed in a rule, and separate votes could be demanded on each such waiver. Secondly, extraneous matters would be prohibited in reconciliation bills. Third, a formula would be established for short-term, continuing appropriations measures -- those effective for 30-days or less. Such measures could only contain the spending levels from the current year's bills as reported or passed, or the previous year's enacted spending levels, whichever are lower.

And fourth, long-term continuing appropriations bills would be subject to the same prohibitions on legislation and unauthorized provisions as now apply to regular appropriations bills; and a three-fifths vote would be required to waive points of order against provisions in a CR not previously adopted by the House for that fiscal year.

The Budget and Impoundment Act would be amended in four ways. First, enforcement would be required for the outlay suballocations made by committees. This is already required in the Senate, but the House only enforces suballocations for new credit, entitlement and budget authority. Secondly, enforcement would be required for our overall budget outlay ceiling as is now required in the Senate. The House operates under the so-called "Fazio exception" whereby a committee bill can breach the outlay ceiling if the committee is still within its overall allocation for budget authority. The "Fazio exception" makes a mockery of our efforts to control spending and deficits. Third, no appropriation bill could be considered until all had been reported. This is important to avoid games and ensure that the committee does adhere to its overall allocation.

The fourth amendment goes to the Impoundment Control Act and would give the President special rescission authority over long-term, continuing appropriations measures which cover two or more regular appropriations bills for more than 30-days. Under this procedure, the President could submit a special rescission measure or measures within 3-days after a CR is enacted, and this would take effect unless a joint resolution is enacted disapproving all or part of each message within 20-days. This reverses the present rescission process which requires enactment of approval resolutions. The reason for this proposal is first, to discourage these omnibus CRs in the first place; and second, to give the President some strategic alternative to vetoing a funding bill that may cover the entire government and force its shutdown. If ever a line-item veto were justified, CRs are it.

Finally, Title III of my bill amends Gramm-Rudman-Hollings by substituting a Commission on Deficit Reduction for the Comptroller General in the sequestration process, and thereby restores the automatic nature of that process. This compromise has been offered in view of natural suspicions which some have of giving the President or OMB any discretion in adjusting the OMB/CBO sequestration recommendation.

The Commission would consist of six members to be appointed by the President, not more than three of whom could be of the same political party. Moreover, two could only be appointed after consideration by the President of a list of prospective nominees submitted by the Speaker of the House; and two others after consideration of a list from the President pro tempore of the Senate. This would not be a full-time, paid commission, but rather would receive a per diem amount for days on which they do meet. Moreover, it is expected that it would only require a small, core staff, which would be full-time. So, for relatively little expense, the credibility and integrity of the sequestration process would be restored.

In conclusion, Mr. Chairman, while I do not pretend that this package is a panacea, and I do favor such other proposals as credit reform and biennial budgeting, I think the amendments contained in my bill represent some essential steps which should be taken now to fix the budget process. I would again warn against half-measures and minor adjustments of an unbalanced nature. The Germans have a word for such half-reforms: schlimbesserung -- "an improvement that makes things worse." Thank you.

SUMMARY OF "BUDGET PROCESS REFORM AMENDMENTS OF 1987"

(H.R. \_\_\_, Introduced by Rep. Trent Lott, April 30, 1987)

Official Title: A bill to improve the congressional budget and appropriations processes by requiring stricter enforcement of budget resolutions; discouraging omnibus, continuing appropriations measures; giving the President special rescission authority over such omnibus measures; and by restoring automatic sequestration under Gramm-Rudman-Hollings through the creation of a Deficit Reduction Commission.

Sec. 1. Short Title. The "Budget Process Reform Amendments of 1987".

## TITLE I -- AMENDMENTS TO HOUSE RULES

Sec. 101. Budget Act Waivers. It would not be in order in the House to consider any resolution (rule) providing for the consideration of a measure of matter if that rule waives any provisions of the Budget Act against consideration of the measure, or against any provision thereof or amendment thereto, unless the report accompanying the resolution contains an explanation and justification for the waiver, a cost estimate of the provisions being waived, and a summary or text of any communication received from the Budget Committee regarding the proposed waiver. A separate vote could be demanded on each Budget Act waiver contained in a rule, subject to the requisite number of affirmative votes required for such waiver pursuant to the Budget Act.

Sec. 102. Prohibition on Extraneous Provisions in Reconciliation. House rules would be amended to prohibit the reporting of any provision in a reconciliation bill, or amendment thereto, which is not related to a committee's reconciliation directives, i.e., which is not related to a provision which reduces spending or raises revenues, as determined by the Committee on the Budget. Note: The Senate already has a similar prohibition.

Sec. 103. Short-Term Continuing Appropriations Formula. House rules would be amended to provide that any short-term continuing appropriations resolution (effective for 30-days or less) contain only the lower levels of appropriations and more restrictive provisions of the House-reported, House-passed, Senate-passed or conference agreement for that year, or the previous year's appropriations act. A three-fifths House vote would be required to waive the formula or add extraneous matters.

Sec. 104. Long-Term Continuing Appropriations Limitations. House rules would be amended to provide that any long-term continuing appropriations bill (more than 30-days) contain the full-text of matters to be enacted (rather than mere references to other bills), be subject to House rules now applicable to general appropriations, i.e. the prohibition against unauthorized and legislative provisions, and requirement of cost estimates in the committee report. A three-fifths vote would be required waive points of order or deny amendments to provisions not previously adopted by the House. The present restrictions on limitation amendments would be abolished.

## TITLE II -- BUDGET ACT AMENDMENTS

Sec. 201. Enforcement of Outlay Suballocations in House. The current ban on bills and amendments which exceed a committee's subdivisions of new discretionary budget authority, new entitlement authority, and new credit authority would be extended to any breach of outlay suballocations as well. Note: Such a rule already applies in the Senate.

Sec. 202. Enforcement of Spending Ceiling in House. The so-called "Fazio exception" would be repealed. That exception protects bills against points of order for exceeding the spending (outlay) ceiling in the budget resolution so long as the reporting committee is still within its allocation for budget authority. Moreover, any waiver of the spending ceiling would require a three-fifths vote of the House membership. Note: Such a rule and waiver requirement already applies in the Senate.

Sec. 203. Required Reporting of All Appropriations Bills. No regular appropriation bill could be considered in either House until all appropriations bills had been reported by that House.

Sec. 204. Special Rescission Authority Over Long-Term Continuing Appropriations. Any long-term continuing appropriations measure would be subject to special presidential rescission messages if submitted within 3-days of enactment of a CR. The total of all such special rescissions could not exceed 10% of the most recently projected deficit as estimated by the joint OMB/CBO report. Such rescissions would take effect unless disapproved by enactment of a joint resolution. (Note: under current law rescissions may only take effect if approved by enactment of a joint resolution.) Congress would have 20 days of continuous session to consider a rescission message under special, expedited procedures. If Congress adjourns sine die before completing action on a rescission message, the budget authority would be withheld until the next session of Congress at which time the President could resubmit a message.

Sec. 205. Exercise of Rulemaking Powers. The applicable provisions of the Titles I and II are enacted as an exercise of the rulemaking powers of the House and Senate, are to be considered as rules of the respective Houses, and as such may be changed by either House at any time.

Sec. 206. Effective Date. The provisions of Titles I and II having the status of House and Senate rules shall take effect on the final passage by each House of the bill. Those provisions not having the status of House or Senate rules shall take effect upon the enactment of the bill.

## TITLE III -- RESTORATION OF AUTOMATIC SEQUESTRATION

This title is entitled, the "Deficit Reduction Commission Act Amendments of 1987". It amends the Gramm-Rudman-Hollings "Balanced Budget and Emergency Deficit Control Act of 1985" by substituting a Commission on Deficit Reduction for the sequestration role of the Comptroller General which was found unconstitutional by the Supreme Court in Bowsher v. Synar.

The Commission would be comprised of six members appointed by the President, not more than three of whom could be of the same political party. Two of the six members (not of the same party) would be nominated after consideration by the President of a list of prospective nominees submitted by the Speaker of the House; and two (not of the same party) after consideration of a list submitted by the President pro tempore of the Senate (both after consultation with their minority leaders).

Commission members could not be officers or employees of the government at the time of their nomination, and must be especially qualified for the Commission's work by virtue of their education, training and experience. The Commission would expire on September 30, 1991. The existing fallback procedures in Gramm-Rudman-Hollings would be repealed.

# # #

Mr. FRANK. I have one question with regard to the post-CR rescission you talked about; what would the requirement be?

Mr. LOTT. The President could submit a special rescission message or measures within 3 days after the CR is enacted. It would take effect automatically unless a joint resolution by both Houses is enacted disapproving all or part of each message within 20 days. This reverses the present rescission process which requires enactment of a joint resolution of approval only.

Mr. FRANK. I understand. The joint resolution has to be signed by the President? The President would issue his rescission and he could then veto the joint resolution? It would take a two-thirds vote of both Houses to override the rescission?

Mr. LOTT. That's right. I'm trying to get a way to force us to make some savings. We have an opportunity to act but the President ought to have a chance to make recommendations. We ought to accept or reject those.

Mr. FRANK. I understand that. The frustration I think a lot of us have is our flexibility has been greatly restricted by the *Chadha* decision on legislative veto. The effect of the rescission you are talking about would be like an item veto. If we could do this by a concurrent resolution which does not require the President's involvement, it would be less of a power shift. We can't change a Supreme Court decision.

What that in effect does is give the President an item veto with regard to the CR. In both cases, it would take two-thirds of Congress. We would pass a CR. He would have the right to strike and we could then override that. Would that only apply to a CR; if it was an individual appropriations bill, it wouldn't apply?

Mr. LOTT. This is only aimed at the CR.

Mr. FRANK. Given that, it would have an incentive for us to do the individual appropriations bills rather than continuing resolutions.

Mr. LOTT. That's right.

Mr. FRANK. Mr. Walker.

Mr. WALKER. Thank you, Mr. Chairman.

I was interested in your figure as to how many times we had budget waivers in the previous Congress. It is interesting to note that when the Budget Committee chairman was here, he was telling us they turned down many, many requests for budget waivers. The fact is if that is the list of the number that are actually granted, then we have had many, many more requests evidently that have gone to the Budget Committee that have been turned down. The system really is out of kilter, if everybody is having to come around to get budget waivers and we are granting 106 of them in the course of a session of Congress. That makes no sense.

I think the gentleman is to be congratulated for the reform package he has put together. I think it forces us to begin to at least stick with the procedures to which we have previously committed ourselves. That would go a long way toward reforming the process if we would just do what we said we would do before.

Mr. LOTT. I think that the Rules Committee and the membership of the House as a whole take waivers far too lightly. It is just automatic and very routine. If we are serious about deficits, enforcing the law, we should be very, very careful, very hesitant to grant

waivers. That is why I advocate super majorities to have those waivers.

Mr. WALKER. Why does the Rules Committee regard it so lightly to do budget waivers and second, to continuously waive the need for appropriations to be pursuant to authorizations? In that case, those waivers have become so automatic at the present time that it is almost ridiculous for authorizing committees to think they have to do anything.

Mr. LOTT. There are a lot of answers to that. The appropriators are very powerful. They hold the purse strings. Members are hesitant to cross them.

The Rules Committee members in a bipartisan way, Democrats quite often raise a lot of cain about legislation on appropriations bills, but while we make a fuss, we usually then just roll over and say, OK, don't do it any more. It's just like on rescissions. We had a subcommittee from the Budget Committee saying, like extraneous matters, we are going to get this under control. They keep threatening but they just never do it.

Part of it is sometimes those waivers involve individual Member's projects or needs and they say, well, we will do it here because Congressman so-and-so on Appropriations or Congressman so-and-so on the Rules Committee, he needs it. It just goes on from there. It just keeps building. Once you do it two or three times, you just get to doing it automatically.

Mr. WALKER. Isn't it true that we also design bills in such a way as to bring that into play? We bring bills before the Rules Committee that have provisions in them to take care of a couple of the members of the Rules Committee that are also taking care of members of the Appropriations Committee, and they sign off. It will often take care of the authorizing committee chairmen so that the authorizing committee chairman won't raise too much of a fuss about the fact that they are being thrown to the wolves.

Mr. LOTT. I've watched these things change over the years. When I first came up here, and you were here then, it was not automatic that the Appropriations Committee would go to the Rules Committee on every bill. A lot of times they took them straight to the floor because they didn't need waivers. They don't have to come to the Rules Committee at all. They are always putting legislation on their appropriations bills and they are always exceeding this or that and that's why they have to come.

It was not nearly as great, and I would have to go back and do a study, but I would think only two or three a year used to come before the Rules Committee.

Mr. WALKER. What you are saying is if they were simply bringing numbers to the floor, all of which were pursuant to authorizations in place, there would be absolutely no need to come before the Rules Committee at all?

Mr. LOTT. That's right. I do want to defend them to this extent. The budget process takes too long. We don't comply with our deadlines quite often. At other times, the authorization committees for some reason don't move their bills. The appropriators have to wait on a budget and then they have to wait on the authorization committees.

What is the solution to that? There's a simple solution to the authorization committees not acting in time and that's leadership. If the Speaker and the majority leader and the Republican leader would call in the chairman and the vice chairman and say, fellows, this is when you are supposed to have your authorization bills out and if you don't, you are out of it, we are going to waive the Appropriations Committee on through.

I think the appropriators have a legitimate gripe, they are balled up by the procrastination and subversion of the system by both the Budget Committee and the authorization committees.

Mr. WALKER. I would say to the gentleman that I would have some reservations about that, based upon a conversation I had here previously with Mr. Obey. My contention is that one of the reasons why the authorization process doesn't work very well is because that is exactly what they want—for the Appropriations Committee to take care of it. They do not want the debate on the floor over some of these controversial issues. They are perfectly willing to see the authorization process obliterated because they realize they cannot win their issues on the House floor. Therefore, they depend upon the continuing resolutions to carry the programs forward and never want to bring the authorizations to the floor.

Mr. LOTT. I think that's probably true. You are saying no authorization, no appropriation?

Mr. WALKER. That's right. If you don't have an appropriation unless you have it authorized, you force the process to work, for the authorizing committee to set limits, enforce the Appropriations Committee to live within those limits and you would end up with a far more pure process doing that than the way in which we are now proceeding.

Mr. LOTT. I think you have a good point but it's hard for me to believe that any Member would just abdicate his or her role as a committee member or chairman or vice chairman and say, because I can't get what I want through this committee, subcommittee, full committee, and on the floor, I'll just turn it all over to the continuing appropriations.

Mr. WALKER. Think about how long we did that on FTC.

Mr. LOTT. Yes.

Mr. WALKER. We did precisely that on the Federal Trade Commission for a number of years because we knew we couldn't get an authorization bill passed.

Mr. LOTT. That's right. We are still doing that.

Mr. WALKER. And we are still doing it. That's exactly right. Therefore, there is a willingness around here to abdicate that responsibility when it fits the purpose to do so.

Mr. LOTT. Mr. Chairman, I know the gentleman is interested in how the House operates. I would think he would have a real interest in seeing some of these reforms made. Does the chairman have any feeling about whether or not we should try to fix the budget problems or should we just do away with the process? Do you have any thoughts you would like to share with me on that?

Mr. FRANK. I appreciate what the gentleman said, that the problem is the problem. I think a larger part of the problem is substantive than procedural. I am in favor of trying to make some proce-

dural changes. I think the 2-year budget cycle and appropriations cycle makes sense as long as they are subject to changes.

I am frustrated a lot by the *Chadha* decision. Given *Chadha*, what that means is there are power shifts between the executive branch and the legislative branch that accompany what absent *Chadha* could be more neutral procedural devices. I think the use of concurrent resolutions, if they had been allowed, would have given us a lot more flexibility.

My other point is, and I think I will have some more definite views on this later this year, I think a lot of us were let off the hook or all of us by the fact that we just came through 6 years of divided party control of the Congress, which is not the way anybody who drafted the Constitution expected. What we have had in the past 6 years is not just divided party control of Congress, we have had that occasionally in the past, but if I remember my history, usually in the past when the Democrats had one House and the Republicans had the other, the margins were generally fairly close. It would be a 4 to 5 vote difference in the House and 1 to 2 vote difference in the Senate.

We have had an unusual situation these 6 years of fairly large margins in both Houses for much of that time. When you add all the normal frictions to legitimate party differences, I think that slows the process down even more.

I think there is a responsibility on the Democratic Party this year for us to be able to show—I think that contributed to the absence of some appropriations bills being passed and having more CR's, you had a Democratic House, Republican Senate, it was harder to affix responsibility.

I know that contributed to the authorization-appropriations glitch in the housing area where I serve on the committee. Differences, vast differences, between the parties made it harder to do that. For instance, I think we probably are going to get an authorization bill this year in the housing area. I agree, that is certainly a preferable way to go.

I think we will have a better view at the end of this year as to how many of those we start to deal with and how many of them might have been a result of the divided party control.

Mr. Lorr. It's just like on the appropriations bill this year, and I'm not sure I'm responding directly to what you are commenting on. But I doubt if many appropriations bills are going to the President, individual bills, because he is going to veto them and they will be sustained. What we will do, the Appropriations Committee chairman will save them and stack them up and we will try to shove it all into a CR.

On this point about the division between the Congress and the administration, you know one of the reasons why the budget resolution is just a futile process now is the President is not involved. Some Members are saying the President ought to be involved. Hey, he didn't get to sign the budget resolution. Why should he start negotiating with Congress over a budget resolution when he's really not in it? The House passes it. The Senate passes it. It goes to conference and they agree. The President is not involved. Then we expect him to be bound by that resolution when he hasn't been in-

volved in the process and he has to do his part in reconciliation and appropriations. That is his only shot.

I really think the President ought to have to sign the budget resolution. That way, we could get him involved in the process.

Mr. FRANK. I think there is a great deal to be said for that, and that all of us are responsible.

What I was addressing, in addition to the legislative differences, I am talking about the intracongressional differences which again I think was not anticipated. We have just gone through the longest period in our history—

Mr. LOTT. You know what I will bet you? I bet it won't be much different this year. The fellows in the other body, I haven't noticed a lot of difference in how they act when it is one party or the other.

Mr. FRANK. It is certainly true that we saw this over 6 years, being in power and being in the minority, on the Senate side, there is some role flipping now, going from majority to minority and vice versa. I think there will be some differences. I think we may have more authorizations in some areas.

Mr. LOTT. One last question to the chairman. You say that you acknowledge there are some things that ought to be done and need to be done. Can we do them? That is the question I would like to pose to this subcommittee. We have an opportunity here. Let's do them now. If we can do biennial processes, let's do that. Let's do something to try to help improve this system. We are so muscle bound now, we are not really doing a very good job of anything. Let's get together.

Mr. FRANK. There is, I think, a far greater commitment to doing something in general than doing anything in specific. Whether or not something will get done, I'm not sure. Everybody is for doing something but there may not be a lot of people in favor of doing anything. That may be the problem.

I appreciate the thoughtfulness with which the gentleman has addressed this problem.

Mr. LOTT. Thank you.

Mr. FRANK. We will now hear from the gentleman from Florida, Mr. MacKay. I thank the gentleman from Florida for joining us. He has been one of the most thoughtful and active Members in not simply studying the budget process, but trying to improve it. And he may be the budget process' most faithful and active adherent in the House, which doesn't always endear him to his Members on specific issues. But I think people generalize that the gentleman from Florida has been a very consistent crusader for trying to make us live up to what we say. So we are glad to have his views at this time.

#### STATEMENT OF HON. BUDDY MacKAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. MacKAY. Mr. Chairman, I very much appreciate the fact that the Government Operations Committee is holding these hearings. This is absolutely the appropriate forum, and this is where the expertise lies in questions of Government organization and efficiency. I served briefly on this committee and respect very much

the leadership of this committee and know that it is not intimidated in any way from wading into difficult problems.

I'd like to address the topic at two levels. One, where do we need to be? I've heard some of your testimony today, and I've heard a number of your witnesses address that. I don't think there is a great deal of disagreement about where we need to be with the budget process.

The second question is more controversial, and that is, how do we get from where we are now to where we need to be?

Let me just, for what it's worth, put in my two cents' worth on where we need to be. We've got to have uniform baselines. The U.S. Senate right now is caught up in this problem, and we were caught up in it in the House Budget Committee this year. So long as there is no agreement as to what the spending level is and what the projected actions of the economy probably are going to be during the time of the budget, then we really can't even start out from the same baselines, and that tends to make—that tends to discredit the system.

I don't know how to do that. At the State level, they use estimating conferences, and they have a consensus estimate, and they're bound by law to honor that. The Court's decision on Gramm-Rudman indicates that might be a very difficult thing to do here.

Two, I know that Comptroller General Bowsher has recommended that the Government use generally accepted accounting principles. The Grace Commission, in one of its more obvious recommendations, said that same thing. How can we expect to be taken seriously when we've got a number of different accounting systems throughout the Government?

Agencies don't use the same accounting systems. Private sector comptrollers and experts can't look at our system and figure out what we're doing. Unless we do that, I don't think we can expect people to take us really seriously.

Someone said that any corporation that handled their accounting the way the Government does would be charged with fraud, and I think that's absolutely right. And yet we seem to accept that year after year.

Last week, we had a major fight involving the supplemental appropriations bill, and the question was whether the Budget Act should have been waived. I was very pleased that a majority in both parties voted not to waive the Budget Act and voted to require that the appropriations bills stay within those limitations.

I believe there should have to be a super majority to waive the Budget Act. I believe that continuing resolutions should be subject to the same rules as general appropriations bills. Mr. Lott, the preceding witness, said, you know, we're not going to have single appropriations bills this year. They're going to get vetoed. We're going to end up with everything wrapped up the last day in a massive continuing resolution. That's what happened last year. I think that's going to be the way things are under Gramm-Rudman.

Recognizing that, I think that the continuing resolutions should be subject to the exact same rules as general appropriations bills. You should not be able to put extraneous material in a continuing resolution, and you should not be able to authorize new programs.

It seems to me that what I'm describing are really kind of very fundamental, almost ABC type reforms. It's ironic that almost every State legislature in America has already done this, and the Congress, which prides itself on being the best, is still arguing about whether it could be done.

We should have a reconciliation process with some teeth in it. Our subcommittee chairman last year of the Budget Committee, Mr. Derrick, who is going to be a witness following me, chaired the effort to achieve reconciliation last year. Reconciliation means reconcile your actions with your words. Put some teeth into the budget process and make the cuts that we've agreed to in the budget.

And it turned out last year that Mr. Derrick found himself having to negotiate and bargain. There's no—basically no power and no teeth in the Budget Act at the present time. And at one time, I said to Mr. Derrick, who is sitting here, "You know, you're having to give up a dollar for every dollar we gain," and that's really the truth. It's a bargain and trade, and in some cases he had to agree that new legislation would be put into the Reconciliation Act, so that, in effect, we were having to agree to an abuse in order to try to meet the budget targets.

I think as a beginning and an absolute minimum, the law ought to be on the side of the person trying to achieve reconciliation.

Every bill with appropriations impact should be accompanied by a fiscal impact statement. Once again, this is almost a kindergarten level recommendation, from a government operations standpoint. State legislatures have done this 10 and 20 years ago. Members should be able to read in a simple, concise statement the fiscal impact of every piece of legislation we consider.

And I think in addition to that, the Appropriations Committee should be required to circulate—to publish and circulate each week during the session a summary, a total of how much money we've spent. It's incredible to me that when we're dealing with a \$1.1 trillion budget, Members of the Congress can't tell their constituents on any given day how much money we've spent. That's incredible, and I think there should be required a scorekeeping mechanism, and I think it can be done in plain English, so people can understand it, and I think it ought to be available on a regular basis.

Those are some of the outlines of what a budget process would look like, if we were serious about a budget process. It's not at all clear to me that we will ever have that kind of process until we decide whether the Budget Committee is going to be a permanent committee or whether it's going to be what it is now, a rotating committee. So long as the chairman rotates off the committee and everyone else rotates on and off, that means that we've got divided loyalties.

Let me just give you a hypothetical. Suppose the chairman of the Budget Committee was a member of the Appropriations Committee and knew that when his term in the chairmanship of the Budget Committee was over, he had to go back to the Appropriations Committee.

Mr. FRANK. Did you say that's a hypothetical?

Mr. MACKAY. It's a hypothetical. It could happen. Suppose that this were to happen at a time when the Appropriations Committee

chairman was seeking to waive the rules of the Budget Act and thus avoid the discipline of the Budget Act. Now what kind of spot would that put the Budget Committee in?

I don't know. But hypothetically that's a major weakness in our budget process.

Mr. FRANK. Is the gentleman aware that there is a certain correspondence between his hypothetical and current reality?

Mr. MACKAY. That hypothetical, Mr. Chairman, has happened every year since I've been in the Congress, and that is the reason, in my opinion—and these are men that I respect—that is the reason, in my opinion, that the Budget Act waivers are not being prosecuted as thoroughly as they should be. The leadership of the Budget Committee, because of the structural problem, are not in a position to take adversary points to the powerful chairmen of the committees that have to do with fiscal matters—Ways and Means and Appropriations.

So my thesis is that what I've been talking about would be agreed upon by most everyone who looks at this process. I believe most everyone who is familiar with the budget process and has seen it operate other places would agree that we've got to deal with these problems somehow.

The other question is more controversial. How do we get from where we are to a place where we've got a serious budget process?

I don't know the answer to that. Ordinarily Members of the House and Senate do not have a great deal of leverage to bring about change. The one place where there is leverage is the necessity to vote to extend the debt ceiling limitation. So long as we're borrowing money at the rate we are now, which is about a half billion dollars a day, periodically we've got to extend the constitutional debt ceiling limit.

That means we've got leverage at that one point, because Members who want to try to bring about discipline can, if they all decide to do it or if a majority in either House decides to do it, we could insist, as a price for doing that, that we get budget reform. That's how we got Gramm-Rudman.

I would hope when we get back to that point again, that we might approach it a little bit differently. I would hope that perhaps we could find a majority in one House or the other which might say, "We can't deal with this issue in a partisan manner. We've got to have a bipartisan approach to this." It can only be achieved through some kind of a summit where the White House, the Senate, and the House and both parties are there; everything has got to be on the table, and I would hope that perhaps at some point, if we're not able otherwise to deal with this issue, that a majority of the Members in this House would be willing to say, "We're going to insist on that, and until that happens, we're not going to extend the debt ceiling."

That's what I foresee coming, and May 15 is the first time that could happen.

Thank you, Mr. Chairman.

Mr. FRANK. I thank the gentleman.

I'm going to defer my questioning now because we've got to vote, and Mr. Derrick has been waiting. I appreciate the gentleman's usual thoughtful testimony.

And so we can accommodate before we all have to go vote, I'm going to hear from Mr. Derrick, who will now join us and set the speed limit for a South Carolinian for speaking in public.

Mr. Derrick has been widely experienced as a member of the Rules Committee, as a member of the Budget Committee, and has had the reconciliation experience, so we appreciate his joining us.

**STATEMENT OF HON. BUTLER C. DERRICK, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF SOUTH CAROLINA**

Mr. DERRICK. Well, you know, I guess you and I talking would be about like Sonny Montgomery and Jamie Whitten or something like that.

Thank you, Mr. Chairman. I'm delighted to be here, and I ask unanimous consent that my entire statement be entered in the record, and I will summarize it as briefly as possible.

Mr. FRANK. Without objection.

Mr. DERRICK. I'll try to finish up in about 5 minutes.

First, let me tell you that ever since I've been here, I've been hearing people complain about procedure, and I've seen people say, "You know, if we just had a new procedure, we could get rid of some of these things that bother us," like a budget deficit and a trade deficit and this and that. And you know, we've seen—it was hoped that the Budget Act itself, when it was passed back in 1974, would balance the budget, and all of these balance-the-budget amendments were in hopes that that will do that. There was the hope that Gramm-Rudman-Hollings would do it. And, of course, all of these things are not going to work, especially the last two. They're merely quick fixes.

The only way we're going to balance the budget or bring any sort of fiscal sanity to this Government is if we get up off our haunches and have some intestinal fortitude to do something about it, and, of course, that means to make hard judgments that sometimes don't sit too well with our constituents.

But be all that as it may, I do think that there are a couple of things in the Budget Act that need addressing. I'm chairman of the Reconciliation Task Force on the Budget Committee, and I think we have a real problem with extraneous matters being included in reconciliation bills. This makes the passage of these bills difficult and precludes the kind of careful consideration that many of these matters deserve. There is no way that you can give careful consideration to everything that's in a reconciliation bill, especially all the extraneous matter.

Now I recognize as a practical matter that it's sometimes to the advantage, at least to the majority and others, to have this, to be able to put this stuff in there, but it's a heck of a way to legislate. It's a very inefficient way to legislate. I don't look at this as a quick fix, but I think we need to address this problem. I'm chairman of the Committee on Rules subcommittee that has been looking into this, although we haven't taken any concrete steps at this time.

I also think that we need to look very carefully at reforming the scorekeeping procedures for credit programs and asset sales. This is an area in which we could do some real good. But if we're not care-

ful, we could do some real harm by further obscuring the true cost of credit programs and continuing perverse incentives to sell Government assets and engage in other activities that actually increase the long-term deficit. But a rational reform of scorekeeping procedures, based on the fiscal effects of Federal activities, could have a number of beneficial effects.

By scoring the subsidy cost of direct and guaranteed loans, rather than the entire cost of direct loans and nothing for guaranteed loans, we could make the process of deciding between direct support or credit support for an activity more rational.

By scoring the actual loan transactions and any asset sales as part of the financing of the deficit, rather than as outlays and offsetting collections, we could more accurately reflect the true deficit. We would also reduce the cost of financing the deficit by ensuring that the Treasury obtains financing at the lowest rate possible, rather than paying a premium for financing through asset sales and loan repayments.

Also these changes would simplify the budget. We would have more control over credit programs, even though we would eliminate the separate credit budget that is now required by the Budget Act. Again, such reform would not dramatically affect the deficit. In fact, in any given year, it is not clear whether these scorekeeping changes would increase or decrease the deficit, but these are the sort of reforms, together with reforms in reconciliation, that I think make sense.

What I'm really trying to tell you, Mr. Chairman, is that I don't think there are any great, dramatic reforms that we're going to make that's going to bring about a dramatic decrease in the deficit and so forth, but there are some relatively minor, in the overall picture, reforms that can be made, which I think would have a very positive effect on the budget process.

In closing, let me say this, that I'm one of those that believes in the budget process, and I believe that our country is better for having the budget process. I believe that we, as Members of Congress, are able to deal with our budget matters and expenditures in a more rational way because of it, and I thank you very much for allowing me to attend.

[Mr. Derrick's prepared statement follows:]

TESTIMONY OF  
REPRESENTATIVE BUTLER DERRICK  
BEFORE THE SUBCOMMITTEE ON  
LEGISLATION AND NATIONAL SECURITY  
APRIL 30, 1987

MR. CHAIRMAN, I WANT TO THANK YOU FOR THE OPPORTUNITY TO TESTIFY BEFORE THE SUBCOMMITTEE ON THE ISSUE OF BUDGET PROCESS REFORM. I HAVE MORE THAN AN ACADEMIC INTEREST IN THIS SUBJECT SINCE I AM THE CHAIRMAN OF THE BUDGET COMMITTEE TASK FORCE ON THE BUDGET PROCESS AND CHAIRMAN OF THE RULES SUBCOMMITTEE ON LEGISLATIVE PROCESS WHICH DEALS WITH BUDGET PROCESS ISSUES WITHIN THE JURISDICTION OF THE RULES COMMITTEE. ALSO, WITH THE EXCEPTION OF SPEAKER WRIGHT, WHO SERVED AS THE LEADERSHIP MEMBER OF THE BUDGET COMMITTEE UNTIL THIS CONGRESS, I HAVE SERVED ON THE BUDGET COMMITTEE LONGER THAN ANY OTHER DEMOCRATIC MEMBER OF THE HOUSE.

IN SHORT, I HAVE HAD A PRETTY GOOD VANTAGE POINT FROM WHICH TO OBSERVE THE OPERATIONS OF THE BUDGET PROCESS SINCE 1974. IT CERTAINLY DOES NOT REQUIRE SUCH A GOOD VANTAGE POINT TO KNOW THAT THERE ARE SOME THINGS WE COULD DO TO IMPROVE THE PROCESS, ALTHOUGH MAKING SURE THAT THE THINGS WE WANT TO DO WILL REALLY END UP AS IMPROVEMENTS IS NOT EASY.

WHERE I THINK MY PERSPECTIVE IS PARTICULARLY USEFUL, HOWEVER, IS IN UNDERSTANDING THE LIMITS OF BUDGET PROCESS REFORM. WE HAVE A LOT OF PEOPLE AROUND HERE NOW WHO ARE QUITE UNDERSTANDABLY UNHAPPY WITH THE AMOUNT OF TIME WE SPEND ON BUDGET MATTERS, PUSHING INTO THE BACKGROUND IMPORTANT ACTIVITIES SUCH AS OVERSIGHT. THEY ARE ALSO UPSET THAT WE ALWAYS SEEM TO BE LATE

ADOPTING BUDGET RESOLUTIONS AND RECONCILIATION BILLS. THEY OBJECT TO FINANCING THE GOVERNMENT THROUGH LONG TERM CONTINUING RESOLUTIONS. MOST OF ALL, THEY ARE VERY UNHAPPY WITH THE HUGE DEFICITS THAT WE HAVE BEEN RUNNING IN RECENT YEARS.

THERE CERTAINLY IS NOTHING WRONG WITH PEOPLE BEING UPSET ABOUT THESE THINGS. I AM UPSET ABOUT THEM TOO. THE PROBLEM IS THAT THERE ARE A NUMBER OF THESE PEOPLE WHO SEEM TO THINK THAT ALL OF THESE AWFUL THINGS ARE A RESULT OF SOME FLAW IN THE BUDGET PROCESS AND THAT IF WE JUST MAKE OUTLAYS SUBJECT TO A POINT OF ORDER OR ADOPT BIENNIEL BUDGETING, WE WILL HAVE A BALANCED BUDGET AND NO MORE CONTINUING RESOLUTIONS.

OF COURSE THAT IS NOT GOING TO HAPPEN. THE PROBLEMS WE HAVE BEEN FACING WITH THE BUDGET ARE THE RESULT NOT OF SOME FLAWED PROCESS, BUT OF FLAWED POLICY AND THE LACK OF RESOLVE TO FACE SQUARELY THE FAILURES OF THOSE POLICIES. THEY ARE THE RESULT OF THE INABILITY OF THE PRESIDENT AND CONGRESS TO AGREE ON THE MOST FUNDAMENTAL OF ISSUES: WHAT DO WE WANT THE FEDERAL GOVERNMENT TO DO AND HOW ARE WE GOING TO PAY FOR IT. NO AMOUNT OF PROCESS REFORM IS GOING TO SETTLE THAT ISSUE.

THE PROBLEM WITH THE VIEW THAT THE PROCESS IS RESPONSIBLE FOR THE FISCAL MESS WE ARE IN IS TWOFOLD. FIRST, CONCENTRATING OUR ATTENTION ON THE BUDGET PROCESS DISTRACTS US FROM THE REAL PROBLEM. IN FACT, I AM AFRAID THAT IS EXACTLY THE INTENT OF AT LEAST SOME ADVOCATES OF BUDGET PROCESS REFORM. AS LONG AS THEY CAN FOCUS ATTENTION ON THE PROCESS, MAYBE NOBODY WILL NOTICE THAT THEY DON'T HAVE ANY IDEAS ABOUT HOW TO REDUCE THE DEFICIT WHILE

PROVIDING THE GOVERNMENT SERVICES THAT THE AMERICAN PEOPLE HAVE MADE CLEAR THEY WANT.

SECOND, BY APPROACHING BUDGET PROCESS REFORM WITH THE IDEA THAT WE HAVE TO COME UP WITH SOLUTIONS FOR THE DEFICIT PROBLEM OR THE PROBLEM OF CONGRESS GETTING ITS BUDGET WORK COMPLETED ON TIME, I BELIEVE WE ACTUALLY REDUCE THE CHANCES OF DESIGNING AND IMPLEMENTING REAL, MEANINGFUL REFORMS. EVERYBODY IS FOCUSING SO MUCH ON SUCH ILLUSORY QUICK FIXES AS GRAMM-RUDMAN-HOLLINGS THAT THEY DON'T PAY MUCH ATTENTION TO REFORMS WHICH DON'T HAVE ANY POTENTIAL TO DRAMATICALLY REDUCE THE DEFICIT BUT COULD SIGNIFICANTLY IMPROVE THE DECISION-MAKING PROCESS AROUND HERE.

FOR EXAMPLE, I BELIEVE THAT WE HAVE HAD A REAL PROBLEM WITH ALL SORTS OF EXTRANEOUS MATTERS BEING INCLUDED IN RECONCILIATION BILLS. THIS MAKES THE PASSAGE OF THESE BILLS DIFFICULT AND PRECLUDES THE KIND OF CAREFUL CONSIDERATION THAT MANY OF THESE MATTERS DESERVE. HOWEVER, CORRECTING THIS PROBLEM WOULD NOT SIGNIFICANTLY REDUCE THE DEFICIT OR CORRECT ANY OF THE OTHER MAJOR PROBLEMS THAT MEMBERS ARE CONCERNED WITH, SO THIS ISSUE HAS NOT RECEIVED A LOT OF ATTENTION. IT IS ALSO A VERY COMPLICATED ISSUE, BECAUSE YOU HAVE TO BE VERY CAREFUL IN DEFINING EXTRANEOUS MATTERS AND IN MAKING SURE THAT YOU DO NOT EXCLUDE LEGISLATION WHICH ACTUALLY HELPS TO PASS A RECONCILIATION BILL BY AMELIORATING SOME OF THE PAINFUL SPENDING CUTS IN RECONCILIATION. YOU ALSO HAVE TO BE CAREFUL THAT YOU ARE NOT JUST GIVING ONE COMMITTEE OR ONE PERSON THE RIGHT TO DECIDE WHAT IS OR IS NOT INCLUDED IN RECONCILIATION. FOR ALL OF THESE REASONS, IT IS NOT THE SORT OF ISSUE THAT LENDS ITSELF TO THE KIND OF QUICK-FIX

APPROACH TO THE BUDGET PROCESS THAT WE FIND ALL TOO OFTEN AROUND HERE.

I ALSO THINK THAT WE SHOULD LOOK VERY CAREFULLY AT REFORMING THE SCOREKEEPING PROCEDURES FOR CREDIT PROGRAMS AND ASSET SALES. THIS IS AN AREA IN WHICH WE COULD DO SOME REAL GOOD, BUT IF WE ARE NOT CAREFUL WE COULD DO REAL HARM BY FURTHER OBSCURING THE TRUE COSTS OF CREDIT PROGRAMS AND CONTINUING PERVERSE INCENTIVES TO SELL GOVERNMENT ASSETS AND ENGAGE IN OTHER ACTIVITIES THAT ACTUALLY INCREASE THE LONG RUN DEFICIT. BUT A RATIONAL REFORM OF SCOREKEEPING PROCEDURES BASED ON THE FISCAL EFFECTS OF FEDERAL ACTIVITIES COULD HAVE A NUMBER OF BENEFICIAL RESULTS. BY SCORING THE SUBSIDY COST OF DIRECT AND GUARANTEED LOANS RATHER THAN THE ENTIRE COST OF DIRECT LOANS AND NOTHING FOR GUARANTEED LOANS WE COULD MAKE THE PROCESS OF DECIDING BETWEEN DIRECT SUPPORT OR CREDIT SUPPORT FOR AN ACTIVITY MORE RATIONAL. BY SCORING THE ACTUAL LOAN TRANSACTIONS AND ANY ASSET SALES AS PART OF FINANCING THE DEFICIT RATHER THAN AS OUTLAYS AND OFFSETTING COLLECTIONS WE WOULD MORE ACCURATELY REFLECT THE TRUE DEFICIT. WE WOULD ALSO REDUCE THE COSTS OF FINANCING THE DEFICIT BY ENSURING THAT THE TREASURY OBTAINS FINANCING AT THE LOWEST RATE POSSIBLE RATHER THAN PAYING A PREMIUM FOR FINANCING THROUGH ASSET SALES AND LOAN REPAYMENTS. ALSO, THESE CHANGES WOULD SIMPLIFY THE BUDGET. WE WOULD HAVE MORE CONTROL OVER CREDIT PROGRAMS EVEN THOUGH WE COULD ELIMINATE THE SEPARATE CREDIT BUDGET THAT IS NOW REQUIRED BY THE BUDGET ACT. AGAIN, SUCH REFORM WOULD NOT DRAMATICALLY AFFECT THE DEFICIT. IN FACT, IN ANY GIVEN YEAR IT IS NOT CLEAR WHETHER

THESE SCOREKEEPING CHANGES WOULD INCREASE OR DECREASE THE DEFICIT. BUT THESE ARE SORTS OF REFORMS THAT WOULD MAKE THE BUDGET PROCESS MORE RATIONAL AND MORE REALISTIC AND THEY DESERVE OUR ATTENTION.

ANOTHER PROBLEM WE SEEM TO HAVE IS THAT WHEN WE DO ADOPT REFORMS THAT IMPROVE THE PROCESS, NOBODY SEEMS TO NOTICE OR IS WILLING TO GIVE THE REFORMS TIME TO WORK. FOR INSTANCE, I THINK THAT THE BUDGET PROCESS REFORMS THAT CAME OUT OF THE BEILENSON TASK FORCE AND WERE ATTACHED TO GRAMM-RUDMAN -HOLLINGS MADE SIGNIFICANT IMPROVEMENTS, BUT BECAUSE THE DEFICITS ARE STILL HIGH AND CONGRESS HAS NOT SUDDENLY STARTED ADOPTING BUDGET LEGISLATION IN AN ORDERLY AND TIMELY MANNER MOST PEOPLE DON'T APPRECIATE THOSE REFORMS AND SOME ARE CALLING FOR MAKING CHANGES IN THEM ALREADY.

I KNOW I DO NOT NEED TO PREACH TO YOU ABOUT RESPONSIBLE BUDGET PROCESS REFORM. CHAIRMAN BROOKS HAS ALWAYS BEEN ONE OF THE MOST THOUGHTFUL AND REASONED ADVOCATES OF PROCESS REFORM, AWARE OF THE IMPORTANCE OF SEEMINGLY SMALL CHANGES AND THE FALSE PROMISE OF MANY LARGE CHANGES. BUT, GIVEN THE CURRENT ATMOSPHERE WHERE THERE SEEMS TO BE A BUDGET PROCESS DEFICIT CURE OF THE WEEK, I THOUGHT IT WAS IMPORTANT TO PUBLICLY STATE MY BELIEF THAT IF WE ARE SERIOUS ABOUT THE BUDGET PROCESS WE WILL STOP LISTENING TO THE JOE ISUZU'S OF BUDGET REFORM AND WE WILL CONCENTRATE OUR ENERGIES ON CAREFUL STUDY OF UNSPECTACULAR REFORMS THAT COULD REALLY MAKE A DIFFERENCE IN THE LONG RUN.

Mr. FRANK. Thank you, Mr. Derrick. I appreciate what you said, and I think one point particularly ought to be underlined, because people don't understand what's involved when you're trying to make these reforms.

All these things have substantive impacts, and as you say, you can't just deal with reconciliation in the abstract. There's always going to be a temptation for people who care very legitimately about very important issues, and they are going to say, "Well, this is a very important issue for the elderly, for the defense of the country, for the environment, and this is my only chance," and it's going to be very difficult, which means, I think, if we do do these reforms, we're going to have to find a way to do them—it's kind of like an arms control, multilateral arms control conference—you're going to have to do them in a way that guarantees that everybody is going to have neutrality, because nobody is going to engage in unilateral renunciation of a way to advance what's a very legitimate policy objective.

We've got to be clear. Members who do this are doing these for good reasons. They're doing them because they care passionately about the national defense or hunger or some other issue. And so it's going to have to be worked out in a way that applies equally to everybody.

I thank the gentleman from South Carolina.

Mr. DERRICK. I will have my testimony transcribed and have it sent over to you in language that you can understand.

Mr. FRANK. I appreciate that, and we will incorporate it.

The subcommittee will be in recess, and we'll return to hear from Mr. DioGuardi.

[Recess taken.]

Mr. WISE [presiding]. I undertake this chairmanship with some trepidation as I do not have a cigar, but staff has assured me that Chairman Brooks is granting a waiver in this case.

We are privileged to have before us today testifying, Representative Joseph DioGuardi from New York. Of course, as always, your testimony will be made a complete part of the record and we welcome your remarks.

#### STATEMENT OF HON. JOSEPH DIOGUARDI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. DIOGUARDI. Thank you, Mr. Chairman. I was hoping I would have the pleasure of addressing Mr. Brooks and Mr. Horton here, they have heard me speak many times on this subcommittee before I became a ranking member of the Housing and Employment Subcommittee. I've had to leave this one with regret because I feel this subcommittee plays a very key role in looking at what's really happening today in Government operations, specifically those relating to the budget process and the accounting systems we employ to measure everyday, the economic reality of Government.

I could speak at length, obviously, having practiced for 22 years in the private sector as a certified public accountant, but I wanted to just highlight some of my main concerns since this committee has heard me speak over and over again as a member of the committee on my big concern over the budget process, and over the

lack of financial management and sensible accounting systems that are used here in Washington today.

So, I'm submitting for the record, Mr. Chairman, a very detailed statement that I prepared myself that takes from the many speeches I've given around the country, the op-ed pieces I've written in newspapers, and in other testimony I've given bringing together not only my concern about the budget system, but the fact that you cannot extricate concern about the budget system from concerns about financial management systems and the accounting systems we use here in Government; dealing with one without dealing with the others will lead to no real progress in dealing with the problems of Government.

As a matter of fact, I'm giving a speech tomorrow morning in Miami. I'm on an eight-city tour for the rest of this year speaking not only as a Congressman, but as a certified public accountant, one of only four here, about the lack of accountability here in Washington to people.

We've been using a double standard. We tell the business community and people to come under a standard through the SEC, through the IRS before they file their tax returns, before they're able to sell any shares of stock, and yet, what do we do here in Government, we use one of the most ridiculous Mickey Mouse accounting systems anyone has ever created.

As a matter of fact, Mr. Chairman, we took New York City off of the same Mickey Mouse cash basis of accounting in 1975, the same system that we're using today. And we took them off of it as a price for the Seasonal Financing Act, that was the bailout of New York City.

Now, I was a young partner at Arthur Andersen in those days and I was kind of assigned to that account. We monitored the fiscal affairs of New York City, because Senator Proxmire needed the private sector to help him in looking at his responsibilities as a member of the, I guess it was the Banking Committee there in the Senate. And I was appalled to find out what New York City was doing. It was the biggest shell game in the world. And they were using a capital budget. We still don't even have a capital budget here today; 37 States of 45 that responded to the GAO's request said they had a capital budget, and yet the United States of America, the world's largest financial entity, still does not have a capital budget.

Worse than that, we're using an accounting system, cash basis, that's designed to disguise economic reality.

And I was listening with interest to Buddy MacKay's testimony where he asked very simply what every Congressman wants, he wants a fiscal impact statement so he knows what his votes and the votes of other Congressmen are costing. It's not a partisan issue. It's the issue of accountability. We owe it to the public. We owe it to ourselves as fiduciaries. And, yes, we trust this is the best nonprofit organization ever created. It's the United States of America.

And yet, as fiduciaries, we don't know. You don't know, Mr. Chairman, the cost of many of these Government programs that you vote on.

He was looking at it from the point of view of what was spent. And I was talking to him on the way over to the next vote and I said, "You know, Buddy, your testimony was excellent. But really what I would have said, the only change I would have made in your testimony is, not just what was spent, but what was obligated." Because Congressmen have learned to design around the current system by not always asking for things that are being spent this year, because they know that the budget process is tied up with what is actually spent. So, in order to get what they want, they make sure a lot of what they want is spent in the future. But because of our accounting system, we don't record on the books of the United States of America contingencies, guarantees, accounts payable, accrued pensions. You name it, they're not on the books.

And if we don't start dealing with economic reality, we will be passing on to the next generation a God awful amount of debt, much more than the \$2.2 trillion that is on the books. That's the amount we have borrowed from the public.

So, I'm here to say that, we need to look at a budget process that works, because it is ridiculous to be staying up here until 2 o'clock in the morning sometimes with supplemental budgets and continuing resolutions. There's no question that the procedure must be changed. But the procedure has to be based on sound accounting principles, and financial management systems that can control a trillion dollars' worth of cash that goes through this system every year, the world's largest financial entity.

So, I'm going to be speaking kind of as a watchdog for the public. I see my role as one who has come out of the private sector, not having run for anything in my life before I ran for Congress, as one who has to sound the alarm for the public because we're getting to the point, and I've done this many times on TV, I'll do it here, that this voting card that you and I use has now become the most expensive credit card in the world. Every time you and I vote, many times the cost of those programs is hidden and becomes part of future budgets because of the lack of accountability here in Washington today, because we're not using a system that the SEC imposes on business before they allow public companies to sell stock. And yet, we sell tens of billions of dollars of bonds every month, and the public, no Congressmen get—neither they nor Congressmen get one piece of paper showing the financial condition of the United States of America.

So, I think it's time that we say, let's do as we say and not just or let's not use the public approach, do as I say don't do as I do. Because I think the public is becoming aware that there is a lack of accountability. And that's basically the bottom line of my testimony, Mr. Chairman, not to talk about sophisticated accounting systems, not to review all of the things that the GAO has said so well in all of their many good blue back reports, but to just bring it down to a sensible statement that we here in Congress need to be accountable to the people, because one day they're going to wake up and they're going to say, how did the cost of Government get this big without our elected officials knowing about it.

And I'm here to say that it's happening right under our noses, and we can't allow it to happen any further because we are literal-

ly guaranteeing the next generation a standard of living that is much lower than the one that we have today.

So, I submit to the record that fairly lengthy statement that embodies some of the testimony of Chuck Bowsher. And I would conclude with one point that I wanted to focus on Chairman Brooks, because I believe he and Mr. Horton have done a wonderful job. I was on this committee for 2 years, and I like the zeal with which they approach their responsibilities as watchdogs on the Government Operations Committee, as do the other members. And I wanted to be sure that Mr. Brooks and you and the other committees know that, already the administration is proposing something I've been talking about for the last 2 years. In fact, my bill, the Financial Management Improvement Act, was just recently introduced as H.R. 1241; it was H.R. 4495 last term. But now we find that the administration itself, on page 26 of their management outline for fiscal year 1988, is calling for a chief financial officer in Government; something I've been calling for now—this is my second term. But I wanted to alert the chairman, and you can read this on page 26 of the book. It says here, "As a key measure in support of this program," and this is the administration's Financial Management Program, "the position of a chief financial officer will be established within OMB to provide leadership."

I wanted Mr. Brooks to know that this is a wrong approach. A chief financial officer should be adopted as is called for in a bill that I have sponsored, but this would be the wrong way to go. It would be like putting the fox or the wolf into the chicken coop. It just seems to me that a chief financial officer is needed, but it should be done in the Executive Office of the President, and it should be someone like the Comptroller General with a term that goes beyond the Presidential term. The Comptroller General is appointed for 15 years; I think that it would be reasonable to appoint a chief financial officer for 10 years.

And by the way, Chuck Bowsher, the Comptroller General, agrees with this approach and has endorsed this concept.

So, it seems to me that we've got to take accounting away from politics. We've got to create a system of financial management that allows us to do our job and takes politicians away from the numbers, so to speak, in a sense that they can change them from year to year because that's what leads to the lack of accountability.

So, I would employ you and Chairman Brooks and the members of this committee to look carefully at this recommendation of the administration to adopt a chief financial officer, but not allow it to come within the office of OMB, because that's an agency which is really tied up with budget and not enough with M. There is no management in OMB or if there is it's very little. I would like to see a CFO in a different place. And I've called for it in the Executive Office of the President, someone who cannot be fired but can be impeached just like the Comptroller General.

With that, Mr. Chairman, I'll conclude my testimony and leave the statement that I filed for the record to say the rest. I'll be prepared to answer any questions you might have.

[Mr. DioGuardi's prepared statement follows:]

TESTIMONY OF  
THE HONORABLE JOSEPH J. DIOGUARDI (N.Y.-20)  
BEFORE  
THE HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE  
ON LEGISLATION AND NATIONAL SECURITY  
HEARING  
ON BUDGET REFORM  
APRIL 30, 1987

Mr. Chairman, if there is one thing all of us in Congress can agree upon, it is that the budget process is not working and is badly in need of reform. While I support many of the proposals the committee has heard, it is my strong belief, however, that we will never be able to achieve true meaningful budget reform until we address the financial management and accounting of the resources already at our disposal. In other words, we can tinker with the budget process all we want, but if we continue to plug faulty and unreliable data into our budget equations, we will continue to produce meaningless budgets and will fail to give the American taxpayer full accountability for the way we spend their money.

The well-intentioned effort to reach Gramm-Rudman deficit reduction targets and the "smoke and mirrors" means of reaching such targets is painfully reminding us of the poor quality of accounting in the Federal government. Some systems are not in very good shape, and many don't tell us if we're making good decisions on cutting programs.

There is nothing new about this state of affairs. For years, the General Accounting Office's famous blue-covered reports have been telling us the same story: Our departments and agencies are a veritable jungle of special purpose, incompatible, antiquated accounting systems producing unreliable, and often irrelevant financial information. One of the latest GAO studies, moreover, reports that 53% of agency accounting systems do not conform to GAO accounting principles, standards and related

requirements. In short, Federal financial management is in shambles and there is little accountability to the American taxpayer for the revenues spent on their behalf.

A bill I have introduced in the House of Representatives, the Federal Financial Management Improvement Act of 1987, is designed to put in place the linchpin of financial discipline that is nowhere to be found in Washington.

The Federal Financial Management Improvement Act would:

- 1) Establish an independent Office of the Chief Financial Officer of the United States within the Executive Office of the President for the purpose of providing government-wide direction and coordination of financial management activities;
- 2) Establish an office of the Assistant Secretary for Financial Management within each executive agency; and
- 3) Create a Federal Financial Management Council chaired by the Chief Financial Officer and composed of the Assistant Secretaries of each executive agency.

Other voices besides my own and that of the GAO have called attention to the inadequacy of Federal accounting systems and the lack of accountability inherent in the existing Federal financial management system. The Grace Commission dealt at length with the problem, and one can also look to a September 1985 study by the Systems Committee of the President's Council on Management Improvement concerning a "Strategic Plan for Federal Financial Management."

That study is unique in that it does not depend on the assessments of outside critics. Its results come from those on

the firing line: financial management executives in Federal departments and agencies. Those interviewed for the study regarded less than 50% of governmental accounting and financial reporting systems as capable of producing timely, accurate and relevant information for management decisionmaking. 61% of the systems cannot provide the data necessary for assessing management performance. 35% of the systems were considered incapable of providing sufficient data to support the allocation of funds, and 33% do not provide effective control over and accountability for assets.

The extent to which the government as a whole departs from basic accounting textbook requirements -- to say nothing of common sense -- defies logic. An earlier GAO study, *Managing the Cost of Government*, pointed out for example, that agency budgeting and accounting for program costs are largely done on different bases, and are isolated from one another. Budgets are requested and justified in terms of programs and projects, such as infant health care or dams for flood control. Accounting and other financial reports, however, often focus on appropriations and categories of expenses such as travel or personnel, without relating them to the particular programs or projects for which the money was requested and approved.

As well as producing bad financial information, inadequate accounting systems are a pervasive source of government waste.

In the case of both faulty internal control evaluations and faulty accounting system compliance assessments, the GAO has

cited the Office of Management and Budget (OMB) failure to develop adequate guidelines as a principal cause. But something more fundamental is at issue. Despite OMB's best intentions, the development of such guidelines may require more time, resources and expertise -- and the actual process more leadership -- than OMB can provide, or is likely to provide under the current system. OMB's lack of resources, and frankly, the secondary role of financial management to budgetary considerations, hampers the Office's ability to give adequate emphasis to financial management matters.

While it appears that OMB finally is giving financial management the attention it deserves, it is a highly specialized area which deserves independent, top level attention in its own right.

It does not now have that status. Despite the number of financial management improvement initiatives that have been undertaken, no structure or mechanism has been developed to improve financial management on a government-wide basis and assure not only continuity of effort across successive administrations, but systematic progress toward a set of established, long term financial management goals.

Instead, almost the opposite is true. Financial management leadership responsibilities and functions are seriously fragmented and disorganized, resulting in inconsistencies, overlap and duplication.

Federal financial management functions are split among three

central agencies in the executive branch: OMB, the Office of Personnel Management (OPM) and the Department of the Treasury, the various executive branch agencies and the GAO in the legislative branch. None of these entities has clear cut responsibility for oversight and direction of the Federal government's financial management operations and activities. In addition, financial management responsibilities have frequently been shifted from one central agency to another; and in each central agency, financial management functions must compete with a number of other assigned responsibilities for their fair share of attention.

There is a missing link in the Federal government. The financial management leadership void must be filled and a CFO would achieve this goal.

Instituting a Chief Financial Officer for the United States would be a quantum leap forward in addressing the issue of Federal financial management accountability and it is appropriate to highlight several key components of the Federal Financial Management Improvement Act.

First, creation of an independent office for the CFO. A great deal of thought has been given to the difficult question of where a CFO function should be placed. At one time or another, OMB, the Treasury Department or a new office of Federal Management have all been considered as alternatives. In my opinion, the best organizational approach would be a new, independent office in the Executive Office of the President. History has shown that financial management functions placed in

other organizations do not receive the attention they deserve.

Second, duties of the CFO. The CFO will have responsibility for operational financial management leadership -- comparable to the responsibility accorded a controller in the private sector.

Third, term of office for the CFO. Financial management improvements have a long gestation period. Progress cannot be interrupted by changes in priorities and direction from administration to administration. Obviously, a certain amount of dislocation will occur under the best of circumstances, but I have attempted to insure maximum, long term continuity by establishing a CFO tenure of ten years.

Fourth, creation of the position of Assistant Secretary for Financial Management. The establishment of this position will insure top level, department-wide attention to the implementation of financial management initiatives and activities at the agency level; eliminate inconsistencies that exist among agencies in the status and structure of financial management operations; and eliminate internal agency overlap, duplication, and inconsistency in financial management activities.

Finally, creation of a Federal Financial Management Council. This Council will be composed of the CFO and the agency-level Assistant Secretaries for Financial Management. The Council will provide an important avenue of communication and interchange between the central financial management function and its counterparts in the departments and agencies -- resulting in more effective implementation and coordination of financial management

initiatives.

Gramm-Rudman was called a bad idea whose time had come. A Chief Financial Officer for the Federal Government is a good idea whose time is long overdue. Sound financial management practices are not just accountant's issues. It is not just a Republican issue and it is not just a Democratic issue. Colleagues on both sides of the aisle can agree on the clear need for action in this vital area. If we do not give our efforts to build fiscal discipline into the system a solid foundation of valid financial information and genuine financial discipline, the entire structure is capable of collapsing right around us.

Chairman Brooks, your leadership and that of Mr. Horton's have been instrumental in achieving true and lasting reform in managing the Federal Government. Today, your leadership is needed more than ever to ensure that efforts to improve Federal financial management and accounting systems are handled in a responsible manner. I would greatly enjoy the opportunity of working with you on this important issue.

Mr. WISE. A couple of questions. You partially answered one of them, which was how does OMB feel about your bill? I see that they have adopted part of the recommendation which you feel not putting the chief financial officer in the right place. Have you had other discussions about the total nature of your bill and how they feel about it, with OMB?

Mr. DIOGUARDI. Not with OMB. I haven't gotten into detail on the bill with OMB, although I've, from time to time, rushed by Mr. Miller, we've chatted informally about the concept. And as you can see, he supports a chief financial officer, but he feels he has to control that individual.

We haven't really spoken about the other elements of the bill. But I think more important, I've had lengthy conversations with the Comptroller General and his staff, and did not finalize the bill until I felt that they—it was something that they could support. And Mr. Bowsher has sent a 3-page letter out and has had testimony both on the Senate side and this side supporting this concept. And I think it's significant that the individual who we entrust to be, in effect, the quintessential auditor or watchdog in Government, supports this concept.

Mr. WISE. You have spoken about the capital budget. How do you feel about biennial budgeting?

Mr. DIOGUARDI. Very strongly. I think that we should have a bi-annual budget system. I would like to see budget reform in a more macrosense, and one of the elements of that reform should be a biennial budget.

My experience has been that we, in Congress, spend too much time on this budget process and we don't get enough meaningful information. And that if we had it every 2 years, we would probably come closer to what Buddy MacKay was asking for, fiscal impact statements, and we would be able to measure more appropriately the cost of these Government programs.

I think what we've done is, we've created a budget system which has tied up too much in what we spent last year, and we don't have enough time to make qualitative judgments and inquiries as to how the money was spent. And I see Congress spending more time, hopefully, in the future as a watchdog on how we spent the money, not just what we've spent.

Mr. WISE. I appreciate very much your observations. I might add for the gentleman that you were—while I was sitting in this committee room last year I was listening to you talk, and you were the first one I had heard talk about the complexities and problems and confusion in accounting in the Federal Government. So, you have some seeds, and I certainly appreciate your contribution there. Thank you very much.

Mr. DIOGUARDI. Thank you very much.

Mr. WISE. Since Congressman Beilenson is chairing a debate on the trade bill and cannot be here to testify, without objection we will insert his statement in the record at the appropriate place.

[See appendix.]

Mr. WISE. Today we've had a most indepth discussion among the Members of the House of Representatives as to what really ails the Federal budget. Every Member who testified before the subcommittee agreed that we have serious budgetary problems which we

must address soon. Proposed solutions to our current budget problems that we've heard today are many and varied. With each hearing in this series on the reform of the Federal budget process, the subcommittee's knowledge has grown considerably.

As our understanding of the problems with the Federal budget has increased, so has the subcommittee's determination to examine every proposed solution carefully to ensure that it does indeed have merit.

It is clear that several proposals that have been suggested have promise. These proposals will be the focus of the subcommittee's attention in the future.

This hearing is adjourned.

[Whereupon, at 1:52 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# APPENDIX

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## STATEMENTS SUBMITTED FOR THE HEARINGS

STATEMENT OF CONGRESSMAN ANTHONY C. BELLENSON  
BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY  
OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS  
APRIL 30, 1987

Mr. Chairman, I appreciate your invitation to appear before this subcommittee today to discuss possible changes to the Federal budget process.

The Rules Committee Task Force on the Budget Process, which I chaired from 1982 to 1984, concentrated on three areas of reform: accelerating the schedule for budget-related activity, strengthening enforcement of the budget resolution, and expanding the scope of the process to include off-budget activities, credit, and tax expenditures.

Although our task force bill was not considered by the full House of Representatives, many of its provisions were rolled into Gramm-Rudman-Hollings in 1985. To the extent that our recommendations were enacted, we were successful in improving the areas of the budget process that we wanted to change. It's just unfortunate that our relatively modest improvements were enacted as part of a larger measure which is proving to be an unwise and unrealistic approach to reducing the federal budget deficit.

However, there is one issue of great interest to me that our task force did not address: the membership of the House Budget Committee, which is the topic I would like to discuss with you today. From both our task force review and my own observations, I have concluded that the single most important step we could take to improve the effectiveness of the budget process in the House of Representatives is to change the composition and the

role of the House Budget Committee.

The concurrent budget resolution is the most important policy statement Congress approves each year, since it provides the basis for consideration of all subsequent legislation which has a budgetary impact. As such, it ought to be drafted by the leadership in conjunction with senior, experienced Members who have the responsibility for carrying out those budget decisions--not by a committee largely made up of relatively junior Members who are not in a position to implement the decisions that the committee makes. Budget resolutions would be much easier to enforce if the Members who have to implement them were the same ones who wrote them in the first place.

We should disband the existing House Budget Committee and replace it with a panel made up of the chairmen and perhaps a few ranking members of the Ways and Means and the Appropriations Committees (since those two committees together have jurisdiction over all revenues and about 90 percent of all spending) and several other chairmen and ranking minority members of committees which have jurisdiction over budget-related legislation. The new budget committee chairman should be the Speaker's appointee--and a good choice would be the Majority Leader.

It goes against the grain of tradition and custom in the House to have relatively inexperienced Members dictate instructions to the more senior, experienced Members, yet that is exactly what happens under our current set-up. The result is that the budget process doesn't work nearly so well as it should.

Virtually all the problems we have experienced in getting budget resolutions adopted and then ensuring they are enforced would disappear if they were hammered out in the first place by those who are responsible for enforcing them. From my perspective on the Rules Committee, I feel certain that we would have less need to grant waivers of the Budget Act, and we would have fewer instances of failure to adhere to reconciliation directives, if we had a budget committee composed mainly of the leadership and senior members of the tax and spending committees.

I also think that there would be fewer delays in House adoption of the budget resolution, because committee chairmen would be eager to finish it in order to move on to the work of their own committees. Drafting the budget resolution would be easier, because the budget committee wouldn't have to second-guess how Appropriations and Ways and Means might react to certain provisions--the leaders of those two committees themselves would be drafting them.

One comment I sometimes hear in response to this idea is that chairmen are too busy with their own committees to serve on the Budget Committee. I don't think that would be the case. I envision this new budget committee as less active than the current one. It would draft the annual House budget resolution and then largely cease to exist, except to go to conference with the Senate on the measure.

The new budget committee wouldn't have task forces--the current ones often duplicate the work of other committees, anyway. It probably wouldn't hold as many hearings--or it might

not hold hearings at all--since many of the Budget Committee's hearings duplicate those of other committees. Besides, even now the committee's year-round functions, such as monitoring legislation with a budgetary impact, tracking reconciliation, and advising the Rules Committee of the Budget Committee's position on Budget Act waivers, are handled by staff under the direction of the chairman and do not require meetings of the Members.

My proposal is not really original; the founders of our current budget process also wanted the kind of budget committee I am proposing.

The idea of setting budget guidelines through a concurrent resolution on the budget was conceived by the temporary Joint Study Committee on Budget Control in the early 1970's. That panel intended that budget resolutions serve as devices for coordinating the actions of committees with jurisdiction over spending and revenue legislation with leadership policy. Consistent with that idea, the Joint Committee recommended that two-thirds of the House and Senate Budget Committees be comprised of members of the revenue and appropriations committees, with the other one-third appointed by the leadership.

However, by the time the House passed the Budget Act, the proportion of House Budget Committee members who were to come from Ways and Means and Appropriations was reduced to less than one-half, and the Speaker and Minority Leader were provided with only one membership appointment each. This change effectively made the House Budget Committee a separate power instead of a coordinating panel for existing powers, as the Joint Committee had

intended.

In the ensuing years, we moved even farther from the Joint Committee's concept. Currently, only about one-third of the Budget Committee members serve on either Appropriations or Ways and Means, and neither those members, nor other Budget Committee members, necessarily act as representatives of their permanent committees. There is some leadership influence since the majority leadership position is held by the Majority Leader. But the leadership and the senior members of the tax and spending committees ought to have much more direct involvement in the budget process than they have now. It would make the whole process work more smoothly and effectively.

Mr. Chairman, thank you for providing the opportunity today to share my views on this matter with your subcommittee.

TESTIMONY OF  
THE HONORABLE E. CLAY SHAW, JR.  
BEFORE  
THE HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE  
ON LEGISLATION AND NATIONAL SECURITY  
HEARING  
ON BUDGET REFORM  
APRIL 30, 1987

Mr. Chairman, I want to congratulate you and the members of the Committee for holding this most important hearing at a point in time which might be looked back on by future historians as pivotal as to the future course of our nation. A major component of the budget process of our Government is the accounting system used to prepare the budget, to audit expenditures, and to produce the financial information upon which we in Congress base so many of our decisions. How many times have "hidden" costs crept out of a program to surprise and embarrass us? How many times have agencies suddenly "found" money to maintain programs after Congress halted their funding?

In 1802 Thomas Jefferson wrote a letter to Secretary of the Treasury Albert Gallatin concerning the need for reforming the accounting practices of the Federal Government. He wrote and I quote:

"I think it an object of great importance ... to simplify our system of finance, and to bring it within the comprehension of every member of Congress...[so that]...we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them."

Few, if any of us would attempt to manage even a small business without the use of standardized reports such as: liquid assets/current liability comparisons, income and expenditure statements, balance sheets, and cash flow reports. Yet every day, we make management decisions for the U.S. Government with less financial information available to us than we would require to run a corner grocery store.

Several facts stand out which we and the Congress must face. Our accounting system is totally inadequate for purposes of measuring our deficit. The financial statements of our nation completely disregard the vast store of assets that we are using up and building up. Our books have no memory because the results of the preceding years are completely wiped aside each year and a new set of books drawn up to report the current year. Our infrastructure is used up without any accountability by our current leaders. We have found that is much more politically expedient to lease property rather than buy it, even when the total cost to the government may three and four times as great. We are making long-range decisions based upon current short-term considerations. Mr. Chairman, the list goes on and on, but I shall come to the point.

Our present system is nothing but the most simplistic cash accounting system that really tells us nothing. We must set up accounting principles for the federal government similar to those used by businesses in the private sector incorporating therein

generally accepted accounting principles.

An inventory of the great store of fixed assets which this country owns must be set up and proper accounting records established so that they may be properly valued and depreciated as they would be for any other type of business. Whether it be construction or purchase of an office building, a missile or an aircraft carrier. These assets must be capitalized on our books and depreciated out over their useful life. The assets that we have presently in our inventory should be treated likewise and depreciated over some reasonable period approximating their estimated useful life.

Currently, if we enter into a lease on a building, the current year budget will only reflect the expense in this year's books; this year's rent. Conversely, if we construct a building, which in most cases is the most prudent course to take, we have to reflect the entire cost of the building up front. No administration wants to build a building or buy a building today because it increases the current deficit. Also the next administration will look good due to the fact that they will have use of the building without having to account for the cost of construction or acquisition. This is clearly wrong but this process has unfortunately affected the consideration given for such purposes by administration after administration. I would be glad to document examples of this practice should the committee so desire.

Mr. Chairman as you are well aware, this is not the first time the subject of budget process reform has been addressed. The Second Hoover Commission met during your freshman term in Congress, they were preceded by a series of budget reformers stretching back to the Dockery Act of 1894. The history of accounting reform is full of initiatives which, however well intentioned, failed to achieve their goals. I feel that in most cases these failures can be attributed to similar causes. Previous reformers did not make different mistakes, they all tended to make the same mistakes. Most previous attempts at financial management reform tended to forget one simple point: the primary function of accounting is to accumulate and communicate information. Attempts to use the accounting system or budget process to accomplish other goals, as many previous reformers have attempted, is counterproductive. If an understanding of our finances is ever to be reached it will have to be done by acceptance of certain facts.

First, financial, or any other type of management, reform initiatives should not be used to achieve partisan political objectives.

Second, accounting systems must be designed to provide us with accurate information, not tell us what we would like to hear. Discovering that we are paying \$600.00 for hammers or \$2000.00 for welfare hotels does not mean that our auditing system is wrong. Refusing to implement accounting reform because we are afraid that

a particular program may not appear to be cost effective will not, in the long run, save the program. Such actions will only prevent us from gaining the information which might allow us to improve the program and thereby insure its continued existence.

Third, financial management and the budget process must be viewed as a total system. Many past reformers addressed themselves to only a small portion of the system or setteled for implementaion of "the meaningful majority" of their recommendations. This tends to be somewhat akin to constructing a car and leaving off the wheels. You may have accomplished 90% of your objectives but you are not likely to go anywhere. Equally, adding a few modern methods to an antiqueted financial management system could be compared to installing a V-8 engine in a Model T. Any proposals which do not take into consideration the entire system and the interrelationship of its components is doomed to failure.

Finally, Mr. Chairman, I think it is most important that we closely examine what we are doing budget-wise and develop a brand new concept of what type of deficit are we running up for the federal government. It may be greater than we presently report or it might be substantially less or even nonexistent. Only by recognizing historical accounting records and capitalizing current purchases and adopting a form of accrual accounting can we assemble accounting records that have any useful value. It can be said in accounting as in other decisions, you can not determine the direction that you are going without knowing where you have been.

The quality of the management of the federal government is, or should be, of concern to all Americans. While it is unlikely that we will ever achieve the clarity desired by Thomas Jefferson, it seems unwise, at best, to administrate a trillion dollar government without a better understanding of where our resources are being expended and why.

STATEMENT BY SENATOR WILLIAM V. ROTH, JR.

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

APRIL 30, 1987

MR. CHAIRMAN, I AM PLEASED THAT THE HOUSE GOVERNMENT OPERATIONS COMMITTEE IS HOLDING HEARINGS ON THE BUDGET PROCESS. THE SENATE IS CURRENTLY CONSIDERING THE BUDGET RESOLUTION, SOON IT WILL TAKE UP THE SUPPLEMENTAL APPROPRIATIONS BILL, AND SHORTLY AFTER THAT WILL BE THE DEBT LIMIT. AS WE ENTER THE BUDGET DEBATE, WE SHOULD TAKE A FEW MOMENTS TO CONSIDER THE BUDGET PROCESS AS A WHOLE.

AS RANKING MEMBER OF THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE, I AM VERY AWARE OF THE NEED FOR BUDGET PROCESS REFORM. THE CHAIRMAN OF THE COMMITTEE, SENATOR GLENN, HAS ALSO EXPRESSED INTEREST IN THIS, AND WE PLAN TO WORK TOGETHER TOWARDS SUCH A GOAL. I AM HOPEFUL THAT EQUAL INTEREST IN BOTH HOUSES WILL ENABLE THE CONGRESS TO MOVE FORWARD ON BUDGET PROCESS REFORM.

THE PRESENT ANNUAL BUDGET PROCESS IS A MESS. IT FOSTERS UNCERTAINTY IN THE FINANCIAL MARKETS, CREATES BUDGETARY

UNCERTAINTY FOR RECIPIENTS OF FEDERAL FUNDS, RESULTS IN REDUNDANT CONGRESSIONAL ACTION ON BUDGET MATTERS, ENCOURAGES THE USE OF BUDGETARY GIMMICKS, AND FOCUSES ATTENTION AWAY FROM DEVELOPING LONG TERM NATIONAL PRIORITIES.

A TWO YEAR PROCESS WOULD HELP SOLVE ALL THESE PROBLEMS. A BIENNIAL PROCESS WOULD PROVIDE GREATER STABILITY AND CERTAINTY FOR FINANCIAL MARKETS AND RECIPIENTS OF FEDERAL FUNDS . A TWO YEAR BUDGET WOULD ENABLE CONGRESS TO FOCUS ON NATIONAL FISCAL POLICY AND THE DEVELOPMENT OF NATIONAL OBJECTIVES. IT WOULD CREATE AN ORDERLY, PREDICTABLE PROCESS -- ONE THAT WOULD IMPROVE THE OPERATIONS AND EFFECTIVENESS OF THE CONGRESS. A TWO YEAR BILL WILL ALSO REMOVE THE ENTICEMENT FOR CONGRESS TO MOVE SPENDING FROM ONE YEAR TO THE NEXT, SIMPLY TO DEMONSTRATE THE APPEARANCE OF DEFICIT REDUCTION. SUCH GIMMICKS ARE THE WORST KIND OF SMOKE AND MIRRORS.

ON JANUARY 29, I INTRODUCED S.42, THE FEDERAL BUDGET REFORM ACT OF 1987, LEGISLATION DESIGNED TO IMPROVE CONGRESSIONAL CONTROL OVER THE FEDERAL BUDGET PROCESS AND PROMOTE BETTER ACCOUNTABILITY TO THE PUBLIC BY MAKING CLEAR OUR SPENDING AND BUDGET PRIORITIES. SENATOR DOMENICI, ALONG WITH EIGHT OTHER SENATORS, HAVE JOINED ME IN CO-SPONSORING THIS LEGISLATION. TOGETHER, THE TEN OF US HAVE MORE THAN 100 YEARS OF EXPERIENCE IN PLANNING AND VOTING ON FEDERAL BUDGETS -- AND WE THINK IT IS TIME FOR A CHANGE.

THIS IS THE FOURTH CONGRESS IN WHICH I HAVE INTRODUCED LEGISLATION TO CREATE A BIENNIAL BUDGET. NOW, MORE THAN EVER

BEFORE, THE CONGRESS MUST CAREFULLY CONSIDER THE METHODS BY WHICH IT MAKES BUDGET DECISIONS. OTHERS HAVE INTRODUCED BIENNIAL BUDGET BILLS -- TOGETHER WE SHOULD BE ABLE TO FORGE A TWO YEAR PROCESS WHICH IMPROVES THE EFFECTIVENESS OF THE CONGRESS.

THE FEDERAL BUDGET REFORM ACT OF 1987 IS DESIGNED TO PUT THE CONGRESS ON A BIENNIAL BUDGET BASIS. OUR PRESENT PREOCCUPATION WITH BUDGET ISSUES LEAVES VERY LITTLE TIME FOR OTHER LEGISLATION, NOT TO MENTION VITAL OVERSIGHT OF FEDERAL AGENCIES. THE BUDGET IS ONE OF THE MOST IMPORTANT PIECE OF LEGISLATION WE CONSIDER EACH YEAR, BUT INCREASINGLY, THE CONGRESS APPEARS UNABLE TO DEAL EFFECTIVELY WITH THE BUDGET PROCESS.

I AM NOT ADVANCING THE NOTION THAT BUDGET PROCESS REFORM WILL CURE OUR DEFICIT DILEMMA, BUT I AM SUGGESTING THAT THIS IS AN IMPORTANT FIRST STEP IN GAINING CONTROL OVER FEDERAL SPENDING POLICIES. EQUALLY IMPORTANT, OUR REFORM IS NEEDED IF THE CONGRESS HOPES TO BETTER MANAGE THE AMOUNT OF TIME AND EFFORT SPENT ON THE BUDGET PROCESS.

TO THE AMERICAN PEOPLE, CONGRESS APPEARS HAMSTRUNG BY ITS OWN PROCEDURES AND UNABLE TO COPE WITH THE MOST URGENT FISCAL PROBLEM OF THE NATION. IT IS CLEAR THAT THERE IS GROWING MOMENTUM FOR A TWO YEAR BUDGET PROCESS. INDEED, AS YOUR FIRST HEARING DEMONSTRATED, THERE IS GREAT SUPPORT FOR PROCESS CHANGE. ALL FIVE WITNESSES -- EACH OF WHICH HAS CONSIDERABLE KNOWLEDGE OF THE FEDERAL BUDGET, ENDORSED THE IDEA OF MULTI-YEAR BUDGETING.

THERE'S NO QUESTION THAT THE BUDGET ACT OF 1974 WAS A MAJOR IMPROVEMENT OVER WHAT HAD BEEN A HAPHAZARD AND VIRTUALLY UNCONTROLLABLE PROCESS. BUT IN THE LAST SEVERAL YEARS, THE PROCESS HAS RESULTED IN CONSTANTLY MISSED DEADLINES AND THE NEED TO RE-INVENT THE WHEEL EVERY TIME A BUDGET RESOLUTION, AUTHORIZATION MEASURE, APPROPRIATIONS BILL, OR CONTINUING RESOLUTION COMES ALONG. PUTTING THE BUDGET PROCESS ON A TWO YEAR TIMETABLE WILL ENABLE THE CONGRESS TO GIVE A MORE CAREFUL LOOK TO THE PRIORITIES INCORPORATED IN THE BUDGET, AS WELL AS GIVING THE CONGRESS MORE TIME TO DEVOTE TO OTHER IMPORTANT ISSUES.

BRIEFLY, THIS LEGISLATION WOULD AMEND THE BUDGET PROCESS BY CREATING A TWO YEAR AUTHORIZING, BUDGET RESOLUTION, AND APPROPRIATIONS PROCESS. EACH EVEN-NUMBERED YEAR CONGRESSIONAL COMMITTEES WOULD COMPLETE AUTHORIZATION MEASURES FOR THE FOLLOWING TWO YEAR FISCAL PERIOD. THE FIRST SESSION OF THE NEXT CONGRESS WOULD BE DEVOTED TO BUDGET AND APPROPRIATIONS, CULMINATING WITH A TWO YEAR BINDING BUDGET RESOLUTION EFFECTIVE THAT OCTOBER 1. WITHIN THE LIMITS ESTABLISHED BY THE BUDGET RESOLUTION, CONGRESS WOULD APPROVE ITS APPROPRIATION MEASURES.

I BELIEVE THESE REFORMS ARE ESSENTIAL IF WE ARE TO PREVENT THE BUDGET PROCESS FROM COLLAPSING UNDER ITS OWN WEIGHT. THE ALTERNATIVE WOULD BE MORE BUDGETARY DEBACLES LIKE THE PAST SEVERAL YEARS -- AND THAT IS AN ALTERNATIVE THAT THE AMERICAN PEOPLE SIMPLY WILL NOT ACCEPT.



