

The Federal Budget Process: Taxpayers Deserve Better

Statement of House Policy Chairman Christopher Cox (R-Calif.)

Committee on the Budget
U.S. House of Representatives
July 19, 2001

Good morning, Mr. Chairman. I appreciate your invitation to testify on structural reform of the Federal budget process. I'm also very happy to see our former colleagues Bill Frenzel and Bob Livingston here today.

The Will to Govern

Turning to former Members to discuss budget process reform is appropriate because of their unique perspective. In that spirit of looking to experience, to prepare for today's hearing I turned to the historical record of the Policy Committee, which I currently chair.

In 1975, Rep. Barber Conable of New York (now a member of the History of the House Advisory Board), chaired the House Republican Policy Committee. On April 29, 1975, he and his committee unanimously approved a prescient statement. I have copies of that statement for the Committee and for the members of the audience here. With your indulgence, I will read just the first paragraph and the conclusion of that House Policy Statement for the record:

Last year [1974], Congress undertook a major overhaul of the budget process. Instead of considering each spending measure separately on its merits and then adding them all up at the end of year to find out the total, Congress under the new procedure is supposed to set spending and revenue totals in advance and then discipline itself to see that individual spending and revenue measures adhere to the overall plan. The idea is that under the new budget process, Congress will control fiscal policy rather than succumb to every attractive spending scheme with no notion of the total impact of its actions.

That is the end of the first paragraph. Sounds like a good idea, right? It is saying, simply, budget first and spend second. In 1975, however, things did not turn out so well. The statement concluded as follows:

The Budget Committee's first Resolution [remember, this was the first time Congress ever used this process] comes just in time to reveal a government out of control and sliding into a state of fiscal disaster.... Major legislative efforts are needed to rein in 'uncontrollable' items and to establish a new pattern of legislative authorizations and appropriations. The new budget procedure is no panacea,

and the First Resolution on the Budget makes it clear that our whole legislative process must be rededicated to a will to govern.

Well, Mr. Chairman, notwithstanding the good advice of the House Republican Policy Committee more than a quarter of a century ago, that did not happen. Restructuring the Congressional budget process in 1974 was in fact no panacea. It did not prevent Congress from approving a record deficit in May 1975; and when, in 1976, Jimmy Carter became president, he soon recognized that the new process actually reduced his ability to control federal spending. As a result, the nation went from fiscal recession to fiscal disaster, while the newly-created “misery index” recorded skyrocketing home mortgage rates and a devastating stagflation. While the economy ultimately recovered seven years later, during the Reagan administration, even President Reagan was unable to tame the budget beast, and spending continued unabated.

Unique Controls

President Reagan concluded that Policy Chairman Conable was right: the 1974 “reforms” to the budget process contained no enforcement mechanism to require Congress to rein in spending and live within a budget. In 1986, as a member of President Reagan’s staff, I authored the report of the White House Working Group on Budget Process Reform. The findings of this Presidential task force were later summed up in the President’s annual Economic Report: the current budget process “does not serve the best interests of the Nation, it does not allow sufficient review of spending priorities, and it undermines the checks and balances established by the Constitution.”

Since then, federal spending has continued to grow, little abated. To sustain a rate of spending growth that has far surpassed the nation’s economic growth, the federal government today takes more from the national economy in taxes than at any time in the nation’s peacetime history. The fact that Republican-led Congresses have balanced the federal budget for four consecutive years—the first time we have sustained such a record in over 70 years—is testament only to how rare an achievement this is in a system lacking utterly any discipline or enforcement.

Effective budget process reform would make fiscal discipline institutional instead of aberrational. Effective reform would add enforcement to the federal budget process, so that not only would Congress budget first and spend later, but it would then be required to live within a budget.

Consequences of an Uncontrolled Process

Higher Spending

The disadvantages of the present system are manifest. Since the original 1974 Budget Act, federal outlays have increased 628% in current dollars and 113% in constant dollars. Even with Republicans in charge of the appropriations process, growth in discretionary spending has outstripped inflation by 200% during the past three years.

As the budget process has increasingly relied upon the “current services baseline” to build each year’s new spending on top of what already exists, we are testing the limits of Article I, section 9, clause 7 of the Constitution, which provides that “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law.” As

Congress delegates more of its control of the budget to automatic mechanisms and procedures such as scoring controlled by non-elected officials and entitlement formulas, we move further from the vigilant role the framers envisioned for us in drafting that clause.

The same clause of the Constitution also provides that “a regular Statement and account of Receipts and Expenditures of all public Money shall be published from time to time.” This provision is a Constitutional guarantee of transparency in the budget process. In this respect, today’s system, with its esoteric terminology, opaque line items, strangely amalgamated spending categories, and imponderable scale, is an utter failure.

Controlling the Budget

The Budget Committee should be commended for accomplishing what it does every year under a system to which fiscal conservatives, from Rep. Conable to President Reagan to President George W. Bush, have objected since its inception. This committee, under your leadership, Chairman Nussle, has generated good plans. The Appropriations Committee, under the leadership of Mr. Young, is now committed to fleshing out those plans. But history shows that in no year since the 1974 Budget Act has a congressional budget been adhered to in reality.

In January 2001, CBO reported that “Congress enacted policies that the budget resolution did not take into account, and by the end of fiscal year 2000, those changes increased discretionary spending by \$42 billion and mandatory spending by \$22 billion.”¹ For fiscal year 2002, projected spending is already more than \$120 billion in excess of the ceiling we set in 1997²—despite strong economic growth during most of this period, which one would hope would reduce, not increase, the need for federal spending.

Permit me to put this over-budget amount of \$120 billion into perspective. That is enough money to *immediately* repeal the death tax not once, not twice, not three times, but *four times* in one year. Instead, thanks to our unenforceable budget process, we are instituting a Byzantine ten-year phase out of this cruel tax. Worse yet, Congress made repeal effective for just one year, 2010—another perverse anomaly of the current budget process. Had Congress simply lived within its own duly-adopted budget, we could have permanently and immediately repealed the death tax.

‘1984’ in 2001

Why has the United States busted its best-laid budget plans by \$120 billion in just five years? It is because the propensity of Washington to spend is far stronger than a non-binding resolution. The very term budget “resolution” is Orwellian: if they are anything, the flaccid and unenforceable budgets passed by Congress are most assuredly the opposite of resolute. What is needed is a budget in the form of a *law*, so that the government, like taxpayers, must live within pre-established limits.

¹ The Budget and Economic Outlook: Fiscal Years 2002-20011, Appendix C, Congressional Budget Office, January 2001.

² Testimony of OMB Director Mitch Daniels, House Budget Committee, June 27, 2001.

A Better Process

A proper budget process will be enforceable; it will be transparent and understandable by the public; and it will permit Congress to make reasoned judgments on the fairest and most efficient way to allocate scarce taxpayer funds. Moreover, because tax revenue forecasting is a critical part of the budget process, any successful reform effort must address the endemic inaccuracy of the current scoring system.

These are the essential ingredients of genuine budget process reform:

No Spending Before a Budget: Congress should be prevented from considering spending bills in committee or on the floor without first passing a budget.

Understandable Choices: Congress should adopt a simplified budget by reducing it to one page—barely 20 numbers—that set overall constraints. Instead of hyper-detailed epic-length budgets that reach all the individual program accounts, focusing first on overall parameters promotes rational decision-making and facilitates agreement among political opponents.

Accurate Scoring: Today, tax revenue estimates are notoriously inaccurate because no matter what tax law change is proposed, the Joint Tax Committee's procedures assume that overall economic growth will be unaffected. This has led to chronic errors in revenue forecasts, which in turn have produced deficit and surplus estimating errors of over 100% on a continuing basis. To remedy this defect, two changes are necessary. First, the Joint Tax Committee and the Congressional Budget Office should be instructed to take into account the effects, if any, on economic growth and other macroeconomic aggregates from proposed tax law changes. Second, a systemic comparison of actual results to revenue forecasts should be mandated. Methodologies which consistently yield poor results should be abandoned in favor of more reliable techniques.

A Budget in the Form of a Law: The budget should be a law, not a non-binding resolution. As a law, it will bind both Congress and the President for the balance of the year once a collective agreement is reached. Making the budget a law will also invite the President into the budget process at the takeoff—diminishing the potential for end-of-session deadlock.

Enforcement of the Budget Law: Busting the budget, once it is enacted in the form of a law, should require a supermajority vote. Were a simple majority enough, enactment of the budget would exert no discipline on the process: it could be undone as easily as it was made. The supermajority enforcement mechanism makes enactment of a budget a solemn commitment.

Line-Item Reduction: As an additional enforcement mechanism, the president should have the authority to pare back over-budget spending to the level agreed to in the budget law. Overriding that budget discipline, too, would necessitate a supermajority vote in Congress.

Avoiding Government Shutdowns: Occasions of budget brinksmanship such as the 1986 and 1995 government shutdowns show the wisdom and necessity of providing a sustaining mechanism for federal operations. Such a mechanism would be triggered to provide for the continuation of all federal programs in the event Congress and the

President fail to enact either an overall budget, or—once a budget is enacted—to fill the gaps for any account that is not covered by a duly enacted spending bill. Rather than shutting down the federal government because of political deadlock, the law should provide for operations to continue at the levels of the previous fiscal year. Given the 4.3% annual rate of spending increase over the last decade, this expedient provides enough additional discipline to promote agreement, but does not countenance chaos.

Rainy Day Fund: Too often, post-budget supplemental appropriations—so-called “emergency spending”—destroy even the best-laid budget plans. Moreover, such emergencies as natural disasters often become a “Christmas tree” on which non-emergency items are hung. A better policy is to plan ahead by setting aside a fixed amount each year—an amount that could be fairly estimated by a reasonable examination of actual emergency spending in previous years. Contingency funds are a fact of life in the real world; they would be an effective check against budget-busting in the realm of federal spending.

Note: Biennial Budgeting

Last year, the House rejected an amendment to the Nussle-Cardin budget reform bill that would have provided for biennial budgeting. This near even split in the House reflects the deep ambivalence that exists about a two-year budget cycle. Doubling the budget time frame does not of itself make the budget more enforceable; and without auxiliary enforcement, it makes supplemental bills even more likely. Biennial budgeting will, however, help control spending if supplementals that break the two-year budget levels are subject to the enforcement mechanisms of a supermajority vote and line-item reduction. Such enforcement mechanisms were lacking in the proposal rejected by the 106th Congress.

Conclusion

The American people have lived through a quarter century of runaway federal spending. To get a grip on ever-growing spending, it is time to confront the underlying process that makes it nearly inevitable. President Bush has made budget process reform part of his budget proposal, and we now have the opportunity to give it the serious consideration it deserves.

Thank you, Mr. Chairman, for pursuing this most critical matter here today. Now is the time to stop budget history from repeating itself, as it has every year since 1974. It’s time to pick up where the quarter-century old House Republican Policy Committee left off, by recognizing the flaws in the 1974 Budget Act, and building a sturdy, *enforceable*, budget process in its place.

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