PREDICTABILITY AND CONTROL: TWIN REASONS FOR RESTORING BUDGET DISCIPLINES

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, APRIL 25, 2002

Serial No. 107–28

Printed for the use of the Committee on the Budget

Available on the Internet: http://www.access.gpo.gov/congress/house/house04.html

U.S. GOVERNMENT PRINTING OFFICE

79–367 DTP WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON THE BUDGET

JIM NUSSLE, Iowa, *Chairman*

JOHN E. SUNUNU, New Hampshire
Vice Chairman
PETER HOEKSTRA, Michigan
Vice Chairman
CHARLES F. BASS, New Hampshire
GIL GUTKNECHT, Minnesota
VAN HILLEARY, Tennessee
MAC THORNBERRY, Texas
JIM RYUN, Kansas
MAC COLLINS, Georgia
GARY G. MILLER, California
PAT TOOMEY, Pennsylvania
WES WATKINS, Oklahoma
DOC HASTINGS, Washington
JOHN T. DOOLITTLE, California
ROB PORTMAN, Ohio
RAY LAHOOD, Illinois
KAY GRANGER, Texas
EDWARD SCHROCK, Virginia
JOHN CULBERSON, Texas
HENRY E. BROWN, Jr., South Carolina
ANDER CRENSHAW, Florida
ADAM PUTNAM, Florida
MARK KIRK, Illinois
[Vacancy]

JOHN M. SPRATT, Jr., South Carolina,
Ranking Minority Member
JIM MCDERMOTT, Washington
BENNIE G. THOMPSON, Mississippi
KEN BENTSEN, Texas
JIM DAVIS, Florida
EVA M. CLAYTON, North Carolina
DAVID E. PRICE, North Carolina
GERALD D. KLECZKA, Wisconsin
BOB CLEMENT, Tennessee
JAMES P. MORAN, Virginia
DARLENE HOOLEY, Oregon
TAMMY BALDWIN, Wisconsin
CAROLYN MCCARTHY, New York
DENNIS MOORE, Kansas
MICHAEL E. CAPUANO, Massachusetts
MICHAEL M. HONDA, California
JOSEPH M. HOEFFEL III, Pennsylvania
RUSH D. HOLT, New Jersey
JIM MATHESON, Utah

PROFESSIONAL STAFF

RICH MEADE, *Chief of Staff*
THOMAS S. KAHN, *Minority Staff Director and Chief Counsel*

CONTENTS

PREDICTABILITY AND CONTROL: TWIN REASONS FOR RESTORING BUDGET DISCIPLINES

THURSDAY, APRIL 25, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 9:10 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Moore, Spratt, Collins, Brown, Putnam, Gutknecht, Culberson, and Hilleary.

Chairman NUSSLE. Good morning, we were just joking a little bit. There are quite a few of us in the room here, and this is probably one of the most exciting topics, and the most important topic of the day.

Yet, there are not too many television cameras or too many people looking around to find out how you enforce the budget. This is probably one of the least glamorous topics on Capitol Hill these days, but probably one of the most important that we can discuss.

Today's full committee hearing is called "Predictability and Control: Twin Reasons for Restoring Budget Disciplines." We have an excellent panel of witnesses to talk to us today, and this hearing is probably on the easily overlooked and yet very important issue of extending discretionary spending and other budgetary controls.

For the first time in 17 years in Congress, the Congress is facing the prospect of entering a budget cycle without a conference report on a budget resolution or any other kind of control on discretionary spending.

To date, the Senate majority leader has given no firm commitment that the Senate will consider a budget resolution, even though Congress was required to do so by April 15, and the House passed its resolution now, I believe, a month ago today.

This comes at a time when we all should be, I believe, much more concerned, and I know this committee is much concerned about its fiscal health; not less concerned. We are faced with the triple threat of a domestic emergency, a war against terrorism, and a still weakened economy.

Our surpluses have largely disappeared for the short term, and if we are going to re-invigorate our economy, it is imperative that we take steps to control spending, to ensure that resources intended for waging the war on terrorism and defending the homeland are not diverted to less critical needs.

The first test will come when the House takes up the supplemental appropriations requested by the President. In the view of the amount of resources we, by necessity, have had to devote to the war on terrorism and homeland defense, I believe it is important to ensure that Congress stay within the overall discretionary levels recommended by the President.

Let me be even clearer on this. The President has requested $27.1 billion of emergency spending for homeland defense, and for the war on terrorism. He has declared that this is an emergency. It is an emergency. It fits the definition that all of us in a bipartisan way, I would suggest, could defend and define emergencies.

But it should not be one penny more than that. I heard, as we probably all have heard, over the last 24 or 48 hours, about the Appropriations Committee, with their bid of $39 billion as their opening bid to this emergency supplemental.

Let me be very clear: That will not fly. That dog will not hunt, as far as the Budget Committee is concerned, if I have anything to do with it. It should be not one penny more than the President requested as an emergency.

The President should make the determination at this time of emergency what an emergency is, and that message should be delivered both to the Appropriations Committee and to our leadership.

The inability of the Senate to consider a budget resolution makes the subject of extending the caps in PAYGO all the more important. The appropriation caps in PAYGO were initially adopted in 1990, and were extended again in 1993 and 1997.

Last year, on a bipartisan basis, the committee reported legislation to revise the caps for the current year to, among other things, respond to the events of 9/11. At the end of the fiscal year, the caps will expire.

Without a budget resolution in place, the Congress will have little ability to control spending, unless we adhere to the House-passed level of spending and the revenue levels, and extend the discretionary spending limits.

On this point, again, I would like to be perfectly clear. The House must agree to adhere to the levels in the House-passed budget resolution, and to extend the caps before it considers any regular appropriation bill.

Additionally, we must revise the highway cap to forestall a sharp reduction in highway spending as a matter of critical importance, both to the States and to our economy, as a whole.

Under the terms of the Transportation Equity Act of 1998, which tied transportation spending to receipts in the Highway Trust Fund, the administration is required to reduce the highway obligation limitation and the highway outlay limits.

It is now clear that the States cannot sustain this reduction. To that end, the House-passed budget resolution took steps to restore more than $1 billion in outlays to the highway category.

If we are to forestall these cut-backs, however, it is imperative that we also revise the highway cap and the way in which the cap is annually adjusted to reflect revenue flowing to the Highway Trust Fund.

The appropriators introduced legislation in their attempt to "fix" this solution or this particular predicament. I would suggest it is a half solution that fixes the problem possibly for 2003, but it leaves undone the challenge in the out-years.

So I should inform my colleagues that next week, I intend to introduce legislation that will extend both the appropriation caps and address the shortfall in the Highway Trust Fund. I would enjoy working with any Members who would be interested in continuing this in a bipartisan way.

Today, we have got two great panels of witnesses. On our first panel, we are very pleased to hear from Tom Donohue, the President of the Chamber of Commerce, as well as former Member, Bill Frenzel, who is the co-director of the Committee for Responsible Federal Government.

I am very pleased that Mr. Donohue is available to give us perspective from the business community on extending the caps. It is, of course, always a pleasure to hear from our former colleague, Bill Frenzel.

On our second panel, we will be pleased to hear from Susan Irving, the Director of the Federal Budget Analysis of the GAO, the Government Accounting Office; Barry Anderson, the Deputy Director for the Congressional Budget Office; and our own Richard Kogan, who served on the Budget Committee staff for many years, and is the patron saint—you might say—of Budget Enforcement Act endeavors, or at least some might call him that. [Laughter].

Well, I just called you that. I guess that is good enough.

These witnesses are not only equipped to discuss the broader issues surrounding the extension of the caps in PAYGO, but also to advise us on what other controls might be designed to meet the fiscal needs of our country.

So we are pleased to have this hearing. Again, as I said, it may not be the most glamorous in town, but it will have direct impact on the fiscal success of this year.

With that, I would turn to my friend, Mr. Spratt, for any opening comments that he would like to make.

Mr. SPRATT. Quickly, Mr. Chairman, we did not come to an agreement on a budget resolution, at least not yet; but I think there is agreement that we need a budget process. We are witnessing the slow death of the budget process as we have known it for the last 30 years and, in particular, for the last dozen years.

The budget process has a kind of a policy wonk reputation. A lot of people inside and outside the Congress disdain it, and for good reason. It is often honored in the breach. But it has served us well since 1990, when we met finally at a Budget Summit, which we had called for repeatedly with President Bush.

We not only came up with a budget plan that was a 5-year plan, but we came up with budget rules to enforce that plan. We got away from projections of a deficit, which were our target, and we put real caps on discretionary spending, and we put a restraint on tax cuts and entitlements, too, called the PAYGO rule, which we observed.

It was not a neat process. It was not, as I like to say, "Euclidian geometry." But nevertheless, we basically agreed with this process. We fudged on it, but throughout the 1990s, in 1990, in 1993, and

1997, when we came back to the budget agreement and laid down another 5-year plan, we always, always backed it up with budget process rules.

This year, we are about to see those rules expire. The PAYGO rule will expire. The discretionary spending caps, may be for 1 year, but certainly not for 5 or 10 years, will be a thing of the past.

That is not only sad to see, but it is very worrisome for those of us who are deeply concerned about the projection of the budget, as it stands today.

I do not see how we get back to the surpluses we were enjoying without some discipline in the process, some starch in the process, and some budget rules that are adhered to.

Let me say that I would agree with you, we have got to have some restraint, not just on the regular budget process, but on the supplementals, too. Otherwise, they will flout and make a mockery of the regular budget process, winking and knowing that they can always ask for this now and get more later. It is critically important that we have some restraint on the supplemental process, as well.

But let us not forget that the bottom line is affected by tax cuts, as well as spending increases. Last week, we had a $400 billion to $500 billion tax cut provision on the floor, which was not provided for in the Budget Resolution, and which required a waiver of the PAYGO rule.

The PAYGO rule is meaningless, if you can simply, "willy-nilly," waive it for a piece of legislation of that magnitude.

So I am pleased to see this hearing, pleased to see our witnesses. I know they will bring different points of view, but we need all the points of view on the table, and I hope that we can come to some resolution and renew the budget process for the future, before this fiscal year is out.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you, Mr. Spratt.

Without objection, members will have 7 days to submit written statements for the record.

At this point, Mr. Donohue, welcome home. We were visiting before the hearing, and you said that you just came back from Russia. In fact, my understanding is that you just flew in yesterday and last night.

The fact that you are here today to talk about this not only demonstrates your deep interest in the subject, but also your personal physical fortitude, to put up with the time changes, and everything else that needs to be done, to be here.

So we are honored that you are here to talk to us today, and we are pleased to receive your testimony at this time.

STATEMENT OF THOMAS J. DONOHUE, PRESIDENT AND CEO, U.S. CHAMBER OF COMMERCE AND CHAIRMAN, AMERICANS FOR TRANSPORTATION MOBILITY; BILL FRENZEL, CO-CHAIRMAN, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET AND FORMER RANKING MEMBER, HOUSE BUDGET COMMITTEE

STATEMENT OF THOMAS J. DONOHUE

Mr. DONOHUE. Well, thank you very much, Mr. Chairman and members of the committee. It is a pleasure to be home. It was an extraordinary experience to be there. I was in Russia 3 years ago, and the changes that are taking place are mind boggling, and perhaps another time we could talk about that.

I am here today on behalf of the Chamber of Commerce of the United States, and I also here as Chairman of Americans for Transportation Mobility, a coalition of business groups and labor organizations in support of continued investment in the Nation's transportation infrastructure, using dollars paid for by the citizens that use the transportation network.

This morning, I would like to stress the importance of fiscal responsibility, and offer ideas on how we can achieve it.

The U.S. Chamber has long supported the controls on government spending, and the processes that both the chairman and the ranking member just commented on.

Unforeseen events, however, have made that challenge more difficult than ever before. Our Nation must spend valuable resources to fight global terrorism and bolster homeland security, so that our borders, public buildings, transportation and infrastructure are safe and sound.

No one would argue against increased government spending for these purposes, nor would our citizens, and certainly not the Chamber of Commerce.

But that means that it is absolutely essential to keep discretionary spending in check. The current growth in spending simply cannot be sustained without running up deficits and damaging our Nation's future in the out years.

In this environment, it is increasingly important for government to enact policies that will spur long-term sustainable economic growth which, in turn, will significantly boost government revenues, and put us back on the path toward a balanced budget.

The Chamber believes that several pieces of legislation pending before the Congress are critical to long-term growth and fiscal responsibility, and I would like just to mention them:

A comprehensive energy policy that will ensure a reliable and affordable supply of energy, create thousands of new jobs, and make us less dependent on unstable and unfriendly countries for our oil is essential.

Trade promotion authority for the President, so that he is able to make deals with our trading partners, create untold numbers of new jobs and opportunities for American workers is essential.

Making last year's tax cut permanent, which will encourage continued savings, investment, and consumption would be helpful. Finally, we need continuous, predictable investment in our transportation infrastructure, so that it is safer, more efficient, and reliable.

I would like to focus on that, although I would be glad to enter the other subjects and the questions. It is related, transportation, clearly to the Budget Committee's problems. It might be worthwhile to spend just a moment describing our needs.

Right now, our transportation system is ill-prepared to handle higher and higher volumes of freight and people. Air cargo volumes are expected to triple by 2015, and passenger traffic is expected to increase by 50 percent over the same time.

Yet, new airport and runway projects never get off the ground due to lack of funds, or because they are buried under an avalanche of bureaucratic red tape.

Our Nation's highway system is facing a similar capacity crisis. In just 25 years, from 1970 to 1995, passenger travel in the U.S. nearly doubled. But improvements in expansion of highway systems are not keeping up.

Since 1970, vehicle miles traveled in this country have gone up 123 percent, while road capacity has increased a massive 5 percent.

Our system of channels, ports, and marine terminals is no better off. Every major U.S. container port will experience a doubling or tripling of container volume by 2020; but as of right now, many are not even equipped to handle these new mega-ships that are carrying the containers.

Modernization of our transportation infrastructure meets several needs, chief amongst them for your consideration is economic growth. Each billion dollars spent on the construction and maintenance of the Nation's transportation infrastructure creates approximately 42,000 jobs.

In addition, every $1 billion invested in transportation infrastructure creates more than $2 million in economic activity. Improvements to the system also improve the Nation's air quality by cutting down on highway congestion that causes millions of gallons of unnecessary gasoline consumption, as well.

Finally, the importance of a robust transportation system to national security can never be emphasized enough. Outfitting the Nation's border crossing points, airports, railways, and seaports with top-of-the-line technology is critical to our Nation's safety and well being.

Given the tremendous long-term economic, environmental, and security benefits of a modernized transportation system, the Chamber strongly believes that the government should invest the maximum sustainable amount into the transportation trust funds.

We also need to look at creative ways to grow the infrastructure investment. There may be valid political and environmental reasons, for example, for using ethanol in gasoline, but doing so without taxing ethanol at the same rate as gasoline, and without transferring these revenues to the Highway Trust Fund will make it impossible to maintain, let alone modernize, our infrastructure in the years ahead.

Some will continue to say this statement is contradictory to the Chamber's desire for fiscal responsibility; but the two are not mutually exclusive. As I hope I have made clear today, the additional revenues and savings reaped from the transportation investment will help regain fiscal discipline and lead us back to a balanced budget. I will be finished in just a second.

So we ask this committee to reauthorize the Budget Enforcement Act and the TEA–21, and to protect the important transportation funding mechanisms contained in them. These mechanisms will maintain minimum funding levels in the Surface Transportation Trust Fund, while guaranteeing that all of those revenues are spent for their intended purpose of highway and transit investment.

We ask the committee to continue to work with the House Transportation and Infrastructure Committee to restore a portion of the $8.6 billion reduction in the Highway Funding Program for fiscal year 2003.

This shortfall was clearly not envisioned by anyone, and clearly was not the intent of Congress, upon enacting the formula in 1998.

If this reduction is allowed to stand, 350,000 Americans will lose their jobs, and dozens of States will freeze or cancel road construction projects.

Mr. Chairman, we appreciate your leadership and that of the other members of this committee on this issue. We look forward to working with both you and the leadership in the House and the Senate, to come to some reasonable conclusion.

Mr. Chairman, the United States Chamber of Commerce and the ATM Coalition strongly believe in fiscal responsibility. We believe that long-term, sustainable economic growth is the best and surest way to get there.

To trigger that kind of growth, government has to make wise investment choices; and as the old saying goes, “You have to spend money to make money.” Investment in our highways, airports, seaports, and waterways will get us there.

I very much appreciate the opportunity to be here, and I look forward to answering your questions.

[The prepared statement of Mr. Donohue follows:]

PREPARED STATEMENT OF THOMAS J. DONOHUE, PRESIDENT AND CEO, UNITED STATES CHAMBER OF COMMERCE

Mr. Chairman, Ranking Member Spratt, members of the committee, thank you for allowing me to appear before the committee to discuss the importance of fiscal responsibility and maintaining guaranteed funding protections for Federal highway and mass transit programs. I am Thomas J. Donohue, President and CEO at the United States Chamber of Commerce, which is the world’s largest business federation. I also appear before you as the chairman of the broad-based Americans for Transportation Mobility (ATM) coalition. My testimony will address the importance of reauthorizing the Budget Enforcement Act of 1990 (BEA) [P.L. 101–508], with particular emphasis on the guaranteed spending categories added to the BEA with enactment of the Transportation Equity Act for the 21st Century (TEA–21) [P.L. 105–178] in 1998 that provides predictability and control to investment from a dedicated Highway Trust Fund.

AMERICANS FOR TRANSPORTATION MOBILITY

Last summer, the U.S. Chamber helped launch a new coalition called Americans for Transportation Mobility, or ATM. ATM is a broad-based organization of transportation users and providers, State and local organizations, and State and local government officials. The coalition has more than 300 organizations presently, and we hope to increase that figure significantly in the coming months.

The coalition’s objective is simple: to build public and political support for a safer and more efficient transportation system. We hope to achieve our objective through a two-pronged attack: 1) fighting to ensure that Congress fully dedicates Federal transportation trust fund revenues for their intended purpose, and 2) accelerate the project review process by removing redundancies. All the money in the world will not help if we are not efficient in the planning and approval for much-needed improvement projects.

The coalition is bringing together for the first time the business and labor communities in educating lawmakers on the importance of improved mobility and safety to future economic growth. Six major labor organizations are members of the coalition as well, with Laborers International Union of North America General President Terry O'Sullivan serving as a vice chairman. They serve on the front lines in the building and maintaining of the Nation's transportation infrastructure and are welcome partners in ensuring a national transportation system that provides the mobility our country demands.

BUDGET ENFORCEMENT ACT AND TRANSPORTATION FUNDING

The BEA expires at the end of fiscal year 2002 (September 30, 2002). The BEA has provided the basic enforcement framework for budgetary matters. This framework has provided fixed domestic caps in Federal Government spending along with procedures for controlling deficits. The BEA established statutory limits on discretionary spending and a pay-as-you-go (PAYGO) requirement [only spending revenues collected] for new mandatory spending and revenue laws.

In Title VIII of TEA–21, new discretionary spending categories were formed to create firewalls for highway and transit spending. These firewalls guarantee that all revenues paid into the Highway Trust Fund (HTF) must be spent for their intended purpose of highway and transit investment. Previously, the highway and transit discretionary programs competed for annual budgetary resources with most other domestic programs. The firewalls created a "floor" for highway and transit spending over the fiscal year 1998–2003 period of $162 billion for highways and $36 billion for transit programs.

The U.S. Chamber and many members of the ATM coalition, strongly supported the effort to bring "truth in budgeting" to the Highway Trust Fund. Before the enactment of TEA–21, the HTF had a balance of $28 billion. This surplus was used to mask the overall budget picture. With enactment of the TEA–21 budget firewalls, the Federal Government could no longer run up surpluses in the HTF and for the first time ensured that all dedicated taxpayer revenue paid into the HTF is used for much needed highway and transit maintenance and improvement.

The domestic discretionary caps were raised by TEA–21 to accommodate the increased transportation spending. Although the overall discretionary spending caps expired last fall, the Highway and Transit outlay caps established under TEA–21 continue through 2003.

The creation of the highway and transit categories, combined with BEA provisions that prevent Congress from moving funds from one budget category to another, has been the main mechanism for assuring under TEA–21, that all user fee revenues into the Highway Trust Fund are used solely to finance Federal investments in highways and mass transit. Without the separate budget categories, there would have been no limitation on the incentive for the Federal Government to cut highway and mass transit funding below the TEA–21 guarantee and use the savings for other programs. This means there is no incentive for the TEA–21 highway and mass transit investment levels to be underfunded, because those funds by law cannot be used for any other purpose. Reauthorization of the BEA must retain the separate highway and transit budget categories to ensure the continued guaranteed investment in our Nation's transportation system.

REVENUE ALIGNED BUDGET AUTHORITY

The enactment of TEA–21 also created a funding mechanism [Revenue Aligned Budget Authority (RABA)] to ensure that Federal highway spending was linked to revenues paid into the HTF. This mechanism, beginning in fiscal year 2000, has used projections of Highway Account receipts into the HTF to adjust highway spending to the amount estimated to be collected. The Transit Account of the HTF is not included in the RABA calculations.

The RABA mechanism was created to ensure that all revenues paid into the HTF were utilized as they were being collected for needed transportation investment. Since fiscal year 2000, this mechanism has generated an additional $9 billion in highway spending over the guaranteed minimum amount in TEA–21. These additional funds have allowed States like Iowa and South Carolina to move forward with much needed surface transportation projects.

With vehicle miles traveled (VMT) continuing to rise every year, it came as quite a jolt to the business and transportation community that the RABA formula called for an $8.6 billion reduction in the Federal highway program for fiscal year 2003. When the formula was created, it was not believed that revenues into the HTF would ever experience such a drastic reduction. According to the Treasury Department, the $8.6 billion reduction figure came from two calculations of the formula. First, according to the "lookback" component of the calculation, it was estimated that revenues from fiscal year 2001 were actually $4.369 less than the amount estimated to be collected. The second component, the "look forward" provision, was also reduced by over $4.2 billion.

While the intent of Congress when enacting the RABA formula was to ensure full funding of the highway program, the effect of the formula in fiscal year 2003 to reduce program spending was not an intended consequence and must be adjusted when TEA–21 is reauthorized next year and incorporated into the BEA reauthorization.

OTHER TECHNICAL ISSUES

When Congress reauthorizes the BEA and TEA–21, two technical issues should be addressed:

BALANCED BUDGET ACT ADJUSTMENT

The Balanced Budget Act should adjust the highway category in section 251(b) to reflect the fiscal year 2003 budget resolution by not less than $4.369 billion. The reason this needs to be done is that even though the budget resolution provides room to add back $4.4 billion for highways, the highway guarantee is still only $23.2 billion absent a change in the Balanced Budget Act. While the Appropriations Committee has received an additional $4.4 billion via the budget resolution, there is no requirement that it be used for the highway program or distributed according to the highway program formulas. Revising the highway category to reflect the budget resolution clarifies the intent of the House to distribute the additional funding to each State via the Federal funding formula.

IMPACT OF HIGHWAY PROGRAM FUNDING TRANSFERS

Occasionally, the President or Congress will propose to move some core highway program funds to another program within the highway budget category, such as the National Highway Traffic Safety Administration (NHTSA) or the Federal Motor Carrier Safety Administration. Programs in these areas have a faster spendout rate than the core highway program, meaning higher outlays during the budget year. Section 251(b) of the Budget Act, however, puts a strict limit on total highway budget category outlays for each fiscal year. To prevent the fund transfer from increasing outlays, section 251(b) requires that the highway obligation limitation be reduced to offset the increase. This offset can be significantly larger than the proposed fund transfer, thus cutting highway investment even more.

The following example should explain the problem: Let's say Congress wants to take $100 million from the core highway program, which spends out over 7 years, and give it to NHTSA for a safety education program that spends out immediately. According to the highway program spend-out formula, $100 million for highways in a fiscal year results in $27 million of outlays during that fiscal year. But $100 million for NHTSA results in $100 million of outlays, an increase of $73 million. Section 251(b) requires that highway funding be reduced enough to offset the additional $73 million of outlays. Since it takes a $100-million cut in highway funding to reduce outlays $27 million, a $73 million cut in outlays would require a $270 million cut in highway funding. The net cost to the highway program of a $100 million transfer to NHTSA would thus be $370 million—the initial $100 million transfer plus the $270 million needed to offset the increased outlays. The $100 million gets spent by NHTSA and presumably accomplishes something, but the $270 million simply vanishes and is thus a cost to the highway program with no benefit to anyone.

While this is just an example, it is important to note that budgets submitted by the Clinton administration as well as the fiscal year 2003 budget submitted by the Bush administration included fund transfer proposals that involved precisely this kind of problem.

If Congress wants to use core highway funds for something else, it should not result in an unnecessary multiple cut in highway investment. The relevant provisions of section 251(b) need to be revised so that any loss is at most dollar-for-dollar.

HIGHWAY FUNDING RESTORATION ACT

Faced with a possible $8.6 billion shortfall in fiscal year 2003 highway funding, the bipartisan, bicameral leadership of the House Transportation and Infrastructure Committee and the Senate Environment and Public Works Committee introduced the Highway Funding Restoration Act (H.R. 3694/S. 1917). The legislation would at a minimum restore $4.4 billion of the $8.6 billion reduction for fiscal year 2003. This restoration would bring Federal highway funding to the minimum level authorized in TEA–21 ($27.7 billion). With a balance in the HTF of over $20 billion, there has been overwhelming support in Congress to address the fiscal year 2003 funding shortfall with 315 House Members and 71 Senate members co-sponsoring the legislation.

What would happen if the $8.6 billion reduction took place? Studies that link spending to jobs suggest the loss of up to 350,000 jobs for starters. These jobs are held by hard working men and woman who could ill afford to lose their job as our country is recovering from an economic slowdown. How about the impact on State highway projects? Several States have already frozen new projects until the Federal funding situation is clarified. In Iowa, an $8.6 billion reduction would delay approximately $50–$60 million in State highway and bridge projects in fiscal year 2003. South Carolina would be forced to delay $25 million in pavement and reconstruction contracts, $22 million in Interstate highway upgrades and $15 million in safety upgrades. A significant reduction in Federal funding would put a great strain on State resources during a time when State tax revenues are declining.

Special thanks goes to you, Mr. Chairman, for understanding the negative consequences of inaction and including the intent of H.R. 3694 in the House Budget Resolution. While the Senate Budget Committee approved a higher highway number ($5.7 billion restored), we look forward to working with both the House and Senate leadership to restore highway funding to the maximum sustainable amount. On March 20, the Congressional Budget Office (CBO) announced that the HTF could sustain spending for the highway program at a $30.1 billion level. We will continue to work with this committee, the Transportation and Infrastructure Committee, the Appropriations Committee and your counterparts in the Senate during the budget process to ensure the intent of TEA–21 to invest all HTF revenues collected for its intended purpose of surface transportation investment.

THE IMPORTANCE OF TRANSPORTATION INFRASTRUCTURE INVESTMENT

While this committee spends much of its time reviewing the mechanics of the Federal budget process, I would like to take a minute to explain the importance of investment in our Nation's transportation system.

Our Nation's transportation system is the lifeblood of our Nation's economy. It provides the mobility to move people and freight better than any country in the world. Unfortunately, our transportation infrastructure system is ill-prepared to handle higher and higher volumes of freight and people. Only two major hub airports have been built in the United States in the past 25 years, and new runway projects like the one in San Francisco can take as long as 15 years to build. Unless something happens soon, our aviation system will be virtually grounded by an expected tripling of air cargo volume by 2015, and a 50-percent increase in passenger traffic during that same period.

On our Nation's highway system, a similar crisis is facing it. In just a 25 year span—1970 to 1995—highway passenger travel in the U.S. nearly doubled. But improvements to and expansion of our highway system are not keeping up. Since 1970, vehicle miles traveled have soared 123 percent while road capacity has increased just 5 percent.

The U.S. Marine Transportation System, which is 25,000 miles of navigable channels, 300 ports and nearly 4,000 marine terminals, annually moves more than a billion tons of domestic and international freight. At the current rate, every major U.S. container port will experience a doubling or tripling of container volume by 2020, but as of right now, many aren't even equipped to handle the new mega container ships.

There are many consequences of a subpar system: congestion, decreased productivity, more accidents and diminished global competitiveness. The cost of road congestion to the U.S. economy was nearly $78 billion in 1999; more than triple what it was 20 years ago! Billions and billions more are lost to companies when their products don't reach their destinations on time.

Our ports simply don't compete on an international level. When you compare our seaports with some of those in Asia, you'll have difficulty figuring out which ones belong to the most advanced nation in the world, and which belong to a developing country. Failure to modernize seaports has increased costs for shippers, carriers, and ultimately, consumers, and threatens our status as the world's strongest trading partner.

FUNDING REQUIREMENTS FOR SURFACE TRANSPORTATION

U.S. Department of Transportation (DOT) data show that a minimum $50 billion per year Federal investment in highway improvements is necessary to simply maintain the current physical conditions and system performance of the Nation's highway and bridge network. To actually produce improvements, DOT reports that a $65 billion per year Federal investment is needed. On the transit side, DOT estimates that $17 billion in capital investment is needed annually just to maintain and improve current public transportation services.

To meet these current challenges, we must invest our limited resources in a better, more efficient manner. We must look at innovative financing and public-private partnerships to supplement the Federal user fee system. That is why it is of critical importance to ensure the investment of all HTF revenues into much needed surface transportation programs.

CONCLUSION

In conclusion, Mr. Chairman, the U.S. Chamber of Commerce and the ATM coalition believe that the Federal Government should operate with the fiscal controls that BEA reauthorization would bring. The BEA has proven to be an effective means of controlling government spending.

The funding of transportation projects requires long-term, predictable funding. Without a timely reauthorization of the BEA and TEA–21, the Federal surface transportation program will experience an uncertainty that will curtail the ability of State DOT's to finance, design, and execute multi-year, multi-million dollar construction projects. The transportation trust funds are inherently fiscally responsible due to their self-financing through revenues generated solely by users of these networks.

The impact of doing nothing will be increased congestion, decreased safety on our roads, and setbacks in our ability to improve air quality. The U.S. Chamber and the members of the ATM coalition look forward to working with Congress and the President to bring predictability and control to the Federal budget process that will bring about continued, predictable investment in our Nation's transportation system. Investment in our national transportation system will ensure we remain a leader in the global marketplace and should remain a priority during the budget process.

Thank you, and I am happy to answer your questions.

Chairman NUSSLE. Thank you very much for your testimony. Let me go back, first and foremost, to the issue of restraint and fiscal responsibility.

There are those who would say that reimposing caps on spending, as an example, extending, as you and I both are interested in doing, is inside baseball; it is politics; it is government.

How do you connect this with some of your members in the business community? How do you make this make sense to them out there, so that they are paying attention to what we are doing here with regard to budget enforcement?

Mr. DONOHUE. Well, Mr. Chairman, you might be surprised to learn that at our last board meeting, in my comment to the Chambers' Board, I vigorously supported the expenditures for national defense and homeland security.

I told our members that if we wanted ever to keep our commitment about reducing government spending or controlling government spending, that we had to avoid lining up for a free lunch on these new dollars; and that those monies should go to the essential matters of national defense and home security.

We heard that the Appropriations Committee has a much larger number. A lot of that are things that maybe we do not need.

You cannot run this committee, and you cannot control the Federal spending of this country, without a process that gives the Members of the Congress and the Senate some place to go.

The gentlemen and ladies in these bodies listen every day to constituents that want more money for something. The budget discipline that has been in place, for the most part, as a part of the processes that we have been following, is clearly a way to get there, and one of the important steps in protecting the members from the ever-demanding increase in support from constituent bodies.

I think it is absolutely essential that we have a budget process here that is the same that we have in our homes and the same that we have in our businesses, that says we can go about as far as we can go; and then we cannot go any further without additional revenues or without additional changes in the way we do business.

I absolutely support a process that gives you, the Congress, and the American people a discipline in the behavior of the Federal budget.

Chairman NUSSLE. Let me make sure I am not missing your point, too. Because you, on the one hand say, fiscal responsibility; and then in the last paragraph, you said that you have to spend money to make money.

Some might suggest, well, wait a minute, that is what we are doing. We are spending money to make money. We are spending money as an investment, you know, in government expenditure, and priority is always in the eye of the beholder.

We have probably seen the best example of that when it comes to homeland security. I had a Member joke with me but, you know, I do not think maybe they were that far off, when they were suggesting to me that you could even make an argument that dairy supports somehow were important for homeland defense, because it created strong bones, and our military fighting men and women needed strong bones. Therefore, let us not let the bastards win; let us support dairy supports, because that is for homeland security.

Now, you know, I think a lot of people could make the argument about investment. I just want to make sure that they are not competing, or that they are not contradictory, when you say we have to invest in transportation; and yet, we have to have constraint.

Mr. DONOHUE. Well, I think there are a number of fundamental issues here. First of all, as I said, I told our own board we are not going to add all those things under my leadership. We are not going to support those additions that have no real relationship to home security.

What I am talking about, the transportation investments, I want to remind you of the difference. For the most part, these monies come from trust funds that are paid by people that ride on airplanes, that drive in cars, and operate trucks around this country, or buy trucks.

By the way, one of the reasons you had a major shortfall is when the economy went in the can, you know, I used to run the Trucking Association. They know how to hunker down. Those guys can live in a drought, and they did not spend that money, and there is $19 billion or $20 billion in the Transportation Trust Fund right now, the Highway Trust Fund.

What I am saying is that we need to continue to spend the highway money and the airport money, which is collected for a special purpose, held for that purpose, and available for that purpose.

Those investments will return significant economic well being to this country by creating jobs, reducing accidents and fatalities, improving productivity, reducing the extraordinary cost of sitting in congestion.

The Congress was very, very strong in moving forward to put these funds aside, and to spend them as best they could to keep the infrastructure improving at a rate somewhere near the economic and mobility growth demands that face us in this country.

I am very clear on what I'm saying, although I maybe did not say it right the first time. That is, these are funds that have been set aside. Nobody expected this shortfall that came because of three issues.

It came because of the extraordinary economic slow down; it came because of the result from people not traveling as much; and it came because of 9/11, when everybody shut off the key, and stopped moving and stopped traveling for a period of time.

So you have a problem of a claw-back that says, "hey we did not take in as much money" and a claw-forward that says, "therefore, we have got to double that up and we cannot spend it next time."

Well, what I am saying is, that money is available, without going to get some other money. There is a surplus in the Transportation Trust Funds.

I vigorously support this committee's difficult job to reign in spending. Much of that spending may be desired by some of my constituents. To limit extraordinary spending to the fight against terrorism and the protection of this Nation, you will have our support on that.

Chairman NUSSLE. Well, let me tell you that I think our first test is coming within minutes, hours, and certainly no more than days, with regard to the emergency supplemental.

The President requested $27.1 billion. The opening bid from the Appropriations Committee was $39 billion. They are now saying, well, no, it is probably closer to $33 billion.

The point is that it is more than the President requested, and more than what the President designated as an emergency. I will just predict, we may lose. You and I may fight this battle, and there may be others who join with us, and we may lose. But if we do, Katie bar the door.

There is nothing to stop the rest of the appropriation process from completely imploding or exploding if we do not stand our ground now with this emergency supplemental and say, not a penny more than what is designated as an emergency for homeland security and for national defense at this moment of dire emergency, and not a penny more than that, than has been requested by the President.

I appreciate your help in that, and your communication with your members. Because as I say, if we do not do it now, the line will be crossed, and there will be absolutely no way to pull that back, given the fact that we have all of these provisions expiring this year, and no more budget fences that have been erected in the meantime. So I appreciate your help in that endeavor.

Mr. DONOHUE. Thank you.

Chairman NUSSLE. Mr. Spratt.

Mr. SPRATT. Mr. Donohue, you make a fairly radical statement for the Chamber of Commerce to a government committee: you have to spend money to make money.

The clear thrust of your testimony is that infrastructure investments pay off, at least for now. We have got such a vast backlog and demand for infrastructure needs that wise infrastructure investments and additional investment in infrastructure will more than pay, in terms of its rate of return for the investment.

In light of that, would you recommend or seek additional gasoline taxes, in order to fund additional infrastructure?

Mr. DONOHUE. Sir, I thought that question might come up.

Mr. SPRATT. That is not a trick question.

Mr. DONOHUE. I know it is not a trick question. It is one I have dealt with, with this coalition that we run.

Let me give you my thoughts on this subject. First of all, I would not recommend an increase in taxes while we are struggling to get out of a recession. By the way, I am deeply concerned. You know, we are going to have maybe 5 percent economic growth in the first quarter, and then it is going to go down to three or maybe two.

But I am deeply concerned, and I am on four public company boards, that companies now are holding their cash. With 11 committees of the Congress investigating, appropriately, the events around Enron and Andersen, and with the SEC, and with everybody now, all over the country and States looking into this, what is going on in corporate boardrooms, the people are saying, "let us hold our money."

We are going to change a lot of our accounting systems, you know, which are dictated to corporations. We have got insurance issues that are changing fundamentally, because of terrorism. We have a lot of questions here. So they are saying, let us hold our money.

That is a real serious problem, because investment is what drives economic growth, improved productivity, and reduction in costs.

So as I look at the question, first of all, in dealing with infrastructure costs, I say, thank goodness that the money comes out of special funds. It is not money we have to go and appropriate every year.

Second, thank you that we have some money left in the can. Third, clearly, we need to have a system that makes sure that this does not happen again.

That means that we have to do away with the extraordinary events. If we get down the road a little bit, and our demands are greater than our supply, then you will find me saying that those investments are absolutely critical to reducing air pollution, to getting rid of congestion, to improving productivity, to improving mobility; and very important, 30 percent of the deaths on the Nation's highways come because of insufficient maintenance and care of our infrastructure.

So I will be the first one up here, when it is time to do that. But right now, while we are trying to crawl out of this recession; while we are looking at serious challenges that companies are trying to meet; while we have additional resources still available; while I believe we are going to go back to buying more trucks, if we can figure out how to deal with the engine problems; and to traveling, and we are already traveling more than we were; and that the numbers will probably be a lot better next year—for now, I would say, I am very aware of the need, if it has to be there, and I would counsel about not doing it right now.

There are some in our coalition that might think we should do it right now. But I think in the interest of this country, in getting this economy cooking, and putting revenues back into the system, improving productivity, improving safety, we can do it with current resources, with the help of this committee and others.

I will be the first person back here, if the resources are not enough to support the Nation's needs and its economic growth, to say that we need to get more money for it.

Mr. SPRATT. Ironically, the programs that you are supporting right now were indirect beneficiaries of our efforts to reduce the deficit. Because as you will recall, these additional gasoline taxes that were imposed were imposed originally and dedicated to deficit reduction, and not to infrastructure.

In time, when we got rid of the deficit, or nearly rid of the deficit, we took these funds and used them for their traditional purposes; that is, building infrastructure. But we had to get this tax increase in through the back door. That shows you how difficult it is.

If the Chamber is not willing to come stand forthrightly for it, it is not going to happen. You have got to make the case for infrastructure investments, and for the return that I heard you make very distinctly in your testimony.

Mr. DONOHUE. I have personally, and as a part of the Chamber, on previous occasions, supported those types of adjustments in tax increases that supported the Nation's infrastructure. I think you would agree with me, sir, that we should avoid it right now.

Mr. SPRATT. I would agree with you, sure, in a recession, and particularly with the price of gasoline going up, anyway, due to world conditions.

Mr. DONOHUE. That is exactly right. By the way, having the circumstances in Venezuela, the lack of some of the stability in the Middle East, that is worrisome.

Although I might say, having just returned from Moscow, there is a lot of gas and oil there. I think there are some pretty strong understandings that we might have another source of energy.

Mr. SPRATT. Let me ask you specifically: is the Chamber supporting what is in the bill, which is $4.4 billion; or are you supporting Senator Conrad's budget resolution with a $5.6-billion increase?

Mr. DONOHUE. The Chamber and the Coalition, first of all, appreciate the $4.4 billion. We have visited with Chairman Young at great length. We are certainly not going out trying to get the $8 billion.

The difference between $4.4 billion and $5 billion, really is going to come down to when we do it and what it is. I am going to let the Congress resolve that. I think that they are in the position that they are going to do the right thing, because they understand this issue.

Would I rather have $5 billion, because I have got $19 billion the bank? Sure, because I am still trying to get out of this recession; we are. Whatever number comes, we are a lot better off than we would have been; and what I am most concerned about is that we have a plan and we have a system that says, we are going to fix this thing so it does not happen again.

If at the end of that curve, it means more taxes, then we will be very willing to talk about it. But for right now, I think the infrastructure expenditure issue between the House and the Senate is the smallest—least difficult decision to come to. It is somewhere between $4.4 billion and $5 billion; whatever the number is, God bless us. Let us get it and go out and build the roads and keep on working.

Mr. SPRATT. So $5 billion or $5.6 billion; you are not willing to go up to $5.6 billion?

Mr. DONOHUE. Well, this is a very good question. I will leave that with you. [Laughter]

Mr. SPRATT. Well, now you are the witness. You said you expected us to do the right thing. What is the right thing? Tell us.

Mr. DONOHUE. Well, I think you have a balance here, sir. First of all, if you take $5.6 billion, alright, and that depends on whether you are going to do some things going forward on ethanol, there are a lot of questions.

I can go with $5.6 billion, if what we are going to say is, we are going to make sure we are going to tax ethanol at the same amount of money going forward, and then put the money in the Highway Trust Fund and so on.

If you have $5.6 billion, you will create more jobs. You will move faster on a system that we are way behind the curve on. You will move more aggressively to improve safety and mobility and reduce congestion and clean the air.

Mr. SPRATT. So the answer is $5.6 billion?

Mr. DONOHUE. The answer is, I am saying here, I appreciate what has been done on this committee. I will look forward to working with the conference to get the best deal for the country and for us, and the higher number is better, but you laid it out, sir. You have a big time problem, and we are going to be there to do what is reasonable.

Mr. SPRATT. Thank you, sir.

Chairman NUSSLE. Well, that is a non-starter, taxing ethanol. [Laughter.]

We have a lot of talking to do, if that is the case.

Mr. DONOHUE. Well, you do tax ethanol right now.

Chairman NUSSLE. I am trying to inject a little humor.

Mr. DONOHUE. I understand the problem. I saw what the President and Daschle did yesterday.

Chairman NUSSLE. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman, and welcome, Mr. Donohue.

Mr. DONOHUE. It is nice to see you, sir.

Mr. COLLINS. We have enjoyed our working association for several years, and hope to continue.

You know, you make a very good point about additional revenues. But you know, Mr. Donohue, additional revenues do not necessarily have to come from additional taxes. You say you have to spend money to make money. Well, you are talking about infrastructure and actually fixed assets that belong to the U.S. Government.

But you know, the thing about it, the revenue for this government comes from people. That was the purpose and is the purpose of tax relief at periodic times. You can go back 40-plus years, and you can look at what happened when tax relief was put forth in a favorable way to the wage earner, and we had additional revenues come into the government.

In the 1960s, you know, looking at the tables not too long ago, in 1961 the revenue into the government was something like $92 or $94 billion that year; substantial tax relief under the Kennedy administration, early in his administration. It led to over a doubling of revenue over that decade.

Then when you look at the 1980s, when Reagan came in, and put forth a very substantial tax relief for wage earners, we had again almost a doubling, from $599 billion in 1981 to a little over $1 trillion in 1990 of revenues.

I do not say you will have a doubling of revenues into the Treasury based on the tax relief that we put forth last year. We adjusted the cash flow of people, giving them more monies to spend in the marketplace, and that is where the taxes for those trust funds go, that you are so favorable of, and I am, too, having been in transportation for 39 years, that is where those funds come from.

Mr. DONOHUE. Right.

Mr. COLLINS. They come from the cash flow of people.

Fortunately, we did put forth the tax bill that left more revenue in the earnings, and two, we had a drop in the cost of gasoline and fuel, which helped to keep this economy from being a lot worse than it was.

So I think, in the long run, if the Congress would focus on the cash flow and the budget, and I am a cash flow nut, you know.

I used to run my business every morning by going in the front door, pulling out the drawer with the checkbook in it, and I wanted to see what the balance was. Then I wanted to see what I had coming in, that I had earned the day before. I let those that I owe worry about that. But I knew where my money was.

But if we would stay focused on the cash flow of our constituents, who are the wage earners in this country, by giving them relief from imposed taxation by this government, we not only help the revenues of this government, but we help the revenues of all entities and levels of government, because of sales tax and use tax and excise taxes that they receive.

So, you know, I appreciate the fact that you say we need to spend money to make money, and we do. But we need to also allow the people to use more of their money as they see fit, and we will have additional revenues to expend on those transportation routes that are so needed.

I am so glad that you brought this thing up about the engine, truck engines. The EPA rules that are going into place this October, supposedly to increase the fuel mileage, but it is going to work in reverse; lower mileage, more consumption, shorter internals in oil changes; it will be just the opposite of what those idiots over there at EPA think it is going to do.

You know, there again, we are imposing regulations that are going to impose additional cost, which is an additional taxation that is levied by this government on people out there, trying to earn and make a living.

There were over 200,000 repossessions since this recession started last year in independent owner operators, and there will be more. People are trying now to buy new trucks, based on the current market and what we have available, because they do not want those new trucks coming in October.

Mr. DONOHUE. Mr. Chairman, you have probably concluded that Mr. Collins and I have had some business going on for a long time.

When I used to run the American Trucking Association, I would always come to him for advice. Because if you can run a trucking company in these days, you can run just about anything.

In fact, the reason he came in to look at his checkbook is not what he had in it, but what was coming in, because of what he had already spent.

Mr. COLLINS. That is right.

Mr. DONOHUE. Let me make two comments, if I can, Mr. Collins. First of all, I do not know if everybody appreciates it, but when this tax cut was put in place, the part that the Chamber supported vigorously, and a lot of folks were saying, "what are you doing for big companies," was the reduction in the individual rate.

Here is the reason: Millions and millions of small companies pay their taxes, either as individual business people, as sub-Ss or LLC companies. So they are the people that got the tax cut.

By the way, that tax cut and the reduction in oil prices, which was either good, smart performance, or luck, and we will figure out what it was, is the thing that kept this recession from going into a real hole in the wall.

I will be glad, at another time, to have a long talk with you about EPA and engines and those kinds of things. As you know, since I have come over here, I have left that to others. But I have still got a whole lot of opinions about it.

Mr. COLLINS. Well, we all have, and I appreciate that. Maybe sometime, we can talk about the ANWR situation too, because I do not think people have actually thought that ANWR situation all the way through.

You know, we have got people that have focused on the environmental risk on 2,000 acres of barren land, which is a minimum risk. It has been proven by technology and the exploration already that we have done in that area.

This is 2,000 acres of barren land, with little risk involved versus, look at the risk 10 years ago, when the Iraq invaded Kuwait, and we had to send 500,000 soldiers in there, and the loss of life and billions of dollars; and we know that is coming again. That risk is real, and I do not think we are focused on the real risk when it comes to ANWR.

I say, shame on those who voted against the exploration in the northern slopes of Alaska, especially those from Georgia. Thank you.

Mr. DONOHUE. Well, thank you; I would just say, Mr. Chairman, the Chamber vigorously supported controlled, measured exploration in ANWR, and I believe will eventually get to it, when the need dictates.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman, and thank you, Mr. Donohue, for your testimony. Like Mr. Collins, I hope I have a long time in the future to work with you, as well.

Everyone here today I think understands, Mr. Donohue, the gravity of the situation that our country is facing with regard to the current budget outlook, so I will not go into a great deal of detail about that.

But I want to focus my comments and my questions on what steps we might take collectively to get us out of the deficit ditch and back on the path of fiscal responsibility.

You know, when I talk to my constituents back home and ask them what it means to be fiscally responsible, they tell me Congress ought to operate the way families and businesses do.

American families, I think, and Kansas families follow three common sense rules: No. 1, do not spend more money than you make; No. 2, pay off your debts; No. 3, invest in basic needs in the future.

A few weeks ago, the majority party offered a budget that provided for basic needs quite well; but I think they fell short in the other two areas; that is, spending more money than we made and paying our debts off.

I have heard a lot of talk the last few weeks that no one in the minority offered a plan, and that is not correct, either, because myself and three other of my colleagues submitted a plan to make sure we pay our debts and to make sure we do not spend money we do not have. But the majority denied us a hearing and a vote on the House floor on that plan.

So later today, in the spirit of these hearings and in the spirit of doing what is right to get our fiscal house in order again, my Blue Dog colleagues and I will be announcing another plan to set us on the path of fiscal responsibility, to secure the financial future for America, for our kids, and for our grandkids.

We are going to introduce four bills, Mr. Donohue, to return to what I call the "ABCs" of budgeting. "A" is assuring honesty and accountability by extending and strengthening the Budget Enforcement Act that expires this year, which I hope we all can agree to do.

"B" is balancing the budget without using Social Security; by amending the Constitution to require Congress and the President to enact balanced budgets, without counting the Social Security surplus in receipts.

"C" is climbing out of the deficit ditch by passing a short-term debt limit, through the end of this fiscal year, September 30, to meet current obligations to prevent a Federal default.

Nobody wants a Federal default, and we certainly understand meeting those obligations. But I do not want to write a blank check for $750 billion.

"D" is defending our children by passing legislation that requires Congress to obtain a three-fifths, 60 percent, vote to considering legislation that would require us to borrow money. This will prevent us from passing on huge debts to our kids.

You know, there has been a lot of talk in Congress in the past several years about taxing and spending. We have also talked some about borrowing and spending, and neither can put us in the deficit ditch. I think we need to return to some fiscal responsibility.

So in that context, I want to talk to you for just a moment, and try to draw an analogy here. I understand that I am going to run out of time probably, and I understand that there is no perfect analogy between business and government. But I think we can, in government, learn some things from the way business operates.

Both entities, for example, must look at both sides of the balance sheet, revenues and expenditures. When revenues exceed expenditures, both entities are said to be running a surplus. In business' case, retained earnings or surpluses are often returned to shareholders in the form of dividends.

Last year, when government was in surplus, we returned revenues to the taxpayers, and I voted for the President's tax cut proposal. But when expenditures exceed revenues, both entities, business and government, are in deficit.

I think this should force responsible businesses and a responsible government to re-evaluate their financial position, and develop a plan to get us back on the right track, as far as fiscal responsibility, and get us back in balance, at least, as far as government goes.

I think this is the situation we are in today. We should and we need to develop a plan to get us out of the deficit ditch.

So I guess I want to ask you, and I just have limited time left, but would you agree that it would be a good idea to require that our business, and I am talking about our business, Congress' business of government, balance its budget? I am sure that you would.

Mr. DONOHUE. Well, Mr. Moore, you left out a fourth issue in families and in companies. That is that some of our major expenditures we capitalize with loans. We buy our houses with a mortgage.

Mr. MOORE. That is true.

Mr. DONOHUE. Many of us buy our car with a car loan, or some of us send our children to college with a loan.

If we were to be operating on a cash basis, we would not be able to do this, under the argument that each year, what comes in and what goes out has to be the same.

One of the problems that the ladies and gentlemen of the Congress face is that when there are large capital expenditures, and you want to deal with those on a cash or an annual basis, it is almost impossible to stay within the scenario which you structured.

Now let me say, first of all, I have not read any of your bills, but I applaud you trying to keep the Budget Act in place.

Second, we need a short-term debt limit, so that we do not let this government go into default. Third, there is no question that over time, we need to press the government to operate within its means.

Now if you have a $2 trillion expenditure level, without any capital budgeting, and you decided, from time to time, because of war or pestilence or other reasons to, in fact, capitalize some of that, then you have to have some ability to do that.

As I said, I do not know what I think about the three-fifths and 60 percent, and all that sort of thing. We all know one thing. We are going to support this Congress and this administration to prosecute our war against these terrorists, and we are going to protect ourselves at home, and we are going to take care of that.

Mr. MOORE. Absolutely.

Mr. DONOHUE. On the Social Security issue, you know, I am a student of demographics and entitlements. We have had an extraordinary, wonderful thing happen in this country over the last 100 years. We have extended our life expectancy by 30 years. In the next 20 or 30 years, we are going to extend it another 10. So we have got a massive number of collectors.

Our problem is, we do not have enough "payers-in" and enough taxpayers, and we are all going to have to work on that.

For as long as I have had anything to do with government, for 30 years, we have been fooling around with, "do we really have a Social Security Trust Fund," and "how do we use that money that comes in?" I would love to sit down and talk to you about that.

But what we have to be very careful to do, when we have no capital spending, the government is different than families and businesses in the way that they have to go defend this Nation.

Mr. MOORE. I understand.

Mr. DONOHUE. The analogies are helpful, but they are not pure.

Mr. MOORE. I have one last comment, and I do appreciate your remarks. I tried to say at the outset, it was not a perfect analogy, by any means.

I certainly understand, and I think this Congress understands, the need to defend our country is the first and most important priority of any government.

Mr. DONOHUE. Right.

Mr. MOORE. The last thing I would say though is, with regard to your remarks about mortgages, I understand that, as well. I have a mortgage. A lot of Americans have mortgages. We are going to pass on a $5.7 trillion mortgage to our children and grandchildren. We are giving them a great country, but we are passing on a heck of a mortgage.

I think that Mr. Greenspan, if he were here right now, would tell us, and I have heard him say this several times, if we can practice fiscal responsibility and start to pay down our long-term debt, it is going to keep long-term interest rates down. That is going to be the ultimate tax cut for everybody who borrows money in this country.

Mr. DONOHUE. I agree, and by the way, we always have to look at, in our families and our businesses, the amount of our debt in relation to the size of our enterprise.

Mr. MOORE. Yes.

Mr. DONOHUE. I look forward to some further discussion with you on that.

Mr. MOORE. Thank you very much, Mr. Donohue.

Mr. DONOHUE. Thank you.

Chairman NUSSLE. Mr. Brown.

Mr. BROWN. Welcome, Mr. Donohue, we are glad to have you here.

Mr. DONOHUE. Thank you.

Mr. BROWN. Certainly, you will serve us in America through the representation of the business community. Having come from the business community myself, I recognize the bottom line is very important in the continued existence of the corporation.

You have raised a couple of good points, and I know that the chairman was not too happy with your first remark. But I think it is a debate that we certainly must look at; what are we going to do with the tax on the gasohol and ethanol or whichever?

As I understand now, the gas is taxed at five cents a gallon. Is that right, Mr. Chairman?

Mr. DONOHUE. Where is Mac?

Chairman NUSSLE. That is not quite right.

Mr. BROWN. OK, what is gasoline, 18 cents or 17 cents? I have always taken the tax on gasoline as a user fee, which is intended to provide infrastructure for the user of the gasoline.

It would appear to me, Mr. Chairman, that there is the lost revenue, which is impacting our trust fund, and also impacting the maintenance and the continued development of our infrastructure on highways across the Nation.

It would seem to me, if we are going to supplement the gasohol, it ought to come from funds outside the trust fund. I know that is a debate that we are going to debate later. But I am just curious, how much revenue do you think we might be losing through that differential?

Chairman NUSSLE. I would be happy to have an ethanol hearing, at some time, but I am not sure that that is necessarily the debate, today.

Mr. BROWN. I understand, Mr. Chairman.

It was mentioned in this report, and since we were looking for new funds, not necessarily to raise taxes, but maybe to raise equity, but we will debate that another time, but thank you for that.

Mr. DONOHUE. Mr. Brown, the issue there is not only the current situation; but if we expand the use of a particular product and exempt that from the trust fund, we would have a problem. I think the chairman will figure out a way to have a discussion on that.

Mr. BROWN. That is the reason I raised that. I am sure he has got some idea in mind.

The other issue, as we look at raising the debt ceiling, and recognize that we are sort of bound by law, that the proceeds of the Social Security monies must be invested in Treasury instruments, which effectuates the increase of the debt limit.

There is a move afoot in Congress to divide the different types of debt, the consumer debt, from the internal transfers, which would, in effect, lower the debt ceiling. Do you have any thoughts on that?

Mr. DONOHUE. Mr. Brown, I want to be very careful here. I am quick to have thoughts on a lot of things. Sometimes I do not know exactly what I think until I hear what I have to say. But on this matter, where I am not an expert, I think I am going to be careful what I say.

But let me just very clearly say, there is a three-part issue here. First of all, this committee is doing the right thing in establishing, maintaining, and supporting a process that makes sure we carefully analyze what our real expenditures are, and we have limits on what we can do in relation to what we bring in.

Second, unfortunately, the debt business in this government in recent times has become very political. It is going to be a very close race in the Congress and the Senate, and everybody has a lot to say about that. That is why I appreciate Mr. Moore's suggestion that we might put some of that aside while we tend to our business.

We have to really understand our true debts. You know, we have all kinds of off-budget kinds of issues. I mean, I believe the Enron thing is a very sad moment for American business.

But many of our businesses, all the real estate businesses, many people have off-budget corporations, because that is how you do business. I have been waiting for somebody to finally say, and so does the government, lots of them. I do not know who your auditor is but, you know, it could be very questionable.

I would support this Budget Committee and other Members of the Congress, outside the political environment, taking a real serious look at our debt. What should be our debt process; how do we go about it? We should not do everything in a cash-on-cash basis. What is consumer debt versus entitlements, and how do we deal with those issues?

I am prepared to put the Chamber behind a vigorous discussion. But I want to be very careful, at this sensitive time, getting out in front on that, right now. Although, if you and I want to walk down the hall, I will try to tell you what I think.

Chairman NUSSLE. Are there other members who wish to inquire?

If not, Mr. Donohue, thank you so much for your testimony here today. We appreciate your words of wisdom and, as well, your support in our endeavor to try and reign in the budget and provide some discipline. Thank you very much.

Mr. DONOHUE. Well, Mr. Chairman, I appreciate being here. I want to remind the committee that yours is not the most famous and appreciated work in this Congress. But were it not done, we would find more significant gaps between what we take in and what we spend.

I congratulate you on your work, and I am available, and the Chamber is, to help in any way possible. Thank you very much.

Chairman NUSSLE. Thank you.

Our friend and former colleague, Bill Frenzel, is also a part of this panel. We welcome him to the witness table, again. He has been a long-time supporter and warrior in the effort to reign in spending and provide control.

We are happy to have you here today to provide yet again—because this is not the first time you have labored in this vineyard. You have been here before and labored hard.

We need your ideas, at this point in time, given the unique situation we find ourselves in, with the House having passed a resolution, and the Senate, as of yet, not passing one; with caps and PAYGO expiring; all the fences seem to be laid down. How we are going to get this under control is the thrust of this hearing, and we appreciate you coming to give us that testimony.

Your entire written testimony will be made part of the record, and you may summarize as you would like. Welcome.

STATEMENT OF HON. BILL FRENZEL

Mr. FRENZEL. Thank you very much, Mr. Chairman, Mr. Spratt, and members of the committee. I appreciate the opportunity to testify again before this distinguished committee on the subject of budget discipline.

I do so for myself and the Honorable Tim Penny, for the Committee for a Responsible Federal Budget, of which we are co-chairmen.

I want to talk mostly this morning about discipline, and mention two things, which I think are critical, right at this moment.

No law can actually control fiscal policy, nor stop the Congress from spending, if it really wants to do it. Congress can only be restrained by the Constitution. The record is replete with less than successful efforts to control Congressional spending, each having modest success; but eventually being evaded by the Congress.

Of all the restraints that we have tried to apply over the years, I believe the most enduring and most helpful have been discretionary spending caps and the PAYGO restrictions. So I recommend that the Congress extend these two primary control features, as early as possible this year, and I congratulate the committee for its good work in pursuit of that elusive goal.

The chairman suggested the lack of a budget in the Senate is a problem, and I am not going to be the person who tells you how to get around that particular problem.

But I do want to talk about spending caps and PAYGO. They are not perfect. They cannot force the Congress to do or not to do anything. However, when spending limits have been agreed to by the President and the Congress, they are the most effective budget enforcement mechanism the Congress has discovered yet.

The caps and PAYGO were first employed after BEA 1990. They were revised in 1993 and again in 1997. The 1997 changes obviously needed more adjustment. The Committee for a Responsible Federal Budget and I have recommended a number of times in the last couple of years that you adopt new discretionary spending limits early in each budget cycle. Unfortunately we are without them at the moment.

In the case of terrorism and our war against it, it is a good thing to waive limits, when it is necessary, in real emergencies. But it is also a good thing to re-establish the limits as soon as possible, and to preserve the priorities, old and new, which the Congress sets when it passes or modifies its Budget Resolution. The caps really need to be reset now.

I am occasionally asked, Mr. Chairman, why we need PAYGO in addition to the caps. My own answer to that is that the urge to spend follows the path of least resistance. If discretionary spending is capped and entitlements are not, it is not hard to guess what kinds of new and changed spending programs we will have.

In addition, discretionary spending programs are a little more easily dealt with, in the budget sense, and entitlements are forever. So not having some kind of entitlement restriction, I think, would be a real mistake.

For those Members of Congress who are nervous about inhibiting urges to cut taxes through PAYGO, it is good to remember that when the President and the Congress want to exceed the caps, they find a way to do so. When tax cuts seem to be the right policy, they will find a way to accomplish them, too.

Caps and PAYGO are not straight jackets. They are sign boards to remind Congress what its priorities were when it passed the Budget Resolution. In true emergencies, when the Congress and the President need to spend more, or to provide more tax cuts for economic incentives, it is always appropriate to reassess the priorities.

Now except for my own personal wants, there is no level of Federal spending which is just right. The right level politically, at the end of the appropriations process, is the one on which the President and the Congress agree. That is where caps should be.

We think Congress should reset them regularly; perhaps as often as biannually. They have to conform to political reality, or they will be ignored.

As you know, Mr. Chairman, our committee also supports a binding Budget Resolution, passed by Congress and signed by the President. One important feature of that process is the regular opportunity for and an expectation of agreement between the two branches of government on spending limits.

In this testimony, however, I really want to focus on spending caps and PAYGO as being the highest priorities right now, rather than to divert your attention by repeating other wonderful ideas previously presented, such as the Joint Budget Resolution. For the record, my testimony of last July 19 before this distinguished committee stands, but the twin spending limits are target number one for today.

My final warning is to repeat that no amount of good law can substitute for Congressional commitment and Congressional leadership on this issue. It is not easy to set priorities. They reduce flexibility, but they do establish some order and discipline. Once set, based on history, they are a helpful and occasionally powerful reminder, which reinforces the original commitment.

Mr. Chairman, and long-suffering committee members, thanks for your time and your interest. This is a terrible committee on which to serve. It is a political truism that nobody ever tears the cufflinks off of Congressmen who say no.

Nevertheless, I suspect that future generations of taxpayers who will be obliged to live with the effects of today's fiscal policies may indeed honor the memory of those who occasionally said no.

[The prepared statement of Mr. Frenzel follows:]

PREPARED STATEMENT OF HON. BILL FRENZEL, CO-CHAIRMAN, THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Mr. Chairman and members of the committee, thank you for giving me the opportunity to testify again today on the subject of budget discipline. I do so for myself and the Hon. Tim Penny, and for the Committee for a Responsible Federal Budget, which we co-chair.

No law, process, provision or formula can actually control fiscal policy, nor stop the Congress from spending if it seriously wants to do so. Congress can only be restrained by the Constitution. The record is replete with Congress' less-than-successful efforts to control its own spending, from debt limitation statutes, to the Budget Act itself, and to other fancier embellishments like Gramm-Rudman.

Each of these had some early, modest success. Eventually, Congress found ways to get around them all. Of all of these restraints, the most successful, and the most durable budget control mechanisms have been discretionary spending caps and PAYGO, and so I recommend that the Congress extend these two primary control features as early as possible this year, and I congratulate this committee for its good work in pursuit of this elusive goal.

Spending caps and PAYGO are imperfect instruments, and as noted earlier, they cannot force Congress to do, or not to do, anything. However, when the spending limits are agreed to by the President and the Congress, they are the most effective budget enforcement mechanism the Congress has discovered yet.

Because their effectiveness wanes with age, they need to be reviewed and renewed every couple of years.

First used after the Budget Enforcement Act of 1990, they have a pretty good record of keeping spending within the levels set by Congress in its Budget Resolution. They were revised in 1993, and again in 1997. Because the 1997 changes obviously needed further adjustment, this committee, and I, have recommended since 1998 that you adopt new discretionary spending limits early in each budget cycle.

After the initial high caps set for fiscal year 1991, discretionary spending remained well below the inflation rate through the 90s. In the last two budget years, fiscal years 2000 and 2001, when the limits were pretty well ignored, discretionary spending increased at rates more than several times the rate of inflation.

In the case of terrorism, and our war against it, it is good thing to waive such limits when necessary in real emergencies, but it is also a good idea to reestablish them, as soon as possible, to preserve the priorities, old and new, which Congress agrees to when it passes, or modifies, its Budget Resolution. The caps should have been reset at the end of last year, but now is a very good time to set the caps again.

I am occasionally asked why we need PAYGO in addition to the caps. My answer is that the urge to spend follows the path of least resistance. If discretionary spending is capped, and entitlements are not, it is not hard to guess what kinds of new, and changed, spending programs we will have. In addition, discretionary spending programs are more easily dealt with in a budget sense since they can occasionally, admittedly not often, be reduced or even zeroed, while entitlements are forever.

For those who are nervous about inhibiting urges to cut taxes, it is well to remember that when the President and the Congress want to exceed the caps, they find a way to do so. When tax cuts are the right policy, they will find a way to accomplish them, too.

Caps and PAYGO are not straitjackets. They are signboards to remind Congress what its priorities were when it passed its Budget Resolution. In true emergencies when Congress and the President need to spend more, or to provide more tax cuts for economic incentive, it is always appropriate to reassess the priorities, and alter the limitations.

Except for my own, there is no level of Federal spending which just right. The right level politically is the one on which the President and the Congress agree.

That is where the caps should be. We think Congress should reset them regularly, perhaps as often as biennially, even if it may mean generally higher levels of spending. They must conform to political reality, or they will be ignored. A simple majority should be able to make changes as long as the votes are recorded. The transparency of free debate and clear-cut votes will have what we believe is a sobering affect on the Congress.

As you know, Mr. Chairman, our committee supports a binding Budget Resolution, passed by Congress and signed by the President. One important feature of such a process is a regular opportunity for, and an expectation of, agreement between the two branches of government on spending limits.

Even without a Joint Budget Resolution, Congress could automatically send a bill setting caps to the President when it passes its Budget Resolution, just as it used to do with debt ceiling bills under the old "Gephardt" procedure.

In this testimony, however, I really want to focus on the spending caps and PAYGO, as being the highest priorities right now, rather than to divert your attention by repeating other wonderful ideas previously presented, such as the Joint Budget Resolution. For the record, my testimony of last July 19 before this distinguished committee stands, but the twin spending limits are target No. 1 for today.

The final warning is to repeat that no amount of good law, or good process, or good restraint, can substitute for Congressional commitment and Congressional leadership on this issue. It is not easy to set the priorities. They reduce flexibility, but they do help establish order and discipline. Once they are set, they are, based on history, a helpful, and occasionally powerful, reminder which reinforces the original commitment.

Mr. Chairman, and long-suffering committee members, thanks for your time and your interest in this matter. This is a tough committee on which to serve. It is a political truism that nobody ever tears the cuff-links off of Congressmen who say no. Nevertheless, I suspect that future generations of taxpayers who will be obliged to live with the affects of today's fiscal policies, may honor the memory of those who occasionally said no.

Chairman NUSSLE. Thank you, Mr. Frenzel.

Long-suffering is a new description that I have not heard before, but I think it is certainly applicable to some of the things that we are treading on today.

Just to update you, on one example, and I could not agree more with your last comment, that certainly, you know, we put these rules into place, and they have been waived as many times as they have been enforced.

The issue of leadership and the issue of authority, moral authority, or however you want to put it, technical authority, and the willingness of our membership to enforce agreements or budgets, is really what is at stake here, as much as anything.

To give you an example of that, the President put forward a supplemental appropriation request of emergency for homeland security and defense, for obvious reasons. I think, in this case, you will see bipartisan support in the Congress to achieve this.

However, the opening bid of the Appropriations Committee, after receiving the $27.1 billion request, was $39 billion. That was the opening bid from the appropriators, who found almost $12 billion of additional spending that, in their wisdom, was now all of a sudden emergency; or maybe better said, the train was leaving the station, and let us get on board, because this may be the only thing leaving in any short time.

We are making it very clear that the President has designated an emergency of $27.1 billion. It should not be a penny more. It should not be a penny more than $27.1 billion, without the understanding and acquiescence of the administration in this regard, to designate additional items as emergencies.

We have a definition. It is a bipartisan definition. It should be adhered to; otherwise, we might as well declare the entire Federal Budget an emergency, and pass it in the next month and go home. That is kind of where we are at right now.

So we are taking a pretty hard line approach. As you know, emergencies are outside the process, and we are going to try, as best we can, to exert, or I guess I am speaking in the plural. I am going to do it myself, if I have to.

I do not know if I am going to get any cufflinks for it, as you stated. But we are going to at least make the attempt to say no here.

That is even before we get to the topic of whether the $27.1 billion is appropriate, and getting the right accountability and oversight that we need to start providing for homeland security and defense.

Where I am going with all of this is also a question on how we should extend the caps, not just whether; and how we might extend PAYGO, not just whether.

Would you propose or would you favor a single cap on discretionary spending, or would you support separate caps? Is this a matter of any cap is better than no cap? How would you approach that?

I mean, one of the challenges we had with PAYGO, and for that matter, caps, is that all of these were designed and defined during periods of deficits. They were designed to get out of deficits, and they were not constructed very well to deal with an era of surpluses.

So as a result, when we achieved a definition of surplus, all of a sudden, it became less relevant or much easier, you know, to ignore. I am wondering if you would change or reform any of those processes, given the opportunity to do so at this time?

Mr. FRENZEL. Mr. Chairman, that is a huge question, or a huge set of questions. I do pretend to be the last expert on the subject.

First, I note that when you say the Appropriations Committee has bid already nearly a 50 percent upgrade, that is just the first Appropriations Committee you are running into. There is another one, as well, coming along behind.

With respect to the question of what caps, my preference is to have discrete caps, at least separate ones for military, which I have always thought were appropriate. But now, I think they are even more appropriate. So that is my preference.

On the other hand, is a single cap better than no caps? Yes, it is, but there is too much mischief that can occur within a large spending account. It seems to me that if setting of caps is to enforce Congressional priorities set in a budget resolution, you really ought to have a series of discrete caps.

It is also true that the caps and PAYGO seemed to work much better when we were in deficit and there was some fear in the Congress that maybe we were not ever going to get out of deficit.

My own judgment is that Congress has had really more difficulty dealing with surpluses than with deficits. I think we are not going to know the story on that until we see how caps perform through a little longer period of surpluses.

But I think you ought to do them as soon as possible. Of course, legislative branch caps established in the Budget Resolution are good. Those established by negotiation with the President are better. Those established by law, in which both branches participate, are best.

I recall, as I noted in my testimony, but did not say, in the old days, I think perhaps the late 1970s, we used the Budget Resolution to carry with it a bill that would extend the debt ceiling to fit whatever the budget resolution said we were doing. Dick Gephardt was the creator of this system, and it carried his name.

When the Budget Resolution was passed, this auxiliary bill sticking to it was sent to the President for signature. That might be one way of establishing the caps and having the President entered into the system.

But any way by law is the best, and if Congress does not want to share this with the President, but wants to keep those caps within the branch, it should do that, too. That is better than no caps.

My guess is, the way I prefer it is to nail them down as tight as you can, because I do not think Congress can do the full job for itself. Too many spending butterflies fly by that are attractive to Congress, after the budget is passed. Congress is strongly tempted to have this one, and that one, and all the others.

It is much better if the President can help in the discipline. But any kind of cap is better than no cap.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Mr. Frenzel, thank you for coming. We remember listening to your wise advice on the House floor and from this committee. You do have one comparison to make service on this committee satisfying. It is better than being on the Ethics Committee. That is for sure. [Laughter].

I read your testimony, and I listen to what you have got to say. It seems to me that you have a more permissive attitude about the PAYGO rule than you do about spending caps.

Do you think that perhaps we should have one PAYGO rule that is applicable when we have surpluses, and by that, I mean surpluses outside Social Security, on-budget surpluses, and another when we have deficits?

Mr. FRENZEL. I have not thought about that a lot, Mr. Spratt. I am sort of reluctant to put my foot in that pool, just as Mr. Donohue was on a different question.

Again, I believe in PAYGO in times of surplus and deficit. But there may be clever ways to structure it. Congress may find out that it can do a better job in ways different than with one across-the-board blunt rule. Until that is explained to me, I guess I will stick with a single PAYGO.

Mr. SPRATT. Let me suggest this to you, and get your reaction to it, because you have got a long perspective looking back. What we have here is a macro-economic problem, where last year, there were two projections of the 10 year surplus that totaled $5.6 trillion, which made it appear that we could have it all.

As a consequence, there was a substantial tax cut, reminiscent of 1981. Within months, we found that we had an overstated, or some would say, bloated estimate of the surplus, looking out 10 years. We now know that it probably was overstated by economic and technical mistakes alone, to the tune of about 40 percent.

Furthermore, that was the August update. Having discovered that we had an overstated estimate of the surplus, upon which the budget was based and the tax cuts were based, we then were overtaken by other events, overridden by terrorist attacks, contingencies that nobody expected or provided for in the budget.

So we have got a fundamentally different foundation for the budget. But we have still got the budget with tax cut expectations, spending projections, that is based upon economic estimates and projections that no longer apply, in a world that no longer exists.

What do you do to get out of this?

Mr. FRENZEL. That is a good question, Congressman Spratt, and I am probably not going to be able to help you out of that thicket.

I have some thoughts about the 10 year budget estimates, in that I do not think they are very helpful. I think they are useful sometimes, in just trying to track where you are going; and useful, probably because of Congress' own, what would you call this desire to back-end load both spending and tax cut programs.

Mr. SPRATT. That is the tendency, if you do not have a 10 year window to keep everybody honest about the out-years.

Mr. FRENZEL. That is true. But on the other hand, as you have already pointed out, a 10 year is taken at a slice of time that develops quite a different picture than if you take it 6 months later, or 6 months before.

Everybody has to understand that somebody is just extrapolating lines on a chart, and those figures do not really mean a whole lot. You know, we do it for 75 years on Social Security. You know, maybe it is right and maybe it is not. I do not really know that.

I guess I would fight the tax cut wars on a little different basis. I am one of those that likes to look at the percentage of GDP that taxes take up, and I like to see that they do no get above 19 percent. But that is a personal thing. So for me, I would not need a 10 year surplus projection to make me want to cut taxes.

Mr. SPRATT. Let me simplify it to one choice.

Mr. FRENZEL. OK.

Mr. SPRATT. If we are running a deficit, an on-budget deficit, exclusive of Social Security, do you believe that the PAYGO rule, in most cases, should require an offset equal in amount to the tax cut?

Mr. FRENZEL. I do.

Mr. SPRATT. Thank you, sir.

Mr. FRENZEL. You asked a simple question, and I am a simple man.

Mr. SPRATT. And I got a straight answer; thank you.

Chairman NUSSLE. Mr. Putnam.

Mr. PUTNAM. Thank you for your testimony.

Mr. FRENZEL. Mr. Chairman, I apologize for arriving late. I proved myself to still be in that small percentage that does not get the word. All I can say is, I was lucky I arrived on the right date. [Laughter].

Chairman NUSSLE. Your testimony is accepted and appreciated, no matter when it is given. We welcome you back, as a long-suffering alumnus, to the committee. So we appreciate your testimony, and we will work on these issues together. Thank you.

Mr. FRENZEL. Thank you.

Chairman NUSSLE. With that, we have our second panel, which we will be joined today by Susan Irving, from the General Accounting Office; Barry Anderson, from the Congressional Budget Office; and Richard Kogan, from the Center of Budget and Policy Priorities.

While they are joining us, I just want to welcome all of the young people who are joining us today as part of that special day when you get to bring your kids to work. We have Jack, Peter and Paul Wydler who are here today, and Yvonne Ochiri who is here from the Alexandria public schools. So we welcome them all today.

Bud, your son's name?

Mr. NEWMAN. Dan.

Chairman NUSSLE. Dan Newnam is here; we welcome him as well. He can be next up here, if he's interested. He can't ask any questions; they'll be better than ours. But we welcome all the young people who are here today.

We also welcome our panel. They have all three testified before our committee before, on these and other topics. We will start and just move right down the witness table, with Barry Anderson first. We welcome your entire testimony; the testimony of all three witnesses will be made a part of the record, and you may summarize as you see fit.

Mr. Anderson.

STATEMENT OF BARRY B. ANDERSON, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE; RICHARD KOGAN, SENIOR FELLOW, CENTER ON BUDGET AND POLICY PRIORITIES; AND SUSAN J. IRVING, DIRECTOR FOR FEDERAL BUDGET ANALYSIS, U.S. GENERAL ACCOUNTING OFFICE

STATEMENT OF BARRY B. ANDERSON

Mr. ANDERSON. Thank you, Mr. Chairman.

Chairman Nussle, Ranking Member Spratt, and members of the committee, thank you for inviting me to this hearing. I am happy to be here this morning to discuss mechanisms of budgetary discipline, something that I have been actively involved with for more than 20 years.

During those years I have seen the budget process change dramatically—from the 1-year budgets of the late 1970s, to the budget deals between Congressional leadership and President Reagan of the early- and mid-1980s, to the aggregate deficit control mechanisms of Gramm-Rudman-Hollings in the late 1980s, and finally to the three versions of the Budget Enforcement Act in 1990, 1993, and 1997.

As an active participant in devising and enforcing many of those mechanisms for budgetary discipline—and, more recently, as an observer as other people have tried their hand at enforcement—I believe that I have a sense of what characteristics make a mechanism more likely to be effective or more likely to fail. On the basis of that experience, I offer four principles that are required for any budget enforcement mechanism to succeed.

The first is shared goals. For a system of discipline to be effective, its overall goals must be broadly shared: by the Congress and the President, by Republicans and Democrats, by the Senate and the House, even by the major committees—Budget, Appropriations, Tax and Authorization.

An example of the need for shared goals can be found by comparing the Budget Enforcement Act at its inception in 1990, with virtually the same BEA 7 years later. The goal of eliminating large and growing deficits through limits on spending was largely shared by the majority of political players in 1990 and during the first half of the decade. As the economy continued to expand, revenues came in at unexpectedly high rates, which—combined with the end of the cold war, the end of the thrift bailouts, and the BEA's limits on spending—produced unanticipated surpluses. Suddenly, the shared goal of deficit reduction had been achieved, and the willingness of the President and the Congress to adhere to the restraints of the BEA withered, even though the law was virtually the same.

The second principle is realistic assumptions. Budgetary assumptions, particularly for 5 or 10 years into the future, cannot be much more than educated guesses. Some demographic trends can be projected with good accuracy, but precision in forecasting has never been possible over more than a very short period of time. Nevertheless, overly optimistic assumptions about economic or technical factors, such as the timing of spending, can discourage policymakers as the unrealistic targets are missed by wider and wider margins.

The third principle is appropriate sanctions. The BEA's mechanism of spending caps and PAYGO—and especially the sequestrations available to enforce it—was a big improvement over GRH's mechanism of deficit caps and sequestrations, largely because of the appropriate application of sanctions for those who had violated the limits. Under GRH, a sequestration might be required for discretionary programs, for example, because of economic factors unrelated to discretionary spending, even if the appropriators had not exceeded their appropriation targets. Under the BEA, by contrast, no sequestration of discretionary programs would occur unless the Appropriations Committee exceeded its limits.

Note that the enforcement mechanism for the spending caps is weakened when lawmakers use special provisions to protect one class of programs from sequestration. Limiting the programs subject to sequestration makes the burden on the remaining programs heavier, thus providing a greater incentive to waive the sequestration entirely.

The fourth principle is availability of safety valves. Exemptions for emergency spending—for example, for natural disasters, for wars, or for recessions—can strengthen a mechanism for budgetary discipline if the exemptions are applied fairly and honestly. For example, during the first 7 years of the BEA, emergencies were limited to natural and economic disasters, as had been defined in 1991. That system broke down in the late 1990s, however, as the definition was discarded and any semblance of discipline abandoned.

If the goal of the current Congress is to retain the discipline of the caps and the PAYGO mechanism but gear the specific targets so that all surpluses stemming from Social Security receipts are used to pay down debt—in other words, so that there is no on-budget deficit—I would remind the committee that an earlier model exists. The 1990 BEA was drafted with that same goal in mind. Besides the spending caps and the PAYGO mechanism, it also contained a provision that established declining targets for the on-budget deficit. That provision could be used as the foundation for procedures to enforce on-budget balance.

The precise caps for a new mechanism would need to be worked out, of course, and the political agreement required to implement the new regime of budgetary discipline would not be easy to obtain. However, the laws to implement a new agreement that protects the Social Security surplus already exist, and except for the aggregate deficit mechanism, they were used successfully for the first several years of the BEA.

A final point: I spoke to this committee, as others did, last year about a number of conceptual problems that I thought needed to be addressed by a new "budget concepts commission." None of those problems have been addressed, and some of them have gotten worse in the past year. No matter what new regime of budgetary discipline results this year, I continue to advise that a new "budget concepts commission" is necessary.

Thank you, Mr. Chairman.

[The prepared statement of Barry R. Anderson follows:]

PREPARED STATEMENT OF BARRY B. ANDERSON, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Chairman Nussle, Ranking Member Spratt, and members of the committee, thank you for inviting me to this hearing. I am happy to be here this morning to discuss mechanisms of budgetary discipline; something that I have been actively involved with for more than 20 years.

During those years, I have seen the budget process change dramatically: from the 1-year budgets of the late 1970s, to the budget deals between Congressional leaders and President Reagan of the early and mid-1980s, to the aggregate deficit control mechanisms of Gramm-Rudman-Hollings (GRH) in the late 1980s, and finally to the three versions of the Budget Enforcement Act (in 1990, 1993, and 1997).

As an active participant in devising and enforcing many of those mechanisms for budgetary discipline and, more recently, as an observer as other people have tried their hand at enforcement, I believe that I have a sense of what characteristics make a mechanism more likely to be effective or more likely to fail. On the basis of that experience, I feel that four principles are required for any budget enforcement mechanism to succeed.

SHARED GOALS

For a system of discipline to be effective, its overall goals must be broadly shared: by the Congress and the President, by Republicans and Democrats, by the Senate and the House, even by the major committees (Budget, Appropriations, Tax, and Authorization). An example of the need for shared goals can be found by comparing the Budget Enforcement Act (BEA) at its inception in 1990 with virtually the same BEA 7 years later. The goal of eliminating large and growing deficits through limits on spending was shared by the majority of political players in 1990 and during the first half of the decade. As the economy continued to expand, revenues came in at unexpectedly high rates, which combined with the end of the cold war, the end of the thrift bailouts, and the BEA's limits on spending, produced unanticipated surpluses. Suddenly, the shared goal of deficit reduction had been achieved, and the willingness of the President and the Congress to adhere to the restraints of the BEA withered, even though the law was virtually unchanged.

REALISTIC ASSUMPTIONS

Budgetary assumptions, particularly for 5 or 10 years into the future, cannot be much more than educated guesses. Some demographic trends can be projected with good accuracy, but precision in forecasting has never been possible over more than a very short period of time. Nevertheless, overly optimistic assumptions about economic or technical factors—such as the timing of spending—can discourage policymakers as the unrealistic targets are missed by wider and wider margins.

APPROPRIATE SANCTIONS

The BEA's mechanism of spending caps and pay-as-you-go (PAYGO) and especially the sequestrations available to enforce it was a big improvement over GRH's mechanism of deficit caps and sequestrations, largely because of the appropriate application of the sanctions for violating the limits. Under GRH, a sequestration might have been required of discretionary programs, for example, because of economic factors unrelated to the caps, even if the appropriators had not exceeded their appropriation targets. Under the BEA, by contrast, no sequestration of discretionary programs would occur unless the Appropriations Committee exceeded its limits. Note that the enforcement mechanism for the spending caps is weakened when lawmakers use special provisions to protect one class of programs from sequestration. Limiting the programs subject to sequestration makes the burden on the remaining programs heavier, thus providing a greater incentive to waive the sequestration entirely.

AVAILABILITY OF SAFETY VALVES

Exemptions for emergency spending (for events such as natural disasters, wars, and recessions) can strengthen a mechanism for budgetary discipline if the exemptions are applied fairly and honestly. For example, during the first 7 years of the BEA, emergencies were limited to natural and economic disasters, as had been defined in 1991. That system broke down in the late 1990s, however, as the definition was discarded and any semblance of discipline abandoned.

If the goal of the current Congress is to retain the discipline of the caps and PAYGO mechanism but gear the specific targets so that all surpluses stemming from Social Security receipts are used to pay down debt (in other words, so that there is no on-budget deficit), I would remind the committee that an earlier model exists. The 1990 BEA was drafted with that same goal in mind. Besides the spending caps and the PAYGO mechanism, it also contained a provision that established declining targets for the on-budget deficit. That provision could be used as the foundation for procedures to enforce on-budget balance.

The precise caps for a new mechanism would need to be worked out, of course, and the political agreement required to implement the new regime of budgetary discipline would not be easy to obtain. However, the laws to implement a new agreement that protects the Social Security surplus already exist. And, except for the aggregate deficit mechanism, they were used successfully for the first several years of the BEA.

A FINAL POINT

I spoke to this committee last year about a number of conceptual problems that I thought needed to be addressed by a new budget concepts commission. None of those problems have been addressed, and some may have gotten worse. No matter what new regime of budgetary discipline results this year, I continue to advise that a new budget concepts commission is necessary.

Chairman NUSSLE. Thank you.

Welcome back, Mr. Kogan. We welcome your testimony at this time.

STATEMENT OF RICHARD KOGAN

Mr. KOGAN. Thank you, Mr. Chairman, Mr. Spratt. It is good to be home. Thank you for your exceedingly kind words.

Unlike all the other witnesses, I speak only for myself, not for any organization.

I would like to make four points this morning:

First, the Budget Enforcement Act of 1990, which many have discussed, is a far better process, as many have said, than the Gramm-Rudman-Hollings process that preceded it.

Second, no process—not caps, not PAYGO—which as I just said, is a far better process—can force bipartisan agreement when the actors don't want to agree. What the BEA did best with its caps and PAYGO rule, was to enforce an agreement that the two parties had already come to.

In that respect, then, I would agree with the implication of what Mr. Frenzel said, which is that if you want to reestablish caps and PAYGO in any form, or anything like them, the first requirement is to negotiate a substantive agreement between the leadership of Congress and the President—have a budget summit—and then use a budget process like this one, which has proven that it is useful in enforcing agreements, as the enforcer after the fact. But a budget summit would be the necessary predicate.

Third, I want to point out that the facts make it clear that excessively large tax cuts can lead to serious budget problems. There has been a lot of discussion by previous witnesses implying that there is an equation between lack of budget discipline and spending increases. As a matter of logic, it is equally true that lack of budget discipline can mean lack of discipline in tax cuts. As a matter of history, I think it's fair to say that lack of discipline in tax cuts has actually been the greater threat than lack of discipline in spending.

Finally, I would like to reiterate a point that others have made today, which is that Congress has yet to figure out how it wants to deal with surpluses. I would like to offer a suggestion made by Robert Reichsauer, former director of CBO.

OK. Let me go through my points and use these slides that magically appeared on the screen to illustrate them.

First of all, slide one shows the amount by which the first Gramm-Rudman law of 1985 and the second Gramm-Rudman law of 1987 were violated. They set six deficit targets declining to zero. Those targets were missed by incredibly large and growing amounts. The first GRH law, which was going to balance the budget by 1991, ended up missing its target by $356 billion in 2002 dollars. The second GRH law, which was abandoned when it got too far out of whack, missed its 1991 target by $272 billion in constant dollars.

Amount by which actual deficits exceeded the targets established by the first and second GRH laws.[1]

(in billions of 2002 dollars)

Fiscal year	First GRH law	Second GRH law
1986	80	
1987	9	
1988	72	17
1989	117	24
1990	258	169
1991	356	272

[1] The first GRH law was held unconstitutional in 1986 because the Comptroller General, a Legislative Branch official, was ultimately responsible for the budget estimates that determined how it operated. The second GRH law superseded the first and became effective with fiscal 1998. It set more relaxed deficit targets, but those targets as well were exceeded by large and growing amounts. The 1991 targets were repealed after the date on which the "final" automatic spending cuts for fiscal year 1991 were supposed to have gone into effect.

GRH appears to have been least ineffective in fiscal 1987, but this is a mirage. To begin with, there was no GRH law in effect that year because the first GRH had been overturned by the Supreme Court and the second GRH law had not yet been enacted. Second, the relatively better budget outcome in fiscal 1987 was caused primarily by a sudden, one-time influx of revenues resulting from timing aspects of the 1986 tax reform act. That act was independent of any GRH considerations and was intended to be revenue neutral.

1

The next slide makes the same point in a different way. In the next slide you can see what the budget outcomes were under GRH versus the budget outcomes under the caps and PAYGO system. Now, the caps and PAYGO system did not require that we hit any specific target; it merely required that we behave ourselves with our appropriations, with our tax cuts, and with our entitlement increases. It let the chips fall where they may. It turned out that behaving ourselves over a long period of time was better than setting a dollar target for the deficit or surplus and trying to hit that target, or pretending to try to hit that target. As you can see, the total amount of deficit reduction under GRH from the beginning to the end of the period was 1.3 percent of GDP, but under the BEA it was 4.7 percent of GDP.

The Budget Process, Spending, and Revenues

Changes in Outlays and Revenues as a Share of GDP

	From 1985 through 1990, the last year **GRH** was "enforced"	From 1990 through 1998, the last year that **appropriations caps** and **Pay-As-You-Go** rules were enforced
Increased revenues	+0.2%	+1.9%
Reduced program outlays	-1.1%	-2.3%
Changed interest on the debt	+0.1%	-0.4%
Total: reduction in the deficit	-1.3%	-4.7%

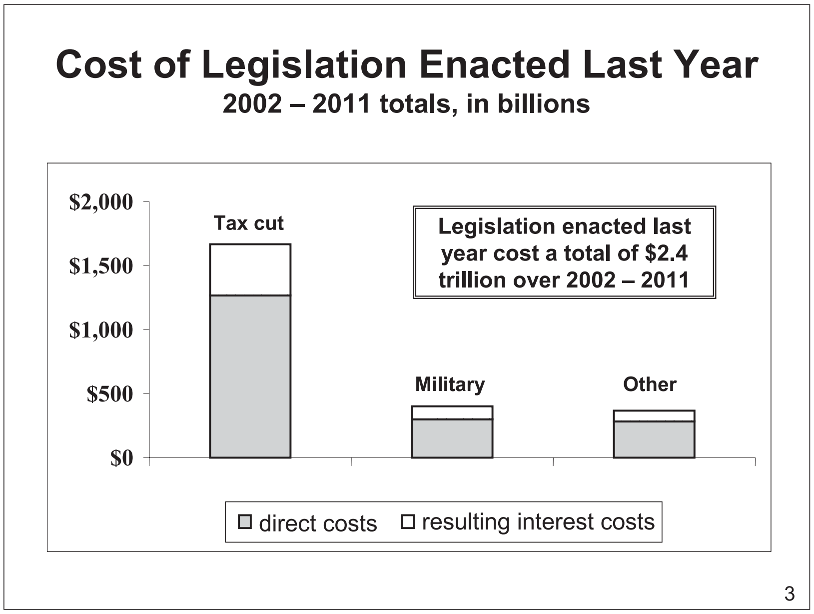
Source: CBO

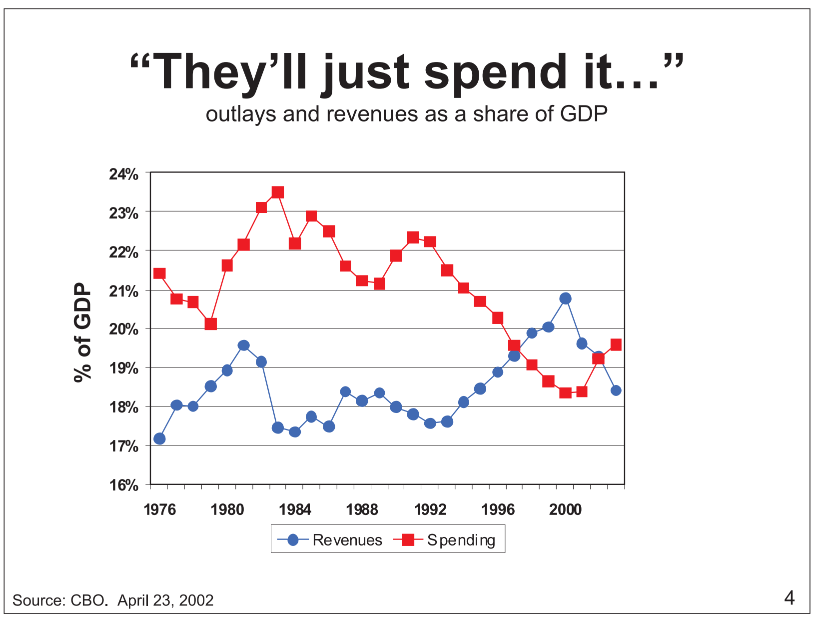
2

OK, enough said about this, because I think all the witnesses are in pretty clear agreement that fixed deficit targets, as in GRH—and, I might add, as in lockboxes and constitutional amendments—really aren't a workable idea.

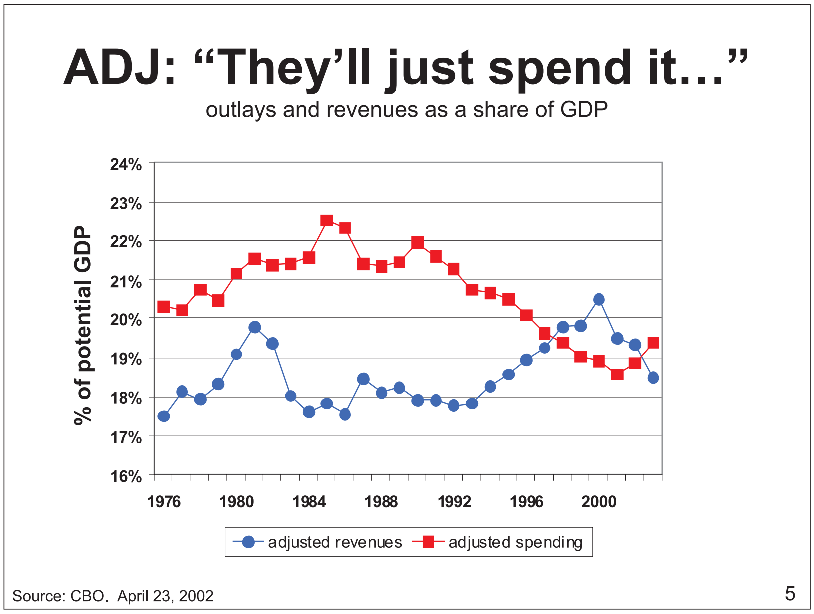
So let me move on to my third point—which is perhaps the one that I should spend the most time on because it contradicts what earlier witnesses said—which is that tax cuts can be as fiscally irresponsible as spending increases, or more so. If you look at the slide that is up now, slide three, you will see the size of the tax cut that was passed by the last Congress, and the spending increases projected for about 10 years—as though they would continue forever—that were passed by the last Congress. You can see that the tax cut amounted to a very significant share—more than three-quarters—of the costs that the last Congress enacted. So if the total costs turned out to be excessive, excessive tax cuts were the culprit.

As we move on to the next slide, you will see what happened to spending and revenues as a share of GDP since the creation of the Congressional Budget Act of 1974. You can see that there were long periods of time in which spending shrank; long periods of time in which revenues rose; and this led to the temporary surpluses, the 4 years' worth of surpluses that we actually observed. But you will also see something that is intriguing, which is that spending tended to rise when taxes were cut, and spending tended to fall when revenues were increased. There is an old line that is taken as a truism, which is that if you raise revenues, if you leave the money in Washington, "they" will just spend it. I never knew who "they" were. But this slide indicates that the opposite is the case.



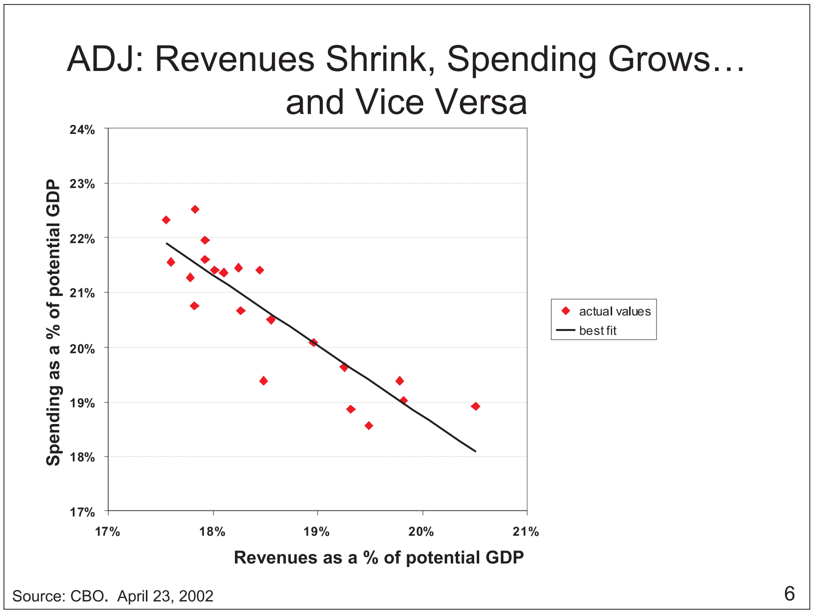


The next slide corrects for the fact that there is a little bit of self-perpetuating results in the previous slide because of the fact that we're measuring as a percentage of GDP, and spending increases as a percent of GDP and revenues as a percent of GDP fall when there is a recession, and vice versa when there is a boom.



In this slide, we use numbers prepared by CBO in which the business cycle is simply removed, so that we're talking about the underlying rate of revenues and spending as a share of GDP. You can see that spending as a share of GDP declined for 11 consecutive years, starting with the enactment of the Budget Enforcement Act of 1990. This is not a coincidence. You can see also that the spending explosions that people are complaining about in 1999 and 2000—spending was still declining in those years. You can see also that the two biggest budget changes that happened during the entire period, other than the long spending decline, were the big tax cut of 1981 and the big tax cut of 2001. In the case of the 1981 tax cut at least, it led to very, very large deficits; deficits that were too large for the country to be comfortably dealing with.

OK. If you move to the next slide, you'll see it examines the relationship between revenues and outlays that was indicated by the previous one. What this slide shows is that there is a clear inverse relationship, that the higher the level of revenues, the lower the level of spending, and vice versa. I know this contradicts conventional wisdom, but here you have 20 years of data that contradicts conventional wisdom; you have a correlation that is so strong that social scientists would stay awake at night celebrating if they found it in the rest of their data.



OK. So if you move on to the next slide, you'll see it examines a different argument in favor of tax cuts. One of the arguments in favor of tax cuts, of course, was the one I just stated, the conventional wisdom that if you don't cut taxes and there are surpluses hanging around or revenues hanging around, "they" will just spend it.

Real and Potential Economic Growth

measured from the peak of a business cycle to the subsequent peak

	Actual real economic growth		Potential real economic growth	
	Total	Per person 20-64	Total	Per person 20-64
1960 (2nd quarter) – 1969 (4th quarter)	4.4%	3.1%	4.1%	2.8%
1969 (4th quarter) – 1973 (4th quarter)	3.8%	2.2%	3.5%	1.9%
1973 (4th quarter) – 1981 (3rd quarter)	2.6%	0.8%	3.2%	1.4%
1981 (3rd quarter) – 1990 (3rd quarter)	3.2%	1.9%	3.0%	1.7%
1990 (3rd quarter) – 2001 (1st quarter)	3.2%	2.2%	3.0%	2.0%

Sources: CBO and SSA, March 2002

7

The other contention is that tax cuts—and particularly reductions in marginal rates at the top—are good for long-term economic growth. I'm not talking about a short-term stimulus, when clearly tax cuts are useful, but rather over the long term, when reductions in marginal tax rates supposedly have supply-side benefits.

The evidence seems to be that the supply-side benefits, though they are small, and that the harm done by making deficits larger than they were—or surpluses smaller than they would otherwise be—is as great, perhaps, as the supply side benefits, since the economy does not benefit in the long term from tax cuts.

You see in the bottom part of the panel, "real economic growth in the 1980s," measured from the peak of 1981 to the peak of 1990. In the 1980s, economic growth was 3.2 percent real growth per year on average. In the 1990s, when tax rates at the top were raised, and raised fairly substantially, real economic growth was 3.2 percent per year on average. The 1990s performed as well as the 1980s, even though they had very different tax rates at the top. The economic argument for lowering tax rates at the top, I think, simply doesn't exist on the basis of this evidence.

So what are we left with, if the argument for tax cuts—the economic arguments, and the "restraining spending" arguments for tax cuts—have proved invalid on the basis of the evidence—we are left with the normal give-and-take of politics in which the level of spending and the level of taxes, the purposes of spending, and the nature of taxes, are public policy preferences. In this regard, then, any budget process should be neutral, I think, between taxes and spending. It should not be a budget process designed to control spending. It should be a budget process designed to control spending and control tax cuts. That's the essence of the points that I wanted to make by reviewing the evidence of the last 20 or 30 years.

With respect to the final point that I made, that the Congress doesn't know how to deal with surpluses, I want to offer a suggestion that Robert Reichsauer offered over a year ago, in which he said that basically you should discount projected surpluses. He offered this, perhaps, as an informal or formal rule that Congress could adopt: that if surpluses are projected into the future, make a point of not committing all of them. In fact, commit only a declining share of them in any given budget cycle or any given Congress. He suggested, purely for illustration, that you commit only 80 percent of the surpluses that you foresee in the first 2 years and only 60 percent of the surpluses that you foresee in the next 2 years, and so on.

The theory behind this suggestion is that if the surpluses really do materialize, if the projections prove accurate, if the good news really is good news, then you can pass successive tax cuts year after year, Congress after Congress. It won't get you in trouble back home if you pass tax cuts every other year—or spending increases. But if the surpluses prove to be a mirage, you will not have overcommitted them prematurely.

That concludes my testimony. Thank you very much for your patience and for your willingness to let me go, even when the light said "red/stop" over there.

[The prepared statement of Richard Kogan follows:]

PREPARED STATEMENT OF RICHARD KOGAN, SENIOR FELLOW, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. Chairman, Mr. Spratt, members of the committee, I am always happy to come home to the House Budget Committee. My prepared testimony is brief. With your permission, I would like that testimony and accompanying charts, graphs, and other material to be placed in the record.

I will make four points this morning. First, the Budget Enforcement Act of 1990, which established appropriations caps and pay-as-you-go rule, is a far better budget process than some type of fixed dollar target for the deficit or surplus, such as under Gramm-Rudman-Hollings in 1986–1990 or under any version of the proposed "lockboxes."

Second, no process—not even caps and PAYGO—can force bipartisan agreement when the principal budget players do not want to agree. Given how evenly balanced the government is between the two parties, a budget summit negotiation is probably the best budget process.

Third, the facts make it clear that excessively large tax cuts lead to serious budget problems but do little or nothing to help the long-term growth of the economy. This was true with the Reagan tax cut of 1981 and is true of the Bush tax cut of 2001. One useful budget process reform would be to require that the reconciliation process be used only if some large portion of a reconciliation bill (such as three-fourths) consist of spending reductions and tax increases. No more than one-fourth of the budgetary effects could be tax cuts or entitlement increases, so the bill in net could only be used to protect the public, not dissipate it.

Finally, the Congress has yet to sort out how to deal with surpluses, especially since budget projections are just educated guesses. The simplest approach may be to develop a new consensus: agree to treat some share of projected surpluses as non-existent. At a minimum, we should be sure surpluses are real before we dispose of them. Better, we should try to preserve a noticeable share of any future surpluses to pay down the debt; that is the most direct and effective way to prepare for the inevitable cost of the baby boomers' retirement.

I will illustrate each of these points by referring to graphs or charts that I have prepared.

GRH VS. BEA

GRH set fixed deficit targets declining to zero. Through excessive gimmickry and the because the economy is far stronger than the budget, the targets were missed by amounts that became embarrassingly huge [See slide 1].

The BEA, in contrast, was used to enforce a budget agreement made between a Republican president and a Democratic Congress, an agreement that all the leadership (except for the new wave of House Republicans) was committed to enforcing. The BEA gave the president and the leadership special tools to prevent backsliding. The BEA was extended twice and was closely adhered to until 1998, when surpluses first appeared and threw everybody for a loop. Slide 2 shows that budget outcomes were far better under the BEA than under GRH.

I would also call to your attention to CBO's 1993 annual report. CBO devoted an entire chapter to a discussion of the budget process, focusing on the lessons learned over the prior 7 years. It concluded, as I have, that fixed dollar targets such as in GRH are a mistake. I have included that chapter as an attachment to my testimony. I can do nothing better than to quote CBO's conclusion:

The past indicates that efforts to reduce the deficit are most likely to be successful if the President and the Congress first agree on policy actions and then set up processes to enforce them: deficit reduction does not work well if the process changes precede the policy actions. * * * Procedures are important, but they should not be asked to do what they cannot.

If you are dissatisfied with the current state of the budget, if you are disconcerted by the fact that the President's budget calls for deficits outside of Social Security in every one of the next 10 year, then CBO's conclusions suggest that a budget summit is the best budget process, with new caps and a new PAYGO rule, or some equivalent rules of accountability, to enforce the summit agreement after it is reached.

TAX CUTS ARE THE PRIMARY CULPRIT

I turn now to last year's tax cut. On its surface, this would seem to be an issue of policy, not process. But issues relating to the tax cut have a bearing on process precisely because many people, possibly including some on this committee, mistakenly believe that controlling spending through a more rigid budget process is the boulevard to fiscal responsibility. That belief misses the key point: excessive tax cuts got the Nation's finances in trouble in 1981 and may also have done so in 2001. History suggests that budget process is more likely to produce sustained debt reduction if it is geared to stopping tax cuts than if it ignore tax cuts. That is why I would like to turn your attention to the historical record.

Slide 3 makes clear that last year's tax cut is far more significant than the spending increases enacted last year in causing projected surpluses to melt away. Focusing just on legislation, we see that more than three-fourths of the shrinkage in the 10-year surplus was caused by the tax cut.

There were at least four appealing arguments made for last year's tax cut:

1. Surpluses were so large that we could pay off the entire debt in a decade even with the tax cut.

2. If we didn't get rid of the surplus through a tax cut, "they" would just spend it. (Who are "they")?

3. The tax cut would promote long-term economic growth by encouraging "supply-side" decisions, such as to work more hours and to save more of one's paycheck.

4. Americans were over-taxed.

Each of these arguments was and is false. First, it is evident from this year's budget that promises of debt reduction were a mirage.

Second, the notion that tax increases lead to spending increases is contradicted by a mass of evidence. Slide 4 shows the path of spending and revenues since 1976, when the Congressional Budget Act first went into effect and the first congressional budget was agreed to. In only three of the years since then have there been both tax increases and spending increases in the same year. Far more often than not, spending goes up when revenues go down, and vice versa.

To a small extent, the data reflect not congressional policy but the economy. When the economy is in a recession, for instance, GDP is abnormally small but revenues fall even faster. Meanwhile, spending rises slightly if only because of unemployment benefits; primarily, though, spending grows as a percent of GDP because GDP shrinks, not because spending grows. To correct for the effects of the economy, slide 5 shows the data after CBO has adjusted it to remove the effects of the business cycle. Slide 5 shows what spending and revenues as a percent of GDP would have been if the economy had always been running at full employment, no busts and no booms. As you can see, the story is the same, though not quite as extreme; when revenues go up, spending goes down, not up. The two notable exceptions are right after the huge 1981 tax cut, which was accompanied by major increases in defense funding, and right after the huge 2001 tax cut, also accompanied by major increases in defense funding.

Slide 6 shows this inverse relationship between revenues and spending even more clearly. From 1983 through 2003, there was a very strong negative correlation between revenues and expenditures (it is a "negative" correlation because spending goes down when revenues rise). Statisticians would tell you that the correlation is extremely statistically significant. In short, Congress has spent most of the last 20 years demonstrating that conventional wisdom is wrong: in at least two cases, tax cutters were also big spenders, and in more normal times, when those who care more about the Nation's fiscal health are in control, revenues grow and spending shrinks. I would also remind you that slide 2 showed that, during the period from 1990 to 1998, when the BEA was ascendant, spending cuts were greater than tax increases.

The third argument for the tax cut was that low marginal tax rates promote long-term growth, especially by providing incentives to save more and work more. There are two problems with this argument:

- Big tax cuts lead to larger deficits or smaller surpluses, of course, and that reduces the stock of capital available for investment, thereby harming long-term growth. William Gale and Samara Potter of the Brookings Institution recently concluded that, precisely because of its budgetary effect, last year's tax cut is more likely to harm long-term growth than help it.
- While some people may choose to work more hours or save more of their salary in response to lower marginal rates, others choose just the opposite. Because their take-home pay goes up, they can afford to work fewer hours; because their savings accounts grow faster, they can afford to save a smaller share of their paychecks and still meet their savings targets. This is why supply-side effects are so weak.

Slide 7 illustrates this point by comparing rates of real economic growth during each period since 1960. It can be seen that average growth rate in the 1980s, when the top marginal tax rate was twice reduced very substantially, are the same as growth rate in the 1990s, when the top marginal tax rate was substantially increased. What is more, the 1990s achieved the same growth rates as the 1980s even though the size of the working-age population was growing more slowly during the

1990s. The conclusion must be that productivity was growing faster in the 1990s than in the 1980s, labor force participation rates were rising faster, or the number of hours worked was rising faster. These facts must be disconcerting to supply-siders since lower marginal rates, not higher rates, are supposed to produce these effects.

The question of whether the Nation is over-taxed is a judgment call, not subject to scientific measurement. But I call your attention to slide 8, which shows some facts that may inform one's judgment about the levels of taxation of middle-income families and of the very well off.

THE CONUNDRUM OF SURPLUSES

Congress has demonstrated it does not know how to deal with surpluses. Lockbox legislation tried to define the surpluses out of existence. The cause was good since current surpluses can help us pay for the inevitable costs of the baby boomers when they retire, pretending that part of the surplus "doesn't count" (and relying on the natural public instinct to object to deficits in normal times) would lead to the salutary effect of paying off the debt and, if we are lucky, building up some reserves. But lockbox proposals are just GRH-light with a different target, and so cannot form the basis for a meaningful budget process.

Better than defining away the surpluses might be to adopt a rule first proposed by Robert Reischauer more than 1 year ago. He suggested that budget plans account for the reality that projections are uncertain and for the fact that the degree of uncertainty grows as one looks farther ahead by putting an increasing faction of any projected surplus off the table. He posited a rule under which 20 percent of the surplus for the next 2 years would be off limits, 40 percent of the surplus in the following 2 years, and so on. This would have provided a widening margin against over-optimistic projections or unforseen events. If Congress had adopted that approach last year, the tax cut would have been smaller, especially in the outyears, and the Treasury and the budget would today be better off. If surpluses keep growing in reality, as they grew in last year's projections, successive Congresses could adhere to the rule and still pass successive tax cuts.

CONCLUSION

My general conclusion is to recognize, in designing any budget process, that large tax cuts are problems, not solutions, and therefore to design budget processes accordingly.

Specifically, I recommend a budget summit, backed up by caps and a PAYGO rule—or the equivalent as enforcement tool—if a bipartisan agreement is reached.

Second, I recommend returning reconciliation to its original intention, as a procedure to reduce deficits or increase surpluses.

Third, I recommend a formal or informal but public agreement to the Reischauer plan, under which projected surpluses would be taken with ever-growing grains of salt, and not dissipated before they materialized.

Chairman NUSSLE. Thank you. And we have obviously made some changes since you testified before——

Mr. KOGAN. I find them remarkable. I tried to take advantage of them.

Chairman NUSSLE. Susan Irving, welcome back to the committee, and we are pleased to receive your testimony.

STATEMENT OF SUSAN J. IRVING

Ms. IRVING. Thank you, Mr. Chairman, Mr. Spratt, Mr. Putnam. It is a pleasure to be back.

About a year ago some of us sat here to talk about how to think about controls in a time of surplus, or rather in a time when the surplus projection continued out about 10 years. Even last year, when you moved out past that time horizon, both the good and the bad news for the children visiting here today is that my generation is getting older and will live forever.

I think it is important to recognize that we are looking ahead at how to think about a budget process that offers us a guidepath for the near term, where we really don't know how long we're going to be in deficit or what challenges we're going to face, for the medium term, where we expect to return to surpluses, and for the longer term where with a certainty much greater than any budget forecast—absent something that my generation would view as a cataclysm—you are facing a demographic tidal wave which will overwhelm the budget and make the debates we have today about budgetary flexibility look like a picnic.

I will try to not merely repeat everything that the people before me have said. I think it is useful to stand back—and I here will repeat what some others have said—that a process will never force agreement where there is fundamental disagreement. You don't have to agree on every item. I think a process can provide you a focal point for debating priorities, for attempting to reach some compromise over the many conflicting demands that the American people express about what they want their Federal Government to do.

I worked for a member of the other body at one point who used to say, "All of American political history could be summed up in two sentences: Get the government off my back, and there ought to be a law." One of the challenges you face is that the "ought to be a law" part usually comes with dollar signs attached.

We ask a great deal of our budget. We ask it to make a statement of aggregate fiscal policy—the burden that we will place on the economy by taking wealth out of the economy for our collective use. We ask it to give us a way to allocate resources across competing claims. At the agency level, we use it to drive program management; and recently, in the world of the Government Performance and Results Act, we like to see whether we can tighten and make more explicit the links between performance and how we allocate resources, which requires us to find a way to measure that link.

I think it will be hard to find anyone who would disagree with Barry's four fundamental characteristics. Let me add just a few additional principles that we have articulated in the past.

You would like to find a way, while recognizing that long-term projections are really uncertain, to keep in mind the long term while you deal with the near term. You would like to find a process that facilitates making trade-offs between missions. It would be helpful to be able to look across both spending and tax incentives, and to make trade-offs across tools so that when you select a goal, you can select whether a loan program, a grant program, a direct spending program, or a tax incentive is the best way to address it. At the same time, just for full measure, you would like for the process to be enforceable, offer controls, hold people accountable, and be transparent.

I believe, as my colleagues have mentioned, that the history of the Budget Enforcement Act shows us that controlling actions works a lot better than controlling final outcomes. Caps, in fact, do constrain appropriations when they are viewed as reasonable, when there is general acceptance that the caps represent a reasonable path toward a goal. By "reasonable," I don't mean happy; in order for caps to feel binding at all, they are probably a little tighter than you would like, but they can't look to be ludicrous, and they cannot appear to have been set at a time of completely different circumstances.

I think in the last few years, two things happened. Frankly, the caps for the last few years were a little bit over-tight when they were set because they assumed that we would hold discretionary spending to a slower rate of growth than had been true for the earlier part of the decade.

When on top of that, surpluses arrived earlier than you expected, the caps became totally unrealistic to people, and what you saw was increasing amounts labeled "emergency," a broadening definition of emergency, and then finally, a situation where, when you are on your way out the door, you raise the caps to what you have already decided.

PAYGO similarly, I think, worked to limit expansion. It is important to remember that the PAYGO structure did not seek to re-examine existing programs. It grandfathered their structure. It sought to prevent Congress from adding new programs, or from cutting taxes without offsetting the revenue loss. It has worked admirably well as a restraint on adding programs, and until the very recent past, when again surpluses made this argument less credible to more people, it also forced most tax cuts to be offset.

PAYGO, I would argue, going forward—whether in surplus or not—as its fundamental design, needs to be re-examined because I think it is not tenable, looking at the future, to leave the base home free, because the drivers of the future have been exempt: the current structure of those programs. And if you leave them "home free," you force the competition to be between new proposals. Similarly, on the discretionary side, you need to think about ways to enforce competition to be not merely between new proposals, but across both new proposals and existing programs. Just because something has been in existence since before I was born, that doesn't mean it should have priority over a new, better idea.

Looking ahead, what do I think? I think you probably want caps. Caps have a lot of advantages. It's easy to measure compliance. They meet the call of transparency. Depending on the way you design them, they permit trade-offs across boundaries. The more separate subcategories you create, the narrower the range of trade-offs. That's a policy decision.

When you go to setting the caps, given the uncertainty of today's world, I would suggest setting them for a relatively short time. You don't want another 10-year caps deal because you don't know what the world will look like—any more than you did 10 years ago. It is important to think about how you will deal with the safety valve issues. How much of "emergency" should be totally exempt? And I would like to note here, I am talking about what I would call run-of-the-mill normal emergencies; floods, pestilence, earthquakes—not cataclysmic events like September 11.

How do you design the caps to work on the incentives for sort of working around them? The increase in user fees in the recent past seems to me, quite likely to be in part, due to the structure of the caps.

How can you define a PAYGO goal that replaces budget neutrality? This will be especially important when you return to surplus, where saving the entire surplus is not going to be accepted by most people. But how do you set aside some portion of the surplus and design a path that gets you there?

Will you—and if so, how—permit trade-offs across those walls, between discretionary and PAYGO walls? And how will you keep that from being the same as having no controls?

I think with that, I will stop and say it's a pleasure to work with you. Thank you for letting me run into the red, as well. We look forward to dealing with you and your staff in the future.

[The prepared statement of Susan J. Irving follows:]

PREPARED STATEMENT OF SUSAN J. IRVING, DIRECTOR, FEDERAL BUDGET ANALYSIS, GENERAL ACCOUNTING OFFICE

Mr. Chairman, Mr. Spratt, members of the committee, it is a pleasure to join you today as you think about how to extend and adapt the Budget Enforcement Act (BEA) regime. The discretionary spending limits and pay-as-you-go (PAYGO) mechanism established by BEA will expire this year [Footnote 1].

Last summer when I appeared before this committee, we were discussing what kind of process and controls made sense in a time of surplus. Today—for a variety of reasons—we face a different outlook. The events of September 11 imposed a new set of demands on the Federal budget. At the same time, the pent-up demands kept in abeyance during years of fighting deficits remain. The question before you is: what kind of process and controls will permit Congress and the President to respond to the needs of today while keeping in mind the need to deal with the budgetary challenges looming over the horizon.

Later in this statement I will talk about some particular elements and ideas that have been proposed for adapting and extending budget enforcement mechanisms. Before doing that, however, I would like to step back and talk a bit about what a budget process can and cannot do.

A budget process can surface important issues; it can seek to focus the debate on the important choices. But it is not a substitute for substantive debate—no process can force agreement where one does not exist.

We ask a great deal of our budget process. We use it to determine aggregate fiscal policy and to allocate resources across different claims. We use it to drive program management. In the context of the Government Performance and Results Act, we turn to the budget to tell us something about the cost of obtaining a given level of results.

BEA, when first developed and later when it was extended, was a process established to enforce a previously reached substantive agreement. Last year, given 10-year projections showing fairly sizable surpluses, there was a good deal of discussion about how much of the surplus should be spent—or used for a tax cut—and how much of it should be used for debt reduction. At that time, Congress and the president seemed to have reached a tacit agreement that the Social Security surplus should be used for debt reduction. While this did not eliminate disagreements about tax or spending policy, it did provide a fiscal target to replace "zero deficit" or "balanced budget." It set the outside parameters for the budget debate.

As I have testified before, the budget represents the decisions made about a large number of often conflicting objectives that citizens want the government to address. We should not be surprised that it generates controversy. As BEA expires, you face a wealth of options and choices. I appreciate the invitation to talk about some of these today. Some of these points are discussed more fully in the BEA compliance report [Footnote 2] that we did last year at your request, Mr. Chairman.

PRINCIPLES FOR A BUDGET PROCESS

In the past, we have suggested four broad principles or criteria for a budget process [Footnote 3]. A process should:

- Provide information about the long-term impact of decisions, both macro—linking fiscal policy to the long-term economic outlook—and micro—providing recognition of the long-term spending implications of government commitments;
- provide information and be structured to focus on important macro trade-offs—e.g., between investment and consumption;
- provide information necessary to make informed trade-offs between missions (or national needs) and between the different policy tools of government (such as tax provisions, grants, and credit programs); and
- be enforceable, provide for control and accountability, and be transparent, using clear, consistent definitions.

The lack of adherence to the original BEA spending constraints in recent years and the expiration of BEA suggest that now may be an opportune time to think about the direction and purpose of our Nation's fiscal policy. The surpluses that many worked hard to achieve—with help from the economy—not only strengthened the economy for the longer term but also put us in a stronger position to respond to the events of September 11 and to the economic slowdown than would otherwise have been the case. Going forward, the Nation's commitment to surpluses will be tested: a return to surplus will require sustained discipline and difficult choices. It will be important for Congress and the president to take a hard look at competing claims on the Federal fisc [Footnote 4]. A fundamental review of existing programs and operations can create much needed fiscal flexibility to address emerging needs by weeding out programs that have proven to be outdated, poorly targeted, or inefficient in their design and management. Last October, you and your Senate counterparts called for a return to budget surplus as a fiscal goal [Footnote 5]. This remains an important fiscal goal, but achieving it will not be easy. Much as the near-term projections have changed in a year, it is important to remember that even last year the long-term picture did not look rosy. These long-term fiscal challenges argued for continuation of some fiscal restraint even in the face of a decade of projected surpluses. The events of September 11 reminded us of the benefits fiscal flexibility provides to our Nation's capacity to respond to urgent and newly emergent needs. However, as the comptroller general has pointed out, absent substantive changes in entitlement programs for the elderly, in the long term there will be virtually no room for any other Federal spending priorities—persistent deficits and escalating debt will overwhelm the budget [Footnote 6]. While the near-term outlook has changed, the long-term pressures have not. These long-term budget challenges driven by demographic trends also serve to emphasize the importance of the first principle cited above—the need to bring a long-term perspective to bear on budget debates.

There is a broad consensus among observers and analysts who focus on the budget both that BEA has constrained spending and that continuation of some restraint is necessary both in times when near-term deficits are accepted and when we achieve surpluses. These views have been articulated by commentators ranging from Federal Reserve Chairman Alan Greenspan, to former CBO Director Robert Reischauer, the Concord Coalition, and President Bush. Discussions on the future of the budget process have primarily focused on revamping the current budget process rather than establishing a new one from scratch.

Where the discussion focuses on specific control devices, the two most frequently discussed are: (1) extending the discretionary spending caps and (2) extending the PAYGO mechanism.

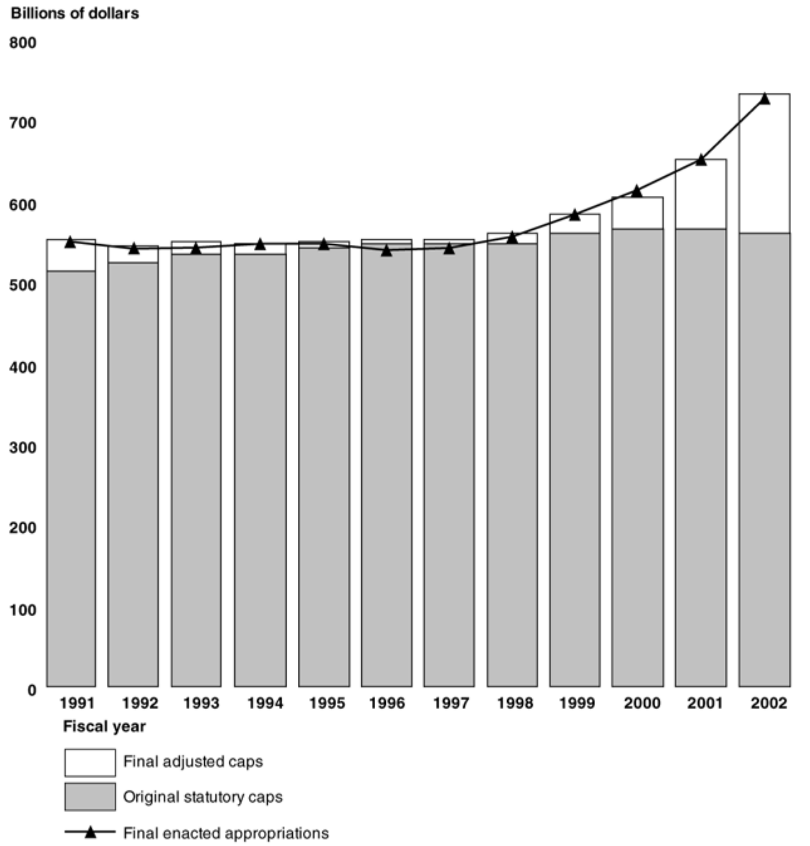
RECENT HISTORY OF BUDGET ENFORCEMENT RULES

The Budget Enforcement Act of 1990 (Title XIII of P.L. 101–508) was designed to constrain future budgetary actions by Congress and the president. It took a different tack on fiscal restraint than earlier efforts, which had focused on annual deficit targets in order to balance the budget [Footnote 7]. Rather than force agreement where there was none, BEA was designed to enforce a previously reached agreement on the amount of discretionary spending and the budget neutrality of revenue and mandatory spending legislation. The law was extended twice.

While there is widespread agreement among observers and analysts of the budget that BEA served for much of the decade as an effective restraint on spending, there is also widespread agreement that BEA control mechanisms were stretched so far in the last few years that they no longer served as an effective restraint. In part, recurring budget surpluses undermined the acceptance of the spending caps and PAYGO enforcement.

Figure 1 illustrates the growing lack of adherence to the original discretionary spending caps since the advent of surpluses in 1998. The figure shows the original budget authority caps as established in 1990 and as extended in 1993 and 1997, adjustments made to the caps, and the level of actually enacted appropriations for fiscal years 1991 through 2002. As we reported in our last three compliance reports, the amounts designated as emergency spending for fiscal years 1999 and 2000—$34.4 billion and $30.8 billion respectively—were significantly higher than in most past years [Footnote 8]. In addition to the larger than normal amounts, emergency appropriations in both 1999 and 2000 were used for a broader range of purposes than in most prior years [Footnote 9].

Figure 1: Discretionary Outlay Caps and Enacted Appropriations



Note: Data for fiscal year 2002 are current as of February 4, 2002.

Source: Office of Management and Budget

Emergency spending designations have not been the only route to spending above the discretionary spending caps. For fiscal year 2001, Congress took a different approach—one that also highlights the declining effectiveness of the BEA discretionary spending limits. The Foreign Operations Appropriations Act (P.L. 106–429) raised the 2001 budget authority cap by $95.9 billion, a level assumed to be sufficient to cover all enacted and anticipated appropriations. Also, in January 2001, CBO reported that advance appropriations, obligation and payment delays, and specific legislative direction for scorekeeping had been used to boost discretionary spending while allowing technical compliance with the limits [Footnote 10]. In 2002, Congress once again raised spending limits to cover enacted appropriations. The Department of Defense and Emergency Supplemental Appropriations Act for 2002 [Footnote 11] adjusted the budget authority caps upward by $134.5 billion.

Nor has PAYGO enforcement been exempt from implementation challenges. The consolidated appropriations acts for both fiscal years 2000 and 2001 mandated that OMB change the PAYGO scorecard balance to zero. In fiscal year 2002, a similar instruction in the Department of Defense and Emergency Supplemental Appropriations Act eliminated $130.3 billion in costs from the PAYGO scorecard. Both OMB and CBO estimated that without the instructions to change the scorecard, sequestrations would have been required in both 2001 and 2002.

EXTENDING CAPS ON DISCRETIONARY SPENDING

BEA distinguished between spending controlled by the appropriations process—″discretionary spending″—and that which flowed directly from authorizing legislation—″direct spending,″ sometimes called "mandatory." Caps were placed on discretionary spending—and Congress' compliance with the caps was relatively easy to measure because discretionary spending totals flow directly from legislative actions (i.e., appropriations laws).

As I noted above, there has been broad consensus that, although the caps have been adjusted, they did serve to constrain appropriations. This consensus, combined with the belief that continuing some restraints is important, has led many to propose that some form of cap structure be continued as a way of limiting discretionary appropriations. However, the actions discussed above have also led many to note that caps can only work if they are realistic; while caps can work if they are tighter than some may like, they are unlikely to hold if they are seen as totally unreasonable or unrealistic. If they are set at levels viewed as reasonable (even if not desirable) by those who must comply with them, spending limits can be used to force choices. In the near term, limits on discretionary spending may be an important tool to prompt re-examination of existing programs as well as new proposals.

Some have proposed changes in the structure of the caps by limiting them to caps on budget authority. Outlays are controlled by and flow from budget authority—although at different rates depending on the nature of the program. Some argue that the existence of both budget authority and outlay caps has encouraged provisions such as "delayed obligations" to be adopted not for programmatic reasons but as a way of juggling the two caps. The existence of two caps may also encourage moving budget authority from rapid spend out to slower spend out programs, thus pushing more outlays to the future and creating problems in complying with outlay caps in later years. Extending only the budget authority cap would eliminate the incentive for such actions and focus decisions on that which Congress is intended to control—budget authority, which itself controls outlays. This would be consistent with the original design of BEA. The obvious advantage to focusing decisions on budget authority rather than outlays is that Congress would not spend its time trying to control the timing of outlays.

However, eliminating the outlay cap would raise several issues—chief among them being how to address the control of transportation programs for which no budget authority cap currently exists, and the use of advance appropriations to skirt budget authority caps. However, agreements about these issues could be reached—this is not a case where implementation difficulties need derail an idea. For example, the fiscal year 2002 budget proposed a revision to the scorekeeping rule on advance appropriations so that generally they would be scored in the year of enactment. Such a scoring rule change could eliminate the practice of using advance appropriations to skirt the caps. The 2002 Congressional Budget Resolution took another tack; it capped advance appropriations at the amount advanced in the previous year. This year the administration proposed that total advance appropriations continue to be capped in 2003 and the President's budget assumed that all advance appropriations would be frozen except for those that it said should be reduced or eliminated for programmatic reasons.

There are other issues in the design of any new caps. For example, for how long should caps be established? What categories should be established within or in lieu of an overall cap? While the original BEA envisioned three categories (Defense, International Affairs, and Domestic), over time categories were combined and new categories were created. At one time or another caps for Nondefense, Violent Crime Reduction, Highways, Mass Transit and Conservation spending existed—many with different expiration dates. Should these caps be ceilings, or should they—as is the case for highways and conservation—provide for "guaranteed" levels of funding? The selection of categories—and the design of the applicable caps—is not trivial. Categories define the range of what is permissible. By design they limit tradeoffs and so constrain both Congress and the president.

Because caps are defined in specific dollar amounts, it is important to address the question of when and for what reasons the caps should be adjusted. This is critical for making the caps realistic. For example, without some provision for emergencies, no caps can be successful. In the recent past it appears that there has been some connection between how realistic the caps are and how flexible the definition of emergency is. As discussed in both our 2000 and 2001 compliance reports, the amount and range of spending considered as "emergency" has grown in recent years [Footnote 12]. There have been a number of approaches suggested to balance the need to respond to emergencies and the desire to avoid making the "emergency" label an easy way to raise caps. The House Budget Resolution for fiscal year 2002

(H. Con. Res. 83) established a reserve fund of $5.6 billion for emergencies in place of the current practice of automatically increasing the appropriate levels in the budget resolution for designated emergencies. It also established two criteria for defining an emergency. These criteria require an emergency to be a situation (other than a threat to national security) that (1) requires new budget authority to prevent the imminent loss of life or property or in response to the loss of life or property and (2) is unanticipated, meaning that the situation is sudden, urgent, unforeseen, and temporary.

In the past others have proposed providing for more emergency spending under any spending caps—either in the form of a reserve or in a greater appropriation for the Federal Emergency Management Agency (FEMA). If such an approach were to be taken, the amounts for either the reserve or the FEMA disaster relief account would need to be included when determining the level of the caps. Some have proposed using a 5- or 10-year rolling average of disaster/emergency spending as the appropriate reserve amount. Adjustments to the caps would be limited to spending over and above that reserve or appropriated level for extraordinary circumstances. Since the events of September 11—and the necessary responses to it—would undoubtedly qualify as such an "extraordinary circumstance," consideration of new approaches for "emergency" spending should probably focus on what might be considered "more usual" emergencies. It has been suggested that with additional up-front appropriations or a reserve, emergency spending adjustments could be disallowed. No matter what the provision, only the commitment of Congress and the president can make any limit on cap adjustments for emergencies work. States have used this reserve concept for emergencies, and their experiences indicate that criteria for using emergency reserve funds may be useful in controlling emergency spending [Footnote 13]. Agreements over the use of the reserve would also need to be achieved at the Federal level.

This discussion of issues in extending the BEA caps is not exhaustive. Previously, we have reported on two other issues in particular—the scoring of operating leases and the expansion of user fees as offsets to discretionary spending. I would like to touch briefly on these.

MISCELLANEOUS DISCRETIONARY CHALLENGES: LEASES AND USER FEES

We have previously reported that existing scoring rules favor leasing when compared to the cost of various other methods of acquiring assets [Footnote 14]. Currently, for asset purchases, budget authority for the entire acquisition cost must be recorded in the budget up front, in the year that the asset acquisition is approved. In contrast, the scorekeeping rules for operating leases often require that only the current year's lease costs be recognized and recorded in the budget. This makes the operating lease appear less costly from an annual budgetary perspective, and uses up less budget authority under the cap. Alternative scorekeeping rules could recognize that many operating leases are used for long-term needs and should be treated on the same basis as purchases. This would entail scoring up front the present value of lease payments for long-term needs covering the same time period used to analyze ownership options. The caps could be adjusted appropriately to accommodate this change. Most recently this issue has arisen in authority provided to the Air Force to lease 100 Boeing aircraft to be used as tankers for up to 10 years when the underlying need for such aircraft is much longer—in fact, the need would likely encompass the aircraft's entire useful life. Changing the scoring rule for leases would be in part an attempt to have the rules recognize the long term need rather than the technical structuring of the lease.

Many believe that one unfortunate side effect of the structure of BEA has been an incentive to create revenues that can be categorized as "user fees" and so offset discretionary spending—rather than be counted on the PAYGO scorecard. The 1967 President's Commission on Budget Concepts recommended that receipts from activities which were essentially governmental in nature, including regulation and general taxation, be reported as receipts, and that receipts from business-type activities "offset to the expenditures to which they relate." However, these distinctions have been blurred in practice. Ambiguous classifications combined with budget rules that make certain designs most advantageous has led to a situation in which there is pressure to treat fees from the public as offsets to appropriations under BEA caps, regardless of whether the underlying Federal activity is business or governmental in nature. Consideration should be given to whether it is possible to come up with and apply consistent standards—especially if the discretionary caps are to be redesigned. The administration has stated that it plans to monitor and review the classification of user fees and other types of collections.

EXTENDING AND REFINING PAYGO

The PAYGO requirement prevented legislation that lowered revenue, created new mandatory programs, or otherwise increased direct spending from increasing the deficit unless offset by other legislative actions. As long as the unified budget was in deficit, the provisions of PAYGO—and its application—were clear. During our few years of surpluses, questions were raised about whether the prohibition on increasing the deficit also applied to reducing the surplus. Although Congress and the executive branch both concluded that PAYGO did apply in such a situation—and although the question is moot currently, it would be worth clarifying the point if PAYGO is extended. Last year the administration proposed—albeit implicitly—special treatment for a tax cut. The 2002 budget stated that the President's tax plan and Medicare reforms were fully financed by the surplus and that any other spending or tax legislation would need to be offset by reductions in spending or increases in receipts. Ultimately, the Department of Defense and Emergency Supplemental Appropriations Act for 2002 eliminated the need to offset any of the PAYGO legislation by resetting the 2001 and 2002 scorecard to zero. While this action was undertaken for a number of reasons, when surpluses return and Congress looks to create a PAYGO process for a time of surplus, it might wish to consider the kinds of debt targets we found in other nations [Footnote 15]. For example, it might wish to permit increased direct spending or lower revenues as long as debt held by the public is planned to be reduced by some set percentage or dollar amount. Such a provision might prevent PAYGO from becoming as unrealistic as overly tight caps on discretionary spending. However, the design of such a provision would be important—how would a debt reduction requirement be specified? How would it be measured? What should be the relationship between the amount of debt reduction required and the amount of surplus reduction (i.e., tax cut or direct spending increase) permitted? What, if any, relationship should there be between this calculation and the discretionary caps?

While PAYGO constrained the creation or legislative expansion of direct spending programs and tax cuts, it accepted the existing provisions of law as given. It was not designed to trigger—and it did not trigger—any examination of "the base." Cost increases in existing mandatory programs are exempt from control under PAYGO and could be ignored. However, constraining legislative actions that increase the cost of entitlements and mandatories is not enough. GAO's long-term budget simulations show that as more and more of the baby boom generation enters retirement, spending for Social Security, Medicare, and Medicaid will demand correspondingly larger shares of Federal revenues. Assuming, for example, that last year's tax reductions are made permanent and discretionary spending keeps pace with the economy, spending for net interest, Social Security, Medicare, and Medicaid consumes nearly three-quarters of Federal revenues by 2030, leaving little room for other Federal priorities, including defense and education.

The budget process is the one place where we as a Nation can conduct a healthy debate about competing claims and new priorities. However, such a debate will be needlessly constrained if only new proposals and activities are on the table. A fundamental review of existing programs and operations can create much-needed fiscal flexibility to address emerging needs by weeding out programs that have proven to be outdated, poorly targeted, or inefficient in their design and management. It is always easier to subject proposals for new activities or programs to greater scrutiny than that given to existing ones. It is easy to treat existing activities as "given" and force new proposals to compete only with each other. However, such an approach would move us further from, rather than nearer to, budgetary surpluses [Footnote 16].

Previously we suggested some sort of "lookback" procedure to prompt a re-examination of "the base" in entitlement programs. Under such a process Congress could specify spending targets for PAYGO programs for several years. The President could be required to report in his budget whether these targets either had been exceeded in the prior year or were likely to be exceeded in the current or budget years. He could then be required to recommend whether any or all of this overage should be recouped—and if so, to propose a way to do so. Congress could be required to act on the president's proposal.

While the current budget process contains a similar point of order against worsening the financial condition of the Social Security trust funds, [Footnote 17] it would be possible to link "tripwires" or "triggers" to measures related to overall budgetary flexibility or to specific program measures. For example, if Congress were concerned about declining budgetary flexibility, it could design a "tripwire" tied to the share of the budget devoted to mandatory spending or to the share devoted to a major program.

Other variations of this type of "tripwire" approach have been suggested. The 1999 Breaux-Frist proposal (S. 1895) for structural and substantive changes to Medicare financing contained a new concept for measuring "programmatic insolvency" and required congressional approval of additional financing if that point was reached. Other specified actions could be coupled with reaching a "tripwire," such as requiring Congress or the president to propose alternatives to address reforms. Or the congressional budget process could be used to require Congress to deal with unanticipated cost growth beyond a specified "tripwire" by establishing a point of order against a budget resolution with a spending path exceeding the specified amount. One example of a threshold might be the percentage of gross domestic product devoted to Medicare. The president would be brought into the process as it progressed because changes to deal with the cost growth would require enactment of a law.

IMPROVING THE RECOGNITION OF LONG-TERM COMMITMENTS

In previous reports we have argued that the Nation's economic future depends in large part upon today's budget and investment decisions [Footnote 18]. In fact, in recent years there has been increased recognition of the long-term costs of Social Security and Medicare [Footnote 19].

While these are the largest and most important long-term commitments—and the ones that drive the long-term outlook—they are not the only ones in the budget. Even those programs too small to drive the long-term outlook affect future budgetary flexibility. For Congress, the president, and the public to make informed decisions about these other programs, it is important to understand their long-term cost implications. A longer time horizon is useful not only at the macro level but also at the micro-policy level. I am not suggesting that detailed budget estimates could be made for all programs with long-term cost implications. However, better information on the long-term costs of commitments like employee pension and health benefits and environmental cleanup could be made available. New concepts and metrics may be useful. We developed them before for credit programs and we need to be open to expanding them to cover some other exposures. I should note that the president's fiscal year 2003 budget has taken a step in this direction by proposing that funding be included in agency budgets for the accruing costs of pensions and retiree health care benefits.

The enactment of the Federal Credit Reform Act in 1990 represented a step toward improving both the recognition of long-term costs and the ability to compare different policy tools. With this law, Congress and the executive branch changed budgeting for loan and loan guarantee programs. Prior to credit reform, loan guarantees looked "free" in the budget. Direct loans looked like grant programs because the budget ignored loan repayments. The shift to accrual budgeting for subsidy costs permitted comparison of the costs of credit programs both to each other and to spending programs in the budget.

Information should be more easily available to Congress and the President about the long-term cost implications both of existing programs and new proposals. In 1997 we reported that the current cash-based budget generally provides incomplete information on the costs of Federal insurance programs [Footnote 20]. The ultimate costs to the Federal Government may not be apparent up front because of time lags between the extension of the insurance, the receipt of premiums, and the payment of claims. While there are significant estimation and implementation challenges, accrual-based budgeting has the potential to improve budgetary information and incentives for these programs by providing more accurate and timely recognition of the government's costs and improving the information and incentives for managing insurance costs. This concept was proposed in the Comprehensive Budget Process and Reform Act of 1999 (H.R. 853), which would have shifted budgetary treatment of Federal insurance programs from a cash basis to an accrual basis.

There are other commitments for which the cash and obligation-based budget does not adequately represent the extent of the Federal Government's commitment. These include employee pension programs, retiree health programs, and environmental clean-up costs. While there are various analytical and implementation challenges to including these costs in budget totals, more could be done to provide information on the long-term cost implications of these programs to Congress, the president, and the interested public. We are continuing to analyze this issue.

CONCLUSION

To affect decision making, the fiscal goals sought through a budget process must be accepted as legitimate. For many years the goal of "zero deficit"—or the norm of budget balance—was accepted as the right goal for the budget process. In the absence of the zero deficit goal, policymakers need an overall framework upon which a process and any targets can be based. When the deficits turned to surpluses, there was discussion of goals framed in terms of debt reduction or surpluses to be saved. As difficult as selecting a fiscal goal in times of surplus is, selecting one today may seem even more difficult. You must balance the need to respond not only to those demands that existed last year—demands kept in abeyance during many years of fighting deficits—but also demands imposed on us by the events of September 11. At the same time—in part because of the demographic tidal wave looming over the horizon—the events of September 11 do not argue for abandonment of all controls.

Whatever interim targets Congress and the president agree on, compliance with budget process rules, in both form and spirit, is more likely if end goals, interim targets, and enforcement boundaries are both accepted and realistic.

Enforcement is more successful when it is tied to actions controlled by Congress and the president. Both the BEA spending caps and the PAYGO enforcement rules were designed to hold Congress and the president accountable for the costs of the laws enacted each session—not for costs that could be attributed to economic changes or other factors.

Going forward, new rules and goals will be important to ensure fiscal discipline and to prompt a focus on the longer-term implications of decisions. The Federal Government still needs a decision-making framework that permits it to evaluate choices against both today's needs and the longer-term fiscal future that will be handed to future generations. What process will enable policymakers to deal with the near term without ignoring the long term? At the same time, the challenges for any budget process are the same: what process will enable policymakers to make informed decisions about both fiscal policy and the allocation of resources within the budget?

Extending the current BEA without setting realistic caps and addressing existing mandatory programs is unlikely to be successful for the long term. The original BEA employed limited actions in aiming for a balanced budget. It left untouched those programs—direct spending and tax legislation—already in existence.

Today's situation may argue for an interim step in extending and modifying BEA. However, going forward with new challenges, we believe that a new process that prompts Congress to exercise more foresight in dealing with long-term issues is needed. The budget process appropriate for the early 21st century will have to exist as part of a broader framework for thinking about near- and long-term fiscal goals.

This concludes my statement. I would be happy to respond to any questions you or other members of the committee may have at this time.

FOOTNOTES

[1] Although the overall discretionary spending caps expire in 2002, the Highway and Mass Transit outlay caps established under the Transportation Equity Act for the 21ST Century (TEA–21) continue through 2003, and the conservation caps established as part of the fiscal year 2001 Interior Appropriations Act were set through 2006. In addition, the sequestration procedure applies through 2006 to eliminate any projected net costs stemming from PAYGO legislation enacted through fiscal year 2002.

[2] U.S. General Accounting Office, Budget Issues: Budget Enforcement Compliance Report, GAO–01–777 (Washington, D.C.: June 15, 2001).

[3] For a fuller discussion of these criteria see U.S. General Accounting Office, Budget Process: Evolution and Challenges GAO/T–AIMD–96–129 (Washington, D.C.: July 11, 1996), Budget Process: History and Future Directions, GAO/T–AIMD–95–214 (Washington, D.C.: July 13, 1995), and Budget Process: Comments on H.R. 853,GAO/T–AIMD–99–188 (Washington, D.C.: May 12, 1999).

[4] See U.S. General Accounting Office, Homeland Security: Challenges and Strategies in Addressing Short- and Long-Term National Needs, GAO–02–160T (Washington, D.C.: Nov. 7, 2001); Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance, GAO/T–AIMD–00–96 (Washington, D.C.: Feb. 17, 2000) and Budget Issues: Effective Oversight and Budget Discipline are Essential—Even in a Time of Surplus, GAO/T–AIMD–00–73 (Washington, D.C.: Feb 1, 2000).

[5] House and Senate Budget Committees, Revised Budgetary Outlook and Principles for Economic Stimulus (October 4, 2001)

[6] U.S. General Accounting Office, Budget Issues: Long-Term Fiscal Challenges, GAO–02–467T (Washington, D.C.: Feb. 27, 2002) and Long-Term Budget Issues: Moving From Balancing the Budget to Balancing Fiscal Risk, GAO–01–385T (Washington, D.C.: Feb. 6, 2001).

[7] For more on history, see GAO/T–AIMD–96–129.

[8] See U.S. General Accounting Office, Budget Issues: Budget Enforcement Compliance Report, GAO/AIMD–99–100 (Washington, D.C.: Apr. 1, 1999); Budget Issues: Budget Enforcement Compliance Report, GAO/AIMD–00–174 (Washington, D.C.: May 31, 2000) and GAO–01–777.

[9] Additional information on issues related to emergency spending can be found in the Congressional Budget Office report Emergency Spending Under the Budget Enforcement Act, issued in December 1998, the update to that report issued in June 1999, the CBO report Supplemental Appropriations in the 1990s, issued in March 2001, and U.S. General Accounting Office reports Budgeting for Emergencies: State Practices and Federal Implications, GAO/AIMD–99–250 (Washington, D.C.: Sept. 30, 1999) and Emergency Criteria: How Five States Budget for Uncertainty, GAO/AIMD–99–156R (Washington, D.C.: Apr. 20, 1999).

[10] For a slightly longer discussion of these issues, see GAO–01–777.

[11] The full name of the act is the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, Public Law 107–117, 115 STAT.2230 (2002).

[12] See GAO/AIMD–00–174 and GAO–01–777.

[13] GAO/AIMD–99–250.

[14] U.S. General Accounting Office, Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings, GAO/T–AIMD–94–189 (Washington, D.C.: Sept. 20, 1994).

[15] See U.S. General Accounting Office, Budget Surpluses: Experiences of Other Nations and Implications for the United States, GAO/AIMD–00–23 (Washington, D.C.: Nov. 2, 1999).

[16] GAO–02–467T.

[17] 2 U.S.C. 632 (i), and U.S. General Accounting Office, Medicare Reform: Issues Associated With General Revenue Financing, GAO/T–AIMD–00–126 (Washington, D.C.: Mar. 27, 2000).

[18] See GAO/T–AIMD–96–129 and U.S. General Accounting Office, The Deficit and the Economy: An Update of Long-Term Simulations, GAO/AIMD/OCE–95–119 (Washington, D.C.: April 26, 1995), among others.

[19] OMB, Budget of the United States Government, Fiscal Year 2002, April 9, 2001; CBO, The Budget and Economic Outlook: Fiscal Years 2002–2011, January 2001; GAO–01–385T; and U.S. General Accounting Office, Medicare: Higher Expected Spending and Call for New Benefit Underscore Need for Meaningful Reform,GAO–01–539T (Washington, D.C.: March 22, 2001).

[20] U.S. General Accounting Office, Budget Issues: Budgeting for Federal Insurance Programs, GAO/AIMD–97–16 (Washington, D.C.: Sept. 30, 1997).

Chairman NUSSLE. Mr. Spratt.

Mr. SPRATT. Let me say to all three of our witnesses, you made an excellent contribution to this hearing. I have to go; I don't have questions to put to you, but I particularly want to thank Mr. Kogan for coming and then enunciating "Kogan's Rule," that only Richard Kogan can show how, as revenues go up, spending comes down. [Laughter].

Thank you very much.

Chairman NUSSLE. That was actually my observation, too.

But, you know, I guess going to what—I do think he did make a very good point about "they'll spend it," first of all. We all know who "they" are; all we have to do is look in the mirror and we can see who that is.

If you are interested in a revision to, "if there is a surplus, they will spend it and they will tax-cut it," I am willing to stipulate that that is true, that there is that desire on both ends.

I guess I would add one other thing, and you did state this, that when there is lack of control—varying degrees of lack of control, but I do think that you would also agree that if not all of the controls were in force, whether it's budget caps, PAYGO, or as you stated—I do agree with you that caps and PAYGO after 1990 were much more effective than Gramm-Rudman-Hollings or deficit target practice.

But I guess that is the point that I'm concerned about, and the reason for this hearing is that we're losing all of them at this point in time. It's not a matter of just losing some. We don't have a budget, we won't have caps, we won't have PAYGO, we'll have nothing, and as you said, it will be down to a budget process that will not be able to control spending or tax cuts or whatever. It's a matter of, can we even put a process in place that can control us? And that's what we're trying to do, and I think all of us have correctly stated today that when it comes right down to it, the ability of Representatives themselves to control themselves, either in a partisan or a bipartisan way, is about the only way to get this done.

So you have all made excellent points. Some of them have been— and I apologize to make it seem as though this was a retreat job from last year; it's still important to talk about it, and we wanted to give you the forum to do that because we believe it's at a pretty important juncture, to discuss that.

With that, are there any other members who wish to make any comments or have any questions? Mr. Gutknecht.

Mr. GUTKNECHT. I don't so much have questions. I want to thank the witnesses for coming. I want to thank you for this hearing. My observation is that we are very soon going to be fighting two wars. One is the war against terrorism, which I think everybody agrees is important and we have to give our troops and the Defense Department what it needs to execute that so that Americans feel secure in their homeland.

But the other war that we're going to be fighting is over spending. And frankly, I am pretty encouraged by the way the war on terrorism is going; I am not encouraged about how our war against wasteful spending is going. We are going to need help, and I frankly wish that more of our Democratic friends were here because I think we're going to have to do this on a bipartisan basis. We have to have some way to put discipline back into the budget, because we're going to have a fight here in the next several weeks about whether or how much of an emergency supplemental we're going to have; if we don't have a farm bill, we're going to have to have another emergency supplemental to deal with farm issues. It really strikes me that we've got some very, very serious budget issues that we're going to have to resolve, and anything that groups on the outside can do to help us in that ware, we would very much appreciate. Otherwise, I think we're going to be back in a very difficult circumstance in another year or so, where we're going to be back into significant deficits that I think are going to be indefensible with the American people and indefensible with future generations of Americans.

So I will help in every way I can, Mr. Chairman, and I know that you are more than acutely aware of the problems we face relative to the budget battles and where we're going to go, but we're going to have to have some help from folks on the outside to get that story told.

Chairman NUSSLE. I thank the gentleman.

There were other members here earlier. I do believe it's a bipartisan struggle; I get that sense from my conversations, and I think Mr. Spratt would echo that as well. And like I say, I did not mean that in a disparaging way; I really meant that we have to sit down and work together on some kind of spending caps or some kind of formulas or some form of spending discipline. Otherwise, this thing is just going to continue to spin out of control, because it will get worse from here.

Mr. Culberson, do you have anything you would like to add?

Mr. CULBERSON. Mr. Chairman, just to say how much I appreciate the focus you have maintained as the chairman of the Budget Committee on preserving budget discipline and making sure the Congress—particularly the members of this committee—understand how important it is that we maintain budget discipline and to recommit to you, as to the people I represent, my complete support for your efforts and my admiration for the work you've done as chairman and my appreciation to the witnesses for being here. We've all had a number of committee hearings going on at the same time this morning, but I am completely committed to supporting Chairman Nussle and doing whatever is necessary to preserve budget discipline, because that is what gave us the balanced budget and the tax surplus that we have enjoyed these last several years. It is only by continuing that discipline that we will be able to see a tax surplus return in the future. I just thank you for your good work, Mr. Chairman, and I am committed to helping you in any way that I can.

Chairman NUSSLE. Do our witnesses have anything else they would like to add?

Ms. IRVING. I might just add one thing.

Chairman NUSSLE. Certainly.

Ms. IRVING. When you talk about the need for caps to control yourselves, you sell yourselves a little short. One of the arguments for caps in an overall deal, as opposed to just letting discretionary spending be the result of 13 appropriations bills, is I think it strengthens Congress' hand vis-a-vis the executive branch. And as an employee of the legislative branch, I am always interested in the Congress being able to assert its legitimate role in fiscal policy.

Chairman NUSSLE. Well, I would agree, and there are other reforms that could help us do that, too, as Mr. Frenzel had suggested earlier. I happen to believe that a joint resolution, putting any of this—whether it's caps, or the budget, or however we can accomplish that—and giving it the force of law does not cede power to the administration, but rather brings them in as an accountable player in this process and requires accountability on their part.

So I think, as you stated, there are many ways that we can help ensure that and strengthen Congress' hand, and I would agree that this may in fact be one of them. And I particularly enjoyed and appreciated your comments on PAYGO. I think you are exactly right; the trade-off, when PAYGO was first put into place, did not anticipate some of the challenges that we had, and I think a revision and a new understanding of how that might work—not to game the outcome, but rather to have more consideration of the outcome—would be appropriate.

Anything else? Mr. Kogan.

Mr. KOGAN. I'd like to make a point which I think follows logically from my suggestion that if we really want to do something about the present fiscal situation, we need to start with a summit and then use a budget process, like caps and PAYGO, to enforce the outcome of the summit.

My point is that the Budget Committee is only as effective as the leadership above it wants it to be. I was struck forcibly by this when I went back and opened the report on the first budget resolution I worked on, the budget resolution for fiscal year 1979, I believe. And at the time, Congressman Giaimo, a longtime and senior member of the Appropriations Committee, was chairman of the Budget Committee, which means that appropriations and the budget had a natural senior person speaking with one voice. And the next three Democrats on the Budget Committee at that time were Tom Foley, Jim Wright, and Dick Gephardt. Those were the next three in line. What that indicated to me was that at that time, the Democratic leadership believed that it had a big stake in getting a budget that its party could live with, and then enforcing that budget. The leadership and the Budget Committee were not working in opposite directions then.

I think that times have changed a lot. It was very gradual, over the course of 20-plus years, but now I think that you don't get the support from the leadership, and I think that no committee chairman, in fact, in this Congress gets the support from the leadership that used to be the norm. It used to be the case that committees ran the place, and it is now the case that the leadership runs the place. So no matter how good a job you do, the Rules Committee, it turns out, at the behest of the leadership, simply waives everything. For the last 4 years, all points of order against appropriations bills and against tax cuts have been waived. Last year's tax cut, for example, violated the budget resolution that this Congress agreed to—not by a lot, but it did—and the leadership waived the points of order, instead saying, "Make it fit." Likewise with all of the appropriations bills for 4 years.

So there is just a limit to what this committee can do. I don't know how you get the President directly engaged and the leadership directly engaged, but I think that that's what it would really take to restore the prominence that the Budget Committee once had, when I first started.

Thank you.

Chairman NUSSLE. Point well taken I'm not sure I would agree totally with your characterization. I believe we do have the support of the leadership in many regards, but I think your point is well taken. It certainly was a different Budget Committee back in the 1970s and early 1980s, and I think we can get back to that. We will have to if, in fact, the budget process is going to be meaningful in the future. And that's not only with regard to taxes, but with regard to spending. We're trying to do that.

Let me give you one example. For one of the first times, the Budget Committee was appointed to the Farm Bill Conference Committee, and the sole purpose of that was to enforce the budget. And at least from what we've been able to glean from the tea leaves, that has been accomplished. Now, there may be a couple more runs at the fence before we're done, but at least to start with, I think that's a good indication of not only the willingness of the leadership to appoint members of the Budget Committee to conferences in order to rein in—or to enforce the budget, but also I think it demonstrates, at least to some extent, the kind of support that I do get from the leadership on these issues. Not always; that's part of the process, but just for your information.

Anything else?

With that, we appreciate the testimony of the witnesses today. This is obviously a continuing battle that will not cease with today's hearing, and we will be back in touch.

The hearing is adjourned.

[Whereupon, at 11:15 a.m., the committee was adjourned, to reconvene at the call of the Chair.]

○