

GAO

Testimony

Before the Committee on the Budget
House of Representatives

For Release on Delivery
Expected at
10:00 a.m.
Thursday,
July 11, 1996

BUDGET PROCESS

Evolution and Challenges

Statement of Susan J. Irving
Associate Director, Budget Issues
Accounting and Information Management Division



Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the budget process with you. Everyone involved in that process shares some frustration with it. The public finds it confusing. Executive branch agencies find it burdensome and time-consuming. Members of the Congress say it seems too lengthy with its many votes on authorizations, the budget resolution, reconciliation, appropriations, and the debt limit. And, too often, the results are not what was expected or hoped for.

In one sense, of course, nothing could be more important than debates about the budget—and important debates often take time. Budgeting is the process by which we as a nation resolve the large number of often conflicting objectives that citizens seek to achieve through government action. The budget determines the fiscal policy stance of the government—that is, the relationship between spending and revenues. And it is through the budget process that the Congress and the President reach agreement about the areas in which the federal government will be involved and in what way.

Because the decisions are so important, we expect a great deal from our budget and budget process. We want the budget to be clear and understandable. We want the process to be simple—or at least not too complex. But at the same time we want a process that presents the Congress and the American people with a framework to understand the significant choices and the information necessary to make the best-informed decisions about federal tax and spending policy. This is not easy.

Over the past several years GAO has made a number of suggestions about changes in the budget process. A list of some of those testimonies and reports is attached to my statement. Today, however, as you requested, I'd like to focus not on specific changes but on the question of how the process came to look as it does today and the challenges you face in the near term. In the second half of this written statement—consistent with the questions provided by your staff—I discuss some broad objectives and criteria one might use in looking at the design of or changes in any budget process.

Background: the 1974 Budget Act

To understand where we are it helps to know where we've been. The budget process of today was not created in a single step. Rather, it was

created in stages—and for the most part new pieces did not replace but were added to existing processes.

Looking back at the objectives and structure of the 1974 Congressional Budget and Impoundment Control Act is very useful. The Constitution gives the Congress the power of the purse. The 1921 Budget and Accounting Act centralized power over executive agency budget requests under the President and—to balance this grant of power—moved control of the audit of spending from the Treasury to a new legislative branch entity, the GAO. The Congress also centralized its own spending decisions in the House and Senate Appropriations Committees.

There was always some spending that did not go through the appropriations process—the first Congress provided a permanent appropriation to pay interest on the debt. However, this type of spending—otherwise referred to as “backdoor” spending—increased during the 20th century. Authority to borrow was created in the early 1930s. The Social Security Act of 1935 created a new permanent appropriation. Contract authority was expanded over the years. In 1987 and again this year, we reported¹ that for fiscal years 1985 and 1994 close to 60 percent of budget authority and offsetting collections from nonfederal sources credited to accounts was available as a result of prior legislative action and was thus not provided in the annual appropriations process.

An attempt in the late 1940s to create a joint House/Senate “legislative budget” failed. Meanwhile, the analytic strength of the Executive Office of the President was increased.

Frustration with the piecemeal approach to spending and revenue decisions, concern that the increase in the proportion of the budget financed outside the appropriations process was leading to less control, and a major disagreement over Presidential versus congressional power to set spending led to the creation in 1972 of a Joint Study Committee on Budget Control. Its recommendations led directly to what later became the Congressional Budget and Impoundment Control Act of 1974.

In that act, the Congress declared “that it is essential—

¹Budget Issues: The Use of Spending Authority and Permanent Appropriations Is Widespread (GAO/AFMD-87-44, July 17, 1987) and Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations, 1996 (GAO/AIMD-96-79, May 31, 1996).

-
- (1) to assure effective congressional control over the budgetary process;
 - (2) to provide for congressional determination each year of the appropriate level of Federal revenues and expenditures;
 - (3) to provide a system of impoundment control;
 - (4) to establish national budget priorities; and
 - (5) to provide for the furnishing of information by the executive branch in a manner that will assist the Congress in discharging its duties.”

We all often forget that the 1974 act did not seek a specific result in terms of the deficit. Rather, it sought to assert the Congress’ role in setting overall federal fiscal policy and establishing spending priorities and to impose a structure and a timetable on the budget debate. Underlying the 1974 act was the belief that the Congress could become an equal player only if it—like the executive branch—could offer a single “budget statement” with an overall fiscal policy and an allocation across priorities. Prior to 1974 only the President had a fiscal policy. The Congress did not look at the budget as a whole and there was no congressional budget per se, only the cumulative result of individual pieces of legislation. The Congress did not examine or vote on overall spending or revenues. The 1974 act sought to change that, and it did.

The act sought to create a “congressional” budget as a counterpoint to the President’s budget—but it carefully avoided giving the Budget Committees anything like the power or even the coordinating role of the President’s Office of Management and Budget (OMB). The Budget Committees were layered on top of the existing committee structure, and limitations were placed on the level of detail with which the Budget Committees could deal. The Budget Resolution was to represent a congressional statement about total revenues and total spending and about the allocation of spending across various national missions. The design of programs and the allocation of spending within each mission area would be left to the authorizing and appropriations committees. The Budget Committees would deal in round numbers—they could not decide policy. Of course, this distinction was always a little artificial. Even in a world of lower deficits there were always policy assumptions behind the numbers. Frequently policy or program design defines the range of numbers possible. And, it turns out that the model of first deciding how much and then debating the specifics is not an entirely comfortable model for federal

budget decisions. For some, the decision on “how much” is tied to the decision on how that number will be achieved. Recently, as the budget process has been increasingly aimed at deficit reduction, this distinction between overall numbers and the specific policies to achieve them has become more strained.

The 1974 act also eliminated the Congress’ dependence on OMB for numbers and analysis by giving the Congress an independent source of budget numbers—the Congressional Budget Office (CBO). It settled the fight about impoundments by setting up a process for the President to report rescissions and deferrals.

Gramm-Rudman-Hollings and the Budget Enforcement Act

It was not until the Balanced Budget and Emergency Deficit Control Act of 1985—commonly known as Gramm-Rudman-Hollings or GRH—that the focus of the process changed from increasing Congressional control over the budget to reducing the deficit. Both the original GRH and the 1987 amendments (GRH II) sought to achieve a balanced budget by establishing annual deficit targets to be enforced by “sequesters” if legislation failed to achieve them. Measured against its stated objective of a balanced budget, GRH failed.

GRH sought to hold the Congress responsible for the deficit, regardless of what drove the deficit. If the deficit grew because of the economy or demographics—factors not directly controllable by the Congress—the sequester response dictated by GRH was the same as if the deficit grew because of congressional action or inaction. If a sequester was necessary, it did not differentiate between those programs where the Congress had made cuts and those where there had been no cuts or even some increases—an almost pure prisoners’ dilemma. Finally, the timing of the annual “snapshot” determining the deficit and the size of the sequester and the fact that progress was measured 1 year at a time created a great incentive for achieving annual targets through short-term actions such as shifting the timing of outlays.

The deficit did not, as we know, come down as envisioned. As table 1 below shows, in the year GRH II called for a zero deficit the actual deficit was \$255 billion.

Table 1: Gramm-Rudman-Hollings (GRH) Deficit Targets and Actual Deficits

	GRH 1985	GRH 1987	Actual Deficit
FY 1986	171.9		221
FY 1987	144		150
FY 1988	108	144	155
FY 1989	72	136	152
FY 1990	36	100	221
FY 1991	0	64	269
FY 1992		28	290
FY 1993		0	255

The perceived failures of GRH led to the Budget Enforcement Act (BEA) of 1990. This act—extended and amended in the Omnibus Budget Reconciliation Act (OBRA) of 1993—was designed to enforce the multi-year provisions of the summit agreement reached by President Bush and the Congress.

GRH, with its sole focus on the deficit, was unable to achieve its goals without the Congress and the Administration agreeing to address programs whose spending is driven by economic, demographic, or other behavioral factors. The focus of BEA is very different from that of Gramm-Rudman-Hollings. BEA seeks to limit congressional action and so to influence the result. Unlike GRH, BEA holds the Congress accountable for what it can directly control through its actions, and not for the impact of the economy or demographics, which are beyond its direct control. And on those terms BEA has been a success.

BEA did this by dividing spending into two parts: pay-as-you-go (PAYGO) and discretionary. It imposed caps on the discretionary part that have succeeded in holding down discretionary spending—as a share of gross domestic product, discretionary spending declined from 9.2 percent in 1990 to 7.2 percent in 1996. BEA has also constrained congressional actions to create new entitlements or tax cuts.

GRH sought to use a change in process to force agreement. The experience under this act showed, I believe, that no process can force agreement where one does not exist. In contrast, both in 1990 and 1993 substantive agreement on the discretionary caps and PAYGO neutrality was reached and BEA process was created to enforce this agreement. This is an important distinction.

Although BEA has succeeded on its own terms, its ambition was limited. It did not seek to control economic, price- or demographic-driven growth in existing direct spending programs or tax expenditures, and these are the areas of greatest growth today.

Meeting the Challenge of Today

A budget process can facilitate or hamper substantive decisions, but it cannot replace them. The budget structure can make clear information necessary for important decisions or the structure can make some information harder to find. The process can highlight trade-offs and set rules for action.

Later in this statement I suggest some broad objectives for a budget process or criteria by which it might be judged. As your staff requested, however, I will first expand a little on the question of how BEA's design and the evolution of the budget process relates to the challenges you face today.

BEA created a sharp distinction between appropriated programs—the discretionary portion of the budget—and what are called direct spending programs—primarily entitlements—and revenues. Within entitlements BEA made another distinction between changes in program costs driven by legislation and those driven by changes in population, the economy, private behavior, or prices. Because the sharpness of this distinction has become even more important, I'd like to elaborate a little.

BEA focused on actions: it specified that the Congress must appropriate only so much money each year for discretionary programs and that any legislated changes in entitlements and/or taxes during a session of the Congress were to be deficit-neutral. The effect of this control on discretionary programs and on entitlements has been quite different.

Spending for discretionary programs is controlled by the appropriations process. The Congress provides budget authority and specifies a period of availability. Controlling legislative action is the same as controlling spending. The amount appropriated can be specified and measured against a cap.

For entitlement programs and for revenues, controlling legislative actions is not the same as controlling spending or revenues. For an entitlement program, spending in any given year is the result of the interaction between the formula that governs that program and demographics or

services provided. For example, spending for a retirement program is a function of the number of retirees, the amount each is entitled to under the program's benefit formula, and any inflation adjustment. The eligibility rules and the benefit formulas are specified in law; the number of dollars to be spent is not. BEA required that if the Congress and the President were to legislate an expansion in any entitlement program—either through the benefit formula or the individuals or services covered—that expansion had to be “paid for” during the same session of the Congress through either a legislated reduction in another entitlement program or a revenue increase. Legislated changes in entitlements and taxes were to be deficit-neutral over multi-year periods. However, BEA did NOT seek to control changes in direct spending or in revenues (including tax expenditures) that resulted from changes in the economy, changes in population, changes in the cost of medical care, etc. And it is the increased cost of entitlements caused by such changes that is driving the budget outlook.

In the recent report on backdoor spending for Chairman Domenici and Senator Exon we reported that the greatest growth in such spending authority since our 1987 report has not been new accounts but in accounts—largely medical and retirement— which have existed for 30 years or more. Indeed, six accounts, all of them in existence more than 30 years, used 84 percent of total permanent appropriations used in 1994.

In a 1995 report to you and Chairman Domenici we updated our simulations of the long-term economic impacts of deficits we first published in a 1992 report.² We identified three forces driving the long-term growth of budget deficits: health spending, interest costs, and—after 2010—Social Security. These simulations did not assume any legislated changes in health programs. Nonetheless, health care cost inflation and the aging of the population work together to drive the deficit to unsustainable levels with extremely negative economic effects.

Broad Objectives for a Budget Process

Are the expressed objectives of the 1974 act still relevant as we approach the 21st century? At one level the answer must clearly be “yes.” Some of these objectives have been met—there is now a system of impoundment controls—and others have now been firmly embedded into the framework of our budget debate. And, in a broad sense, there can be little quarrel with the need to continue effective congressional control over the budgetary process, to provide for congressional determination of the appropriate

²The Deficit and the Economy: An Update of Long-Term Simulations (GAO/AIMD/OCE-95-119, April 26, 1995) and Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2, June 5, 1992).

level of federal revenues and expenditures, or to establish national priorities. The questions that confront those who would stand back and look at the process as a whole are to what degree have these objectives been achieved, should they be modified, and—given the challenges of the near future—should the Congress have additional objectives for its budget process.

I would like to turn now to the question of what a budget process should do. Some of this discussion repeats points made earlier but in a different context. First, I'll list four broad goals or criteria for a budget process, discuss the current process in those terms, and comment on some possible changes. Then I'll turn to the overarching issue of streamlining the process.

A budget process should

- provide information about the long-term impact of decisions while recognizing the differences between short-term forecasts, medium-term projections, and a long-term perspective;
- provide information and be structured to focus on the important macro trade-offs, e.g., between consumption and investment;
- provide information necessary to make informed trade-offs on a variety of levels, e.g., between mission areas and between different tools; and
- be enforceable, provide for control and accountability, and be transparent.

Let me discuss each of these in turn.

The Budget Process Should Provide a Long-Term Perspective

A long-term perspective is important in both a macro and a micro sense. The macro perspective has to do with our nation's economic health. In previous reports and testimonies we have argued that the nation's economic future depends in large part upon today's budget and investment decisions.³ Therefore, we believe that, at the macroeconomic level, the budget should provide a long-term framework and should be grounded on a linkage of fiscal policy with the long-term economic outlook. This would require a focus both on overall fiscal policy and on the composition of federal activity.

³See *The Deficit and the Economy: An Update of Long-Term Simulations* (GAO/AIMD/OCE-95-119, April 26, 1995). See also *Budget Policy: Prompt Action Necessary To Avert Long-Term Damage to the Economy* (GAO/OCG-92-2, June 5, 1992) and *Budget Policy: Long-Term Implications of the Deficit* (GAO/T-OCG-93-6, March 25, 1993).

The micro aspect of this longer-term perspective relates to those programs and activities where a longer time horizon is necessary to understand the fiscal and spending implications of a commitment. Examples include retirement programs, Medicare, pension guarantees, and mortgage-related commitments. Even very rough projections may be better in these areas than ignoring the long term.

Although the multi-year focus of BEA represents significant progress in this regard, planning for longer-range economic goals requires exploring the implications of budget decisions for as long as 30 years or more into the future. This is not to say that detailed budget projections could be made over a longer-time horizon. Forecasts and projections are difficult enough for 1 to 3 years. The longer the time horizon, the less accurate any detailed projection is likely to be. However, there are differences between a short-term forecast, medium-term projections, and a long-term perspective.

The President, the Congress, and the public need to think about the longer term when making choices about the composition of federal activity. This is true for at least two reasons: (1) each generation is in part custodian for the economy it hands the next and (2) some changes must be phased in over long periods of time. Introducing a longer-term perspective into the budget debate without falling into the trap of treating 30-year projections as anything more than indicative simulations is difficult. In testimony last year we provided some ideas on how this might be done.⁴ For example, if financial statements were improved and available with the President's budget, the two together would provide useful information on the longer-term implications of some policies. Another approach might be to have long-term simulations of current budget policies, perhaps over a 30-year period, prepared periodically to help assess the future consequences of current decisions. The effects of policy changes as well as broader fiscal policy alternatives could be projected over the long term. Such projections could be prepared and presented in the President's budget documents.

The Budget Process Should Facilitate a Focus on Important Macro Trade-Offs

Although the surest way of increasing national savings and investment would be to reduce federal dissaving by eliminating the deficit, the composition of federal spending also matters. Federal spending can be divided into two broad categories based on the economic effect of that

⁴Managing for Results: Strengthening Financial and Budgetary Reporting (GAO/T-AIMD-95-181, July 11, 1995).

spending: consumption spending having a short-term economic impact and investment spending intended to have a positive effect on long-term private-sector economic growth. We have argued that within any given fiscal policy path, the allocation of federal activity between investment and consumption is important and is deserving of explicit consideration.

The current budget process does not prompt the executive branch or the Congress to make explicit decisions about the appropriate mix of spending for current consumption and spending for long-term investment. Appropriations subcommittees provide funding by department and agency in appropriations accounts that do not distinguish between investment and consumption spending. Although alternative budget presentations that accompany the President's budgets provide some information on investment, these are not part of the formal budget process. The investment/consumption decision is not one of the organizing themes for the budget debate. How consideration of investment versus consumption is introduced into the budget process depends on how the overall process is to be structured. We have suggested that within the existing BEA structure, incorporating an investment component under the discretionary caps would be an appropriate and practical approach to supplement the unified budget's focus on macroeconomic issues. An investment component would direct attention to the trade-offs between consumption and investment—but it would not weaken the overall fiscal discipline established by the caps. It would provide policymakers with a new tool for setting priorities between the long term and the short term.⁵ If the Congress and the President chose to change the budget process in ways that moved away from the current system of discretionary caps and PAYGO rules, one of the issues to consider in designing a new process would be how to introduce this trade-off between the long term and the near term, between investment and consumption, into the structure of the debate.

The Budget Process Should Facilitate Informed Trade-Offs Between Missions and Between the Different Tools of Government

The budget process is the central process through which the President and the Congress select among and balance the competing demands for government activity in achieving various goals. Therefore, the process should provide the information necessary to debate the relative priority among national needs or missions. The functional structure of the budget resolution was intended to facilitate priority-setting even among related programs housed in different agencies and different committees. By organizing the budget along “national needs” or mission areas, the budget

⁵See Budget Structure: Providing an Investment Focus in the Federal Budget (GAO/T-AIMD-95-178, June 29, 1995) and Budget Issues: Incorporating an Investment Component in the Federal Budget (GAO/AIMD-94-40, November 9, 1993).

resolution sought to permit an examination of the totality of federal spending activity in each area—regardless of the committee of jurisdiction or the agency at issue—and to permit priority-setting and trade-offs between missions. Instead of focusing on what each department spent, the Congress and the President were to be able to look across departments at the totality of activity in education and training or income security or transportation. From the beginning, however, the structure was not complete; if the government chose to advance a given mission area through the tax code, that commitment did not show up in the functional display. So, for example, the functional structure shows support for science and technology through loans or grants or federal activity but not through the research and development tax credit.

Even on the spending side of the budget, however, the functional totals do not translate into and may not match the allocation of resources to the appropriations subcommittees. While the budget resolution is organized by national mission, the appropriations subcommittees are still organized along agency lines. This makes it difficult to trace the path from the budget resolution's stated priorities through the appropriations process. Although CBO translates the budget resolution functional totals into allocations to the full Appropriations Committees, suballocations to the subcommittees (the so-called 602(b) allocations) are made by the Appropriations Committees. At one level priority setting within the discretionary side of the budget has been delegated to the Appropriations Committee—where it resided before the 1974 act. The Congress may or may not consider this a problem. However, if you are standing back and looking at the entire budget process, a question to ask is whether the current functional structure highlights the mission trade-offs relevant for today and whether the functional structure is doing as much to facilitate a debate among priorities as you would like.

The sharp division BEA sought to draw between discretionary spending limits and the PAYGO scorecard made a great deal of sense. It simplified jurisdictional issues. It also recognized the difference in time horizons. Discretionary appropriations may be provided for 1 or more years and a discretionary spending cut may be a 1-year cut. Most changes in entitlement or tax law last longer than a single year. This sharp division, however, limits the ability to shift spending priorities. For example, it would be difficult to shift spending away from consumption support concentrated in the mandatory sector toward investment programs funded in the discretionary portion of the budget. Current rules do not permit cuts in mandatory spending to be used to pay for increases in appropriated

programs. Consideration should be given to when and under what circumstances breaching the wall between discretionary and mandatory categories makes sense.

At a level below the establishment of broad spending priorities, the budget process should facilitate the selection of the appropriate policy tool with which to address some mission. For any given goal or mission in which the federal government will play a financial role, there are a variety of tools available: grants, loans, loan guarantees, or tax provisions. The budget process should provide the information necessary to permit a choice based not on jurisdictional problems or scoring conventions but on the match between the goal and the tool.

In order to facilitate appropriate choices, the budget must also provide information on the costs of various alternatives—on a comparable basis—and on the nature of the government's commitment. This is one area in which there has been some improvement. The Credit Reform Act changed the way loans and loan guarantees were treated in the budget because the previous cash-based treatment gave decisionmakers misleading signals on the cost comparisons among grants, loan guarantees, and direct loans. However, as I noted above, there are still some programs for which either cash-based reporting sends misleading signals or for which even a 5-year perspective provides a misleading perspective on the nature of the government's actual or potential commitment.

The Budget Process Should Be Enforceable, Provide for Control and Accountability, and Be Transparent

These three elements are not identical, but they are closely related and achieving one has implications for the others. By enforcement I mean a mechanism to enforce decisions once they are made. Accountability has at least two dimensions: accountability for the full costs of commitments that are to be made, and targeting enforcement to actions taken. It can also encompass the broader issue of taking responsibility for responding to unexpected events. And, finally, the process should be transparent, that is, understandable to those outside the process. I will discuss each of these in turn.

Enforcement: In general, enforceability requires a system for tracking outcomes and tying them to actions. One great strength of BEA has been the enforcement provisions. By targeting penalties to actions, BEA has succeeded in restraining discretionary spending to within the caps and in restraining new direct spending legislation. The design of the enforcement

provisions in BEA has also created accountability for actions. Costs are to be recorded in the budget up front, when they can be controlled. And enforcement is targeted to actions. The appropriations committees are responsible for compliance with the discretionary spending limits while the PAYGO scorecard tracks compliance with the PAYGO rules. Unlike the prisoners' dilemma created by GRH, sequesters are applied only to an area where the breach occurs.

Accountability: The targeted nature of the sequester provisions in BEA served not only as enforcement but also to provide accountability for compliance with the rules. Some of the scoring and costing rules introduced by BEA have also increased accountability for the costs of actions taken. On another level, however, accountability is diffuse. The deficits in the early 1990s were greater than those expected by those who voted for and complied with the provisions of OBRA. This slippage was due almost entirely to a worse than expected economy and "technical changes."⁶ Although GRH showed that holding committees responsible for results rather than actions is problematic, there are ways to bring more responsibility for the results of unforeseen actions into the system.

We, and former CBO Director Reischauer, have previously suggested that the Congress might want to consider introducing a "lookback" into its system of budgetary controls. In a report issued to the Republican leadership last year, we described such a process under which the Congress would periodically look back at progress in reducing the deficit.⁷ Such a lookback would compare the current CBO deficit projections to those projected at the time of a prior deficit reduction agreement and/or the most recent reconciliation legislation and analyze the reasons for any difference. For a difference exceeding a predetermined amount, the Congress would decide explicitly—by voting—whether to accept the slippage or to act to bring the deficit path closer to the original goal by recouping some or all of this slippage. Although one could argue that each year's budget resolution implicitly accepts or rejects changes in the deficit outlook, it does not require an explicit consideration and decision. Adoption of the requirement for such explicit consideration would provide members who make difficult choices in reconciliation an additional opportunity to ensure that the deficit path they voted for will, in fact, materialize.

⁶For a discussion of this, see Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, October 7, 1994).

⁷See, Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, October 7, 1994).

A similar—but more narrowly focused—process could be used to prompt consideration of the path of mandatory spending.⁸ Under its current structure, BEA requires any action that would cause a growth in mandatory spending to be offset, but it leaves completely unconstrained any growth in these programs that results from economic or demographic factors. This distinction is consistent with the act’s focus on controlling actions, but it has created other problems. Indeed, the very success of BEA at constraining discretionary and new direct spending has highlighted the dramatic growth in some entitlement programs. One way to begin to deal with this might be to adopt a procedure similar to that recommended by the House members of the Joint Committee on the Organization of the Congress. Under such a procedure, direct spending targets for several fiscal years could be specified. If the President’s budget showed that these targets were exceeded in the prior year or would be exceeded in the current or budget years, the President would be required to analyze the causes of the overage and recommend whether none, some, or all of the overage should be recouped. The Congress could be required to vote either on the President’s proposal or on an alternative one. If the goal was merely to restrain direct spending to the currently projected levels, then the current law baseline would constitute the targets. However, such a procedure could also be used as a kind of lookback on the success of any efforts to reduce mandatory spending.

Transparency: Transparency is important because the budget debate is critically important—not because of the numbers in it but because it represents a statement about collective priorities and collective action. In a democracy, the debate about these priorities should be made as understandable as possible. If even reasonably dedicated citizens cannot understand the budget document or the budget debate, there is little accountability.

If the budget debate is to be accessible to the American people—or to any significant subset of the population—consideration will have to be given to simplifying the structure of the budget, streamlining the process, and reducing the number of translations required to get from one part of the process to another. Does the Congress wish to organize the debate by national mission or by agency? If there is a need for both perspectives, how can they be brought together in an understandable way? Discussions about 602(b) allocations and “direct spending” are the stuff of what someone once called “budget process groupies”—not of the evening news or quick explanation.

⁸See Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155, July 18, 1994).

There must be summary documents, such as the old Budget in Brief, that explain where money comes from and where it goes. For fiscal years 1996 and 1997, OMB once again included a citizen-oriented document as part of the budget documents. The Citizen's Guide to the Federal Budget provided an overview of the budget, highlighting such concepts as the deficit and the debt, and reviewing the President's budget proposals. They did not, however, provide much insight on the long-term implications of current spending policies.

Citizens cannot be expected to feel a stake in the budget debate—a debate that will affect all our lives and our national future—or to accept decisions made by others without basic information. At a minimum citizens need to know how much money the federal government takes in—and how—and on what funds are spent.

Overall Streamlining Issues

Each of the criteria or goals are important, and they are related—but they cannot all be maximized in a single process. Trade-offs are necessary. Any review of the budget process comes up against the overarching question: is there just too much process? The feeling that there are too many votes on related issues is, as I noted, in part a function of the way the process was created, of the decision to layer the Budget Committees and the budget process on top of the existing committee and procedural structure of the House and the Senate. The idea was that the budget resolution would define the overall aggregates and the rest of the process would proceed within those aggregates. As I mentioned above, however, especially as the goal of the process shifted to deficit reduction, this distinction became increasingly strained. There are a number of possible responses, but most of them involve considering the relationship of the budget resolution to legislation and of the various committees in the Congress.

Streamlining—making the process take less time—has been the focus of a number of proposals in the past. However, it is in this area that it is especially important to think about the fact that a response to one problem may create another problem. Eliminating parts of the process or changing the cycle will have consequences beyond reducing the number of votes. These may or may not be acceptable, but they should be recognized. I will touch very briefly on three processes: the budget resolution, authorizations, and appropriations.

If the recent pattern of multi-year fiscal policy agreements is to continue, are annual budget resolutions still necessary? It is important to review

progress every year, but such a review may not require a complete budget resolution. If, however, annual budget resolutions are to be replaced with biennial budget resolutions, then something like the “lookback” procedure described above could become very important. Without it, there would be no procedure for tracking progress against the previous budget agreement or reconciliation bill.

Multi-year authorizations can provide a longer-term perspective within which appropriations would be determined. Although the need for periodic reauthorizations can provide a window for program revision, there is little reason to reexamine and reauthorize programs more often than they might actually be changed. Of course, multi-year authorizations are already the rule in the nondefense portion of the budget.

Some have suggested that changing the appropriations cycle from annual to biennial could free up time. As I have previously testified before this committee, it is important to differentiate between the length of availability of funds and the timing of the appropriations cycle. Even within the 39 percent of the budget that is on an annual budget cycle, not all appropriations are for 1-year funds. The appropriations subcommittees have been able—even within an annual appropriations cycle—to provide 1-year, multi-year, or no-year money as they have thought appropriate for the program or agency at issue. Annual appropriations have long been a basic means of exerting and enforcing congressional policy. A 2-year appropriations cycle would change the nature of that control. It is also unclear how much time it would save.

In the end, streamlining or reducing the amount of time spent on apparently repetitive votes will require decisions about which votes are no longer necessary. That, in turn, is likely to require decisions about the relationship between discretionary and mandatory spending, between various committees, and about the nature and style of congressional control over the budget and appropriations.

Summary and Conclusions

The budget process is the source of a great deal of frustration. The public finds it hard to understand. Members of the Congress complain that it is time-consuming and duplicative, requiring frequent votes on the same thing. And, too often, the results are not what was expected or desired.

It is inevitable that, given the nature of today’s budget challenge, there will be frustration. It is important, however, to try to separate frustration with

process from frustration over policy. To bring the deficit down requires hard decisions about what government will and will not do. A process may facilitate the debate, but it cannot make the decision.

In considering whether and how to redesign the budget process, therefore, it is important to look beyond those frustrations tied directly to the need to bring down the federal deficit. The budget process serves a wider purpose. It is, in a real sense, the process for dealing with competing claims and setting priorities.

The budget process should offer the Congress the means to set overall fiscal policy and to make decisions about relative priorities among missions or claims. In a democracy this process should be understandable to the interested citizen and it should offer that citizen some accountability. I have suggested that these overall goals are advanced by a process that: provides a long-term focus; provides information and structure to focus on important macro trade-offs; provides information necessary to make trade-offs between mission areas and between different governmental tools; is enforceable in that it provides for control and accountability; and is transparent.

The apparently never-ending and repetitive nature of the budget process is in large part a function of the way it was created. A new process to provide an overall view was layered on top of the existing structures and processes by which the micro decisions are made in the Congress. Any attempt to streamline or “simplify” the process must consider the relationship between the goal of simplicity and the existing decision structure in the Congress.

In addition, I have suggested that the Congress might want to consider the creation of a lookback procedure by which it would periodically look back at progress in reducing the deficit. Such a lookback would compare the current CBO deficit projections to those projected at the time of a prior deficit reduction agreement and/or the most recent reconciliation legislation and analyze the reasons for any difference. For a difference exceeding a predetermined amount, the Congress would decide explicitly—by voting—whether to accept the slippage or to act to bring the deficit path closer to the original goal by recouping some or all of this slippage. Although one could argue that each year’s budget resolution implicitly accepts or rejects changes in the deficit outlook, it does not require an explicit consideration and decision. Adoption of the requirement for such explicit consideration would provide members who

make difficult choices in reconciliation an additional opportunity to ensure that the deficit path they voted for will, in fact, materialize.

Mr. Chairman, no budget process is easy to design or to live with. I would be happy to answer any questions you or your colleagues may have, and we stand ready to work with you as you consider whether changes in the budget process are necessary and, if so, their design.

Related GAO Products

Correspondence to Chairman Horn, Information on Reprogramming Authority and Trust Funds (GAO/AIMD-96-102R, June 7, 1996).

Correspondence to Chairman Kasich, Budgeting for Federal Insurance (GAO/AIMD-96-73R, March 22, 1996).

Budget Issues: Earmarking in the Federal Government (GAO/AIMD-95-216FS, August 1, 1995).

Budget Process: History and Future Directions (GAO/T-AIMD-95-214, July 13, 1995).

Budget Structure: Providing an Investment Focus in the Federal Budget (GAO/T-AIMD-95-178, June 29, 1995).

Correspondence to Chairman Wolf, Transportation Trust Funds (GAO/AIMD-95-95R, March 15, 1995).

Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, October 7, 1994).

Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155, July 18, 1994).

Budget Process: Biennial Budgeting for the Federal Government (GAO/T-AIMD-94-112, April 28, 1994).

Budget Process: Some Reforms Offer Promise (GAO/T-AIMD-94-86, March 2, 1994).

Budget Policy: Investment Budgeting for the Federal Government (GAO/T-AIMD-94-54, November 9, 1993).

Budget Issues: Incorporating an Investment Component in the Federal Budget (GAO/AIMD-94-40, November 9, 1993).

Correspondence to Chairmen and Ranking Members of House and Senate Committee on the Budget Committees and Chairman of former House Committee on Government Operations (B-247667, May 19, 1993).

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested