Testimony Presented to
the Joint Select Committee on Budget and Appropriations Process Reform

on

"The Budget Resolution -- Content, Timeliness, and Enforcement"

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I want to thank the co-chairs, Rep. Womack and Rep. Lowey, for inviting me to participate in this hearing.

The federal government is running very large annual budget deficits, and those deficits will grow in the future as the U.S. population ages and health spending continues to grow more rapidly than the economy. The current federal budget process is not helping Congress grapple with this significant challenge. Also, it does not facilitate an orderly and timely decision-making process. Congress wastes too much time on small and irrelevant matters even as it fails to focus enough attention on issues of real budgetary consequence.

There are many aspects of the current process that need to change. Today, you have asked us to focus on the role of the congressional budget resolution and how it might be changed in a reformed process.[1] In my testimony, I make three suggestions for

[1] For a longer discussion of the shortcoming of the current budget process and reforms to improve it, see "The Budget Act at Forty: Time for Budget Process Reform," James C. Capretta, Mercatus Center at George Mason University, March 2015, https://www.mercatus.org/system/files/Capretta-Budget-Act-40.pdf.

changing the role of the budget resolution.

- First, the budget resolution should become the legislative vehicle for establishing and amending statutory caps on discretionary spending.

- Second, passage of a budget resolution by both houses should automatically lead to passage of a statutory increase in the federal debt limit.

- Third, the budget resolution should be modified to include a focus on the federal government's medium and long-term fiscal outlook.

The Budget Resolution Should Be the Vehicle for Establishing Caps on Discretionary Spending

Under the Constitution, establishing budgetary policy for the federal government is a shared responsibility of the coequal legislative and executive branches of the government. The Constitution purposefully establishes checks and balances on the federal government's powers, much to the nation's benefit. One consequence of this structure is parallel budgetary processes. The federal government rarely operates under anything resembling an enforceable budget plan that both Congress and the president have agreed to in full.

Caps on discretionary spending are something of an exception to the general point of parallel processes in the legislative and executive branches. The statutory caps that now apply to appropriated spending are binding on both Congress and the president. Caps of this kind have been in place nearly continuously since the 1990 budget agreement and are an accepted part of the process.

While statutory caps have been used for more than two decades, their enactment is not part of the routine congressional process. Instead, they have been enacted on an ad hoc basis, often without a full and open debate in Congress.

The congressional budget resolution establishes procedural limits on appropriated spending, but these limits are not in statute and are enforced only through points of order in the House and Senate that can be waived. Further, because the budget resolution is not signed into law, the president is not necessarily bound by the procedural limits on appropriated spending that they contain.

Allowing the budget resolution to become the vehicle for establishing or amending the statutory caps on discretionary spending would make the budget resolution a much more serious legislative vehicle than it is today. Investing this authority in the budget resolution would also bring the executive branch into budget negotiations with Congress earlier in the year, which might help prevent the kind of end-of-year political standoffs that now regularly occur.

There are a couple of ways that the budget resolution could be used to establish or amend statutory caps on discretionary spending. One option would be to have the passage of a budget resolution trigger the approval of companion legislation establishing or adjusting the caps consistent with the funding levels in the resolution. This companion legislation would be deemed as passed by the House and Senate upon approval of the budget resolution, and sent to the president for approval or veto. If the president vetoed the legislation, the budget resolution's spending limits would remain binding on Congress, as is the case today.

A bipartisan group of budget experts recently recommended something similar to what I am suggesting here today, which demonstrates the potential for this idea to get broad support.

Passage of a Budget Resolution Should Automatically Trigger Passage of Legislation Increasing the Federal Debt Limit

My second recommendation is similar to the first, in that I would make the budget resolution the vehicle for increasing the statutory limit on federal borrowing.

The debt limit has outlived its usefulness. It has become apparent in recent years that the limit now has the potential to inflict serious harm on the U.S. economy if the failure to raise it in a timely manner led to missed payments to creditors. There is no reason to risk such an outcome. There is no evidence that the current debt limit has had a positive effect on fiscal policy. Consequently, I would recommend that Congress scrap the debt limit altogether.

While I am in favor getting rid of the debt limit, I understand that it may be difficult to get agreement in Congress to take this step. So, as a back-up option, I would recommend making the budget resolution the vehicle for automatically sending legislation to the president raising the debt limit to levels consistent with the budgetary levels included in the resolution.

Like the statutory caps on discretionary spending, tying debt limit increases to passage of the budget resolution would have the effect of making the budget resolution a more serious legislative vehicle because successful passage of the resolution would have the potential to reset the debt limit to a level consistent with Congress' budgetary plans. Further, connecting the debt limit to the budget resolution would likely draw the executive branch into the budget process earlier in the year, as the president would have a strong interest in ensuring the debt limit was set a level that is consistent with the administration's budgetary plans and goals.

There are a number of different ways for designing the mechanism of tying debt limit adjustments to the budget resolution. For many years, the House had a procedure for automatic passage of a debt limit increase when the House approved a budget resolution. Something like this rule could be adopted in both the House and Senate upon passage of a conference report on the budget resolution (or a resolution that is passed by both houses without a conference).

Allowing legislation to increase the debt limit to be triggered by congressional agreement on a budget resolution would not guarantee that debt limit crises would be avoided altogether because the president could always veto the legislation increasing the debt limit.

Still, this approach would make it much more likely that the U.S. would avoid debt limit crises. It would also be a powerful incentive for Congress to successfully pass a budget resolution each year, and for the budget levels in the resolution to be realistic to ensure the debt limit would not be breached.

The only way to slow the coming increases in federal debt that will occur under current law is for Congress and the president to work together on budget plans that will changes those laws to narrow future deficits. Tying the debt limit to the budget resolution will make it more likely that the budget resolution will become the vehicle for debating and passing those plans.

The Budget Resolution Should Include a Long-Term Outlook

The current budget process is not helping Congress make decisions that will improve the budgetary outlook over the longer run.

The Congressional Budget and Impoundment Control Act of 1974 requires Congress to consider budget plans covering at least five years. The common practice is for Congress to produce budget plans covering ten years. These projections are often derided because it is not easy to predict what inflation, interest rates, or economic growth will be in ten years. Projections of deficits in two or three years can be off by wide margins when economic conditions shift abruptly. Nonetheless, for some programs, a ten-year horizon is not long enough for considering major programmatic changes. Entitlement programs are large and have complex rules, and millions of beneficiaries depend upon them for their incomes and health services. It is not realistic to expect that policy changes to these programs can be implemented quickly or abruptly. Moreover, the savings from changing program rules in these programs will often compound over time and become much more significant after ten years. Congress should have a clear understanding of the long-term budgetary effects of competing reform options while they are being debated.

It is certainly important what the deficit and debt will be in 2019 and 2020, and Congress should work to reduce both. But it is even more important what the cumulative deficit will be over the coming three decades. Indeed the expectation of large and growing deficits over the medium and long-term can have significant effects on economic performance today, by affecting decisions around personal savings and investment plans by businesses. And while there are many uncertainties in long-term projections, there is little doubt that the gap between taxes and spending will widen significantly in the coming years if nothing is done to change current laws. Further, for some federal programs, it will be important to make changes soon to slow spending in ten, twenty, or thirty years, so that current participants in the programs can be protected from the changes and to allow adjustments to be phased in slowly and gradually to minimize disruption.

The need for a longer-term focus in budgeting can be seen by looking backwards. If Congress had implemented major budgetary reforms in the mid-1990's, as was recommend by two bipartisan panels, the nation's budget outlook would be much healthier today than it is.

One approach to building a longer-term focus into the budget process would be to first establish a uniform, accepted definition of the federal government's unfunded liabilities. In general, this would mean calculating the present value of expected future tax receipts and expected future spending commitments over a defined period, such as thirty years. Long-term forecasts are already done annually for major entitlement programs, and so a large portion of the federal budget can be assessed on a present value basis with current information. These forecasts could be supplemented with assessments of other parts of the budget, especially those that create long-term obligations on behalf of the government, such as pension programs (civil and military and the Pension Benefit Guarantee Corporation) and health benefits.

Alternatively, Congress could build into the budget process an explicit maximum debt level, and the requirement of using projections covering a thirty-year period to determine compliance with it. For instance, Congress could pass a law stating it is the objective of the government to keep federal debt below 60 percent of GDP, as it has been until recently throughout the nation's history except during wartime (it is now at 77 percent of GDP).

Congress could then require the budget resolution to include projections of unfunded liabilities or federal debt, or both, over this longer time horizon. Budget resolutions that made the outlook worse, or did not meet specified statutory goals for improvement, would be considered out of order. It would not be necessary to eliminate unfunded liabilities all at once, or to bring debt levels down immediately to a pre-determined goal. But there should be a presumption against consideration of any budget resolution that did not put the government on a path toward complying with reasonable fiscal goals on a permanent basis. The budget resolution also should be allowed to set in motion legislation to improve the long-term outlook using expedited procedures modeled on the budget reconciliation process.

Presidents should be required to include in their annual budget submissions to Congress projections of what the administration's policies would do to the government's unfunded liabilities and debt over a thirty-year period, and to submit recommendations for bringing the budget into compliance with long-term goals for these measures on a gradual basis should the forecast show unfunded liabilities or debt exceeding established targets. CBO could then independently evaluate the president's plan to determine whether it met the stated goals or not.

Conclusion

It has been more than four decades since Congress passed the Congressional Budget and Impoundment Control Act, which established the Budget Committees and built today's process around concept of the budget resolution. The budget resolution has been instrumental in setting in motion many important pieces of legislation in the past forty years, such as the 1990 and 1997 budget agreements.

But it's clear that the role of the budget resolution needs to be updated, to make it a more relevant and consequential vehicle, and to help Congress grapple with the serious challenge of long-term deficits.

Thank you again for the opportunity to participate in this important hearing.