Repairing the Congressional Budget Process

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"The weather is a great bluffer," observed E. B. White. The same can be said of budget projections. In the 1990s, official estimates progressed from projections of endless deficits to forecasts of surpluses large enough to repay the national debt.

However, terrorist attacks on the World Trade Center and the Pentagon in September of 2001 ended this extreme optimism. A mild recession, combined with a significant tax cut and increased spending on defense, homeland security, and things unrelated to the attack, had the nation again flirting with deficits. Although any statement regarding the fiscal future is hazardous, it seems highly unlikely, however, that we shall return to the "bad old days" of the 1980s and early 1990s. Adjusted for the size of the economy, the 1983 deficit would amount to over $600 billion in 2003. The actual deficit, if any, is unlikely to exceed one-fifth that amount.

Improvement in the nation's fiscal health in the late 1990s and the subsequent confusion caused by the terrorist attacks have not encouraged fiscal responsibility. A surprising budget surplus that emerged in 1998 shredded the disciplining rules that had evolved in response to earlier deficits. The less demanding rules enacted earlier by the Budget and Impoundment Control Act of 1974 are also fraying.

It seems somewhat strange to say that the improved budget outlook poses a difficult challenge, but it does. Most legislators and budget experts have spent a large portion of their professional careers contending with budget deficits so large as to be a danger to economic stability. Adjusting to the new, improved outlook requires a considerable amount of intellectual agility. The question is, “How do we devise rules that encourage more rational budget decisionmaking when the fiscal outlook is no longer as frightening?” The proper design for such rules is anything but apparent. It is not even clear whether written rules are necessary when the budget is in relatively good shape. Moreover, even if appropriate rules can be devised, enforcing them will not be easy. It is difficult to convince Congress of the benefits of rationality when an improved budget outlook makes the cost of irrationality seem relatively minor.

The problem is deepened by the fact that so few people are interested in it. Most people find matters of budget process and accounting extremely boring. Yet, if new rules are devised, whether brilliantly or poorly, they will profoundly affect budget policy for years to come.

A Brief History

The nation survived more than 100 years without an elaborate budget process. In the beginning, Congress was completely in charge. Executive branch departments went to Capitol Hill and negotiated their budgets individually. The Treasury helped to coordinate appointments and kept records of the results, but there was no formal presidential budget.

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On paper, the process appeared to be completely undisciplined, but it was held in check by the powerful unwritten rule that the budget should be balanced. For the most part, the budget was, in fact, balanced—except in periods of war or severe recession.

Before the Civil War, spending and tax decisions were both handled by the Committee on Ways and Means in the House and the Finance Committee in the Senate. However, as spending rose and the federal government became more complex, it was decided that there should be a division of labor, and both bodies created appropriation committees to manage the spending side of the budget. The fragmentation proceeded further in that some spending decisions were handled outside these committees. In retrospect, the decision to separate jurisdictions for the spending and revenue sides of the budget and to eliminate formal coordination between the two sides appears to have been a very big mistake—one that seems to have been made relatively casually.

Spending grew rapidly at the end of the 19th and beginning of the 20th centuries, and budget deficits became common. World War I and its aftermath saw another increase in spending and in the role of the federal government. There was a trend toward enhancing the power of the executive branch under President Wilson, and, subsequently, Congress turned to the president in the hope that he could better coordinate budget decisions.[1] The resulting Budget and Accounting Act of 1921 established the Bureau of the Budget and the executive branch's budgeting system. There were no changes, however, in Congress's power to determine the level and composition of spending or the characteristics of tax policy. Consequently, the president's

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for valuable comments.

budget is simply a set of recommendations that may or may not be followed by Congress. The president's only formal power is the ability to veto tax or spending legislation. Nevertheless, presidential budget recommendations have considerable political influence.

Fiscal policy became extremely conservative during the 1920s and the nation experienced 11 budget surpluses in a row from 1920 to 1930. After 1930, the nation never experienced surpluses for more than three years in a row until the four-year period beginning in 1998.

Although the Anti-Deficiency Act of 1870 clearly specified that a president could not spend money unless it was appropriated by Congress, it was less clear constitutionally whether a president was required to spend all funds that were appropriated. Presidents often refused to spend appropriated funds, but with only a few exceptions, such impoundments were uncontroversial. They mainly occurred when it became evident that the spending in question would be extremely wasteful or actually harm environmental or other interests.

Richard Nixon attempted to change the rules after his landslide electoral victory in 1972. He aggressively impounded monies appropriated for social purposes to thwart Congress's policy goals. Quickly challenged in court, he lost all cases through the U.S. Court of Appeals except one concerning Department of Housing and Urban Development programs.

Before the issue could be heard by the Supreme Court, Congress moved to restrict the president's impoundment power. However, Nixon argued that Congress had no rational process by which to make budget decisions. They did not formally add up the effects of all tax

[1] For a history of federal budgeting, see Schick (1995).

and spending decisions and no formal mechanism for coordinating the spending and revenue sides of the budget was in place. Because Nixon's arguments had merit, Congress could not simply limit impoundments. It had to invent a rational process to guide its own budget decisions; hence the Budget and Impoundment Control Act of 1974.

Changing the decisionmaking process, however, meant changing the distribution of power among committees—one of the most difficult tasks imaginable. One could cogently argue that a rationalization of the process should require fewer and not more committees. Many have argued, for example, that authorizing committees should be combined with the Appropriations Committee. Further, if the Appropriations Committee was folded back into the Ways and Means and Finance committees, the revenue and spending sides of the budget would be better coordinated and Congress would become more conscious of spending and revenue totals. However, that was unthinkable. The Appropriations committees had acquired too much power to be disbanded.

Thus, Congress added two new Budget committees responsible for fashioning a concurrent budget resolution (BR) each year that set aggregate targets for spending, revenues, and the budget balance. As the process evolved, the BR often contained reconciliation instructions that told committees to alter revenues or entitlement spending by specified amounts. In order to preserve the prerogatives of the traditional committees, the Budget committees were not supposed to determine the details of programs. However, it is very difficult to fashion targets for budget aggregates and to formulate reconciliation instructions without making some assumptions about the details of spending and tax policies.

The Budget and Impoundment Control Act of 1974 also established the Congressional Budget Office (CBO) to provide Congress with economic forecasts, budget projections, an analysis of the president's budget, estimates of the longer-run effects of changes in spending policy, and policy evaluations. The creation of the CBO clearly reduced the influence of the president's Office of Management and Budget (OMB).

More generally, the new congressional process reduced the influence of the president's budget recommendations. It was remarkable that the executive branch played virtually no role in the bargaining as the new process was formulated. Nixon was already threatened with impeachment, however, and did not want to do anything to displease Congress. In more normal times, a president might have vetoed the Budget and Impoundment Control Act.

The new process clearly represented a more rational approach to the development of congressional budget policies. However, the increase in rationality came with a cost. The budget process became more complex and time-consuming, largely because of the compromises that were necessary when the process was constructed. Senators and representatives complained that they often had to debate contentious discretionary spending issues three times—when the BR was crafted, when programs were authorized, and when they were funded by appropriations.

Budgeting became not only procedurally more difficult in the 1970s, but substantively more difficult as well. Medicare, created in 1965, grew rapidly. Social Security benefits were increased in real terms several times in the late 1960s, increased by 20 percent in 1972, and indexed for inflation at the same time. This put Social Security, the nation's largest domestic program, on automatic pilot and greatly diminished congressional control over spending.

The growth in program costs were masked at first by the decline in defense spending that followed the Vietnam War, but defense could not decline forever and, under pressure from the Soviet invasion of Afghanistan and the Iranian hostage crisis, President Carter was forced to request larger defense budgets. Deficits were held in check in the late 1970s, but only because inflation was rapidly increasing the burden imposed by an unindexed individual income tax system. A tax revolt resulted, and that revolt aided Ronald Reagan's election in 1980.

Reagan cut taxes vigorously, indexed the personal income tax for inflation, and accelerated the defense buildup begun by Carter. Not surprisingly, huge deficits resulted. However, Carter would have also faced a difficult deficit situation if he had been re-elected, albeit not as large as that faced by Reagan.

Congress spent the rest of the 1980s and the early 1990s wrestling with large deficits. Tax burdens were increased significantly in 1982, 1983, 1984, 1990, and 1993, and the growth in civilian discretionary spending was held below gross domestic product (GDP) growth. Nevertheless, deficits remained about 5 percent of the GDP in fiscal 1984 and 1985 and the ratio of the debt to GDP was soaring. Frustrated with its inability to control the deficit, Congress took drastic action in 1985, passing the Gramm-Rudman-Hollings (GRH) Act, a bill that established declining targets for the deficit culminating in a balanced budget. The targets were enforced by a complex, automatic formula that cut or "sequestered" spending.

GRH was bound to fail. Deficits are affected year to year far more by the vagaries of the economy than by Congress's policy actions. When the economy failed to live up to expectations, it was no longer politically plausible to hit the deficit target, either through explicit tax increases and spending cuts or through the automatic spending cuts determined by the sequester formula. The deficit targets were made more lenient once in 1987 and eventually abandoned altogether in 1990. Some believe that GRH had a modest beneficial effect on the deficit while it was in force (Gramlich 1990), but its effects clearly fell far short of expectations.

When GRH was abandoned in 1990, the first President Bush and Congress negotiated a huge deficit reduction package that combined tax increases and spending constraints. To insure that the beneficial effects of the compromise were not eroded by subsequent legislative actions, Congress passed the Budget Enforcement Act of 1990 (BEA). This law established caps on budget authority and outlays related to discretionary spending and a pay-as-you-go (PAYGO) rule requiring that tax cuts or entitlement increases be paid for with other tax increases or entitlement cuts in the first year and in the longer run.[2] The PAYGO rule prevented Congress from increasing the deficit through explicit tax cuts or entitlement increases, while the stringency of the discretionary caps put downward pressure on the deficit. These measures were much more effective in controlling deficits than GRH[3] because they were more practical. They imposed restraints on legislated policy changes—something that Congress controlled—rather than trying to design policies targeting a deficit that was more immediately affected by the economy than by congressional actions.

The policies enacted in 1990 should have resulted in a major reduction in the deficit. However, the good effects of the policies were obscured initially by the recession of the early 1990s that caused the deficit to rise rapidly through 1992. The stubborn deficit induced the

[2] The longer run was first defined to be 5 years, but a separate PAYGO rule was established in the Senate that effectively extended the horizon to 10 years in the mid-1990s.

[3] Such a conclusion must be based more on judgment than rigorous empirical evidence, but it is a judgment that is widely shared among budget experts. See Garrett (1998) and Feuerstein (2001).

incoming Clinton administration to propose a significant deficit reduction package in 1993. The Balanced Budget Act of 1997, the first deficit-reducing package of the era that also reduced taxes, followed. However, it enacted Medicare savings that proved more effective in controlling costs than was anticipated at the time.

The nation would not have enjoyed surpluses from 1998 to 2001 were it not for numerous, deficit-reducing legislative acts that began in 1982. The caps and the PAYGO rule imposed in 1990, along with the budget deal of that year, were especially important. However, other exogenous factors were also important. The end of the Cold War eased the defense burden and a booming stock market contributed to raising tax revenues relative to GDP in the late 1990s. Rapid technological changes in computing and communications stimulated far more productivity growth than had been anticipated earlier. The assumption that relatively high productivity growth will continue on into the future is the single most important economic factor in 2002 projections of long-term growing surpluses under current law.

The surplus in fiscal 1998 fostered erosion in the discipline that characterized much of the 1980s and 1990s. It was, in fact, remarkable how well the caps and PAYGO rule had operated previously. While there were loopholes in the rules, making them vulnerable to evasion through accounting gimmicks and other devices, Congress generally resisted the temptation to exploit these weaknesses.

The rules incurred some cost, however, in that they sometimes forced policymaking to be more mechanical than wise. For example, the tax increases chosen to pay for certain small tax deductions were sometimes chosen only because they happened to provide the right amount of money rather than because they represented good policy. The PAYGO rule initially had to be satisfied for the next 5 years. Later, the time horizon was extended to 10 years. Nothing that happened after the end of the period counted. This also distorted choices. For example, Roth IRAs, which exempt accumulations from taxation, look much cheaper over a 10-year period than traditional IRAs, which allow an immediate tax deduction for contributions, even though each imposes the same present value of revenue loss over the long run if tax rates remain constant. Similar distortions existed in evaluating changes in depreciation allowances and any other measure where short-run impacts on revenues look quite different from long-run impacts. The rigid application of PAYGO also made it difficult to use judgment where estimating aberrations distorted the worth of a policy. For example, it is usually not practically possible for those evaluating the revenue impact of a tax cut to take into account its effect on economic growth. Policymakers were, however, bound by the flawed estimates and it was procedurally difficult to modify PAYGO when policies were better or worse than the estimates implied. However, such problems were relatively minor compared with the discipline imposed by the rules.

The Erosion of the Budget Process

When discretionary spending caps were first imposed in 1990, the 1991 outlay cap allowed a nominal outlay increase of slightly over 3 percent—a relatively lenient amount compared with the stringency of previous years. However, the caps imposed for the period 1992–1995 implied real cuts in spending levels, so that Congress's budget projections could promise progress against the deficit in the longer run. The 1993 budget agreement set new stringent caps for the period 1996–1998. Again, the new caps set for the period 1995–1998 implied a significant real cut in spending. That proved too painful and the budget deal of 1997 adjusted the 1998 cap upward about 1 percent and stipulated significant real spending cuts for later years.

Although Congress may be faulted for adopting unrealistic long-run caps for cosmetic reasons because it wished to promise declining deficits, when the caps were adjusted, total discretionary spending still declined in real terms. Of course, this would not have been possible without the end of the Cold War and the decline in defense spending, but Congress was far from profligate with nondefense discretionary spending. In real terms, this spending rose only 1.4 percent per year between 1990 and 1997.

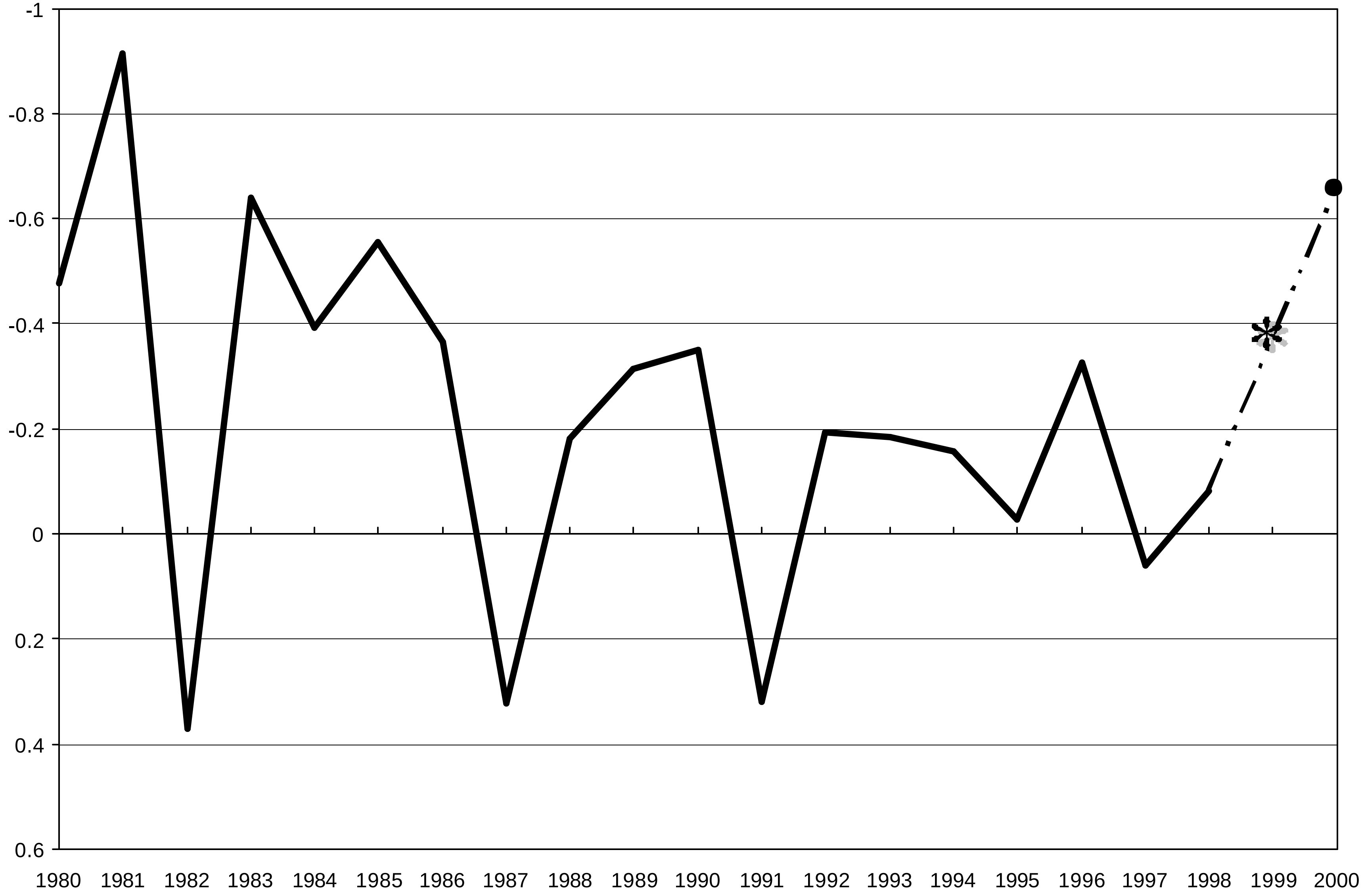
When a surplus surprisingly emerged in 1998, there was no opportunity to adjust the 1997 caps and the deficit vanished ahead of schedule. The combination of a disappearing deficit and politically unrealistic caps proved lethal, and the caps have been ignored de facto ever since. No sequester was required because the caps were circumvented legally using a loophole that provided that emergencies were exempt from the cap. Between 1991 and 1998, Congress had used emergency designations sparingly and averaged only $5 billion in emergency outlays per year outside the amounts required by Desert Storm. In 1999, emergency outlays soared to $23 billion and continued at $36 billion in 2000, as even the 2000 census was declared an emergency. For fiscal 2001, Congress abandoned attempts to stretch the definition of emergencies and simply raised the cap sufficiently to accommodate the spending that they desired.

The PAYGO rule was sustained with only trivial excesses through fiscal 1999. It was exceeded by $10.5 billion, however, because of actions in 2000 and 2001. Congress then decreed that the excess should be ignored and that no sequester should occur (CBO 2001).

It is somewhat ironic that the disciplining effects of PAYGO lasted a year longer than the caps. While it can be argued that caps are an appropriate disciplining device whether or not the budget enjoys a surplus, PAYGO seems totally unsuited for an era of surpluses. Its goal was to prevent Congress from increasing the deficit through changes in tax and entitlement policy. Now it has the unintended effect of preventing Congress from reducing the surplus—an undesirable goal for any budget process.

The discipline imposed by the 1974 budget process as it existed before the BEA also began to erode significantly. It proved impossible to pass any budget resolution at all for fiscal 1999. A resolution was passed for 2000, but its target for the surplus was missed by $61 billion because of slippage in policy. By comparison, policy fell only $7 billion short of the target in 1998 and actually exceeded the target by $5 billion in 1997. Admittedly, in four of the six years during the period 1980 through 1985, policy violations of the BR relative to GDP were of the same magnitude as the 2000 violation, but during the relatively long period 1986 through 1998, Congress was relatively well behaved.

Chart 1
Policy Violations of the Budget Resolution as a Percentage of GDP, Fiscal Years 1980-2000



*There was no budget resolution in 1999.

Superficially, the budget process for the tax cut of 2001 worked as it was supposed to. The BR budgeted for a tax cut with a cumulative cost of $1.35 trillion over 10 years and Congress designed the cut to fit within the budget constraint. However, the design is implausible and not meant to be taken seriously. Various components of the tax cut are temporary and the whole cut vanishes after 2010. The only sure thing is that the law will be changed significantly before 2010.

Are Written Rules Necessary?

Most who have watched Congress in recent years are skeptical that it can function responsibly without the restraining budget rules of the type contained in the Budget Enforcement Act. This is despite the fact that such rules were not deemed necessary for most of the nation's history.

It has already been noted that rules can have bad effects as well as good effects.[4] Restraining rules restrain, and while some of the actions that they prohibit are irresponsible, rigid rules can inhibit the application of wise judgment. They very often distort choices, both when they are followed rigorously and when loopholes are exploited. On the other hand, written rules can be very useful to politicians. When pushed to do favors for interest groups, legislators can be sympathetic, while pointing out that the rules do not allow such actions.

To be effective, rules must satisfy two conditions. First, they must address a significant national problem. Second, they must not force actions that are highly unpopular politically. The

[4] For a detailed analysis of the good and bad effects of PAYGO, see Garrett (1998).

rules set forth by the Budget Enforcement Act satisfied both conditions initially. The budget deficit threatened to get out of control and was perceived to be a serious national problem. The PAYGO rule was not too rigorous, because it did not require net tax increases or entitlement cuts. Its only role was to stop the deficit from being increased. Deficit reduction measures were negotiated separately. The discretionary spending caps imposed somewhat more restraint, but with adjustments, they worked well through 1997.

In the absence of written rules, it is important to have powerful unwritten rules to encourage budget discipline. Throughout much of the nation's history, the rule that the budget should be balanced, by some definition, provided such discipline. However, the Keynesian Revolution and other academic analyses suggest that there is no particular magic in having a balanced budget. Indeed, it is sometimes desirable to run deficits.

It is difficult to assess the influence of the balanced budget rule today. Unfortunately, while academic theorizing has destroyed the appeal of the balanced budget, academics have not provided an unambiguous disciplining rule to take its place. In the 1980s and early 1990s, politicians seemed to revert to the old-fashioned rule of balancing the budget as they largely abandoned attempts to use the budget to stabilize the economy. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) reduced the Reagan tax cut while the economy was near the trough of the recession. The very restrictive budget deal of 1990 was passed in the face of economic weakness. The 1993 package was designed before it was clear that the recession of the early 1990s had ended.[5]

When budget projections became ever more optimistic a few years ago, there was an attempt to sell a rule that was more stringent than simply balancing the overall budget. That was to balance the budget outside the Social Security trust fund. Because the trust fund has been running substantial surpluses that are expected to continue for a number of years, the attainment of this goal would imply running a substantial overall surplus equal to the surplus in the trust fund. The rule implied that eventually the entire national debt would be repaid if today's Social Security projections were realized.

The rule had little intellectual appeal, because the Social Security surplus is an accident of history and there is little reason to believe that an overall surplus equal to the Social Security surplus represents the "right" amount of debt repayment or the "right" contribution to national saving. Some policymakers implied that failing to reach the target would somehow jeopardize future Social Security benefits. However, there is no legal reason to believe this and the economic effects of the policy are small relative to the problems posed by the aging of our society. The most enthusiastic backers of the rule would have enforced it with automatic cuts in spending, but trying to hit a numerical target for the budget balance in this manner would have resulted in the same mistake that destroyed Gramm-Rudman.

In any case, the proposed rule never had any disciplining impact because budget projections rapidly became better and better while it was being discussed. Surpluses seemed

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[5] The Clinton administration proposed a small, short-term stimulus package to be built into the package that

large enough to satisfy everyone's wishes for spending increases and tax cuts, especially since many policymakers believed that CBO's periodic upward adjustments in projected surpluses would continue. When deteriorating projections made the rule politically implausible, it was quickly and justifiably abandoned. Recession and war made it foolish to adhere slavishly to an arbitrary numerical target for the overall surplus.

Ideally, the nation should decide on an appropriate amount of debt repayment in normal times and debate what contribution the federal government should make to the national saving rate. A target should be set for a surplus—not in the actual budget, but in a budget adjusted for cyclical changes in the economy. However, when Herbert Stein tried to sell the notion of an optimum, cyclically adjusted budget as a disciplining device during the first Nixon administration, the idea proved to be too abstract for the public and the press.

We probably have to consider more simple and arbitrary rules. Can the rule of balancing the overall budget still provide the necessary discipline under current circumstances? If attained, it would, by the end of the decade, bring the public debt in the hands of private investors down to post–World War II record lows relative to the size of the economy. However, the arbitrariness of the rule makes it unreliable as a disciplining device. Designing an explicit set of rules to govern budget decisionmaking, rather than relying on unwritten rules, seems safer. Admittedly, any set of written rules will contain some arbitrary elements, but that means only that there should be highly transparent mechanisms for making occasional exceptions.

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was clearly restrictive in the long run, but Congress rejected the stimulus package.

What Next?

The Budget Enforcement Act will expire at the end of fiscal 2002. A debate on what comes next cannot be avoided.

Many groups and individuals have suggested revisions to the budget process. In one of the first instances of significant bipartisan cooperation within the House Budget Committee in many years, Representatives Jim Nussle (R-Iowa), now chairman, and Benjamin Cardin (D-Maryland) put forth a thoughtful proposal in 1999 that attempted to adapt the process to the surplus environment and to curb abuses such as those related to emergency spending. The proposal was voted down by a large margin in the House, in part because an unpopular proposal for biennial budgeting was added late in the legislative process.

The Committee for a Responsible Budget has proposed a process that would, among other things, attempt to limit unintended growth in entitlements, and Tony Feuerstein (2001) has suggested a technique for rewarding Congress for running an actual surplus by making PAYGO more lenient in the following year. Robert Reischauer (2001) has proposed a plan that would limit Congress's ability to commit more than a declining portion of longer-run surpluses to tax cuts or spending increases. He argues that it is dangerous to use up the entire projected surplus because small changes in economic and other assumptions can cause projected surpluses to vanish quickly.

Whatever their merits, most recent proposals for reforming budget rules would complicate the rules of the process and make them more severe. Unfortunately, it has become increasingly apparent that the real challenge is getting Congress to follow any restraining rules at all.

Frustration with the current process has reached such extremes that some experts are considering abandoning the 1974 Act and BEA and starting over. This could mean a return to the situation as it existed before 1974, or the creation of a new system of rules that have some chance of working when the budget has a surplus.

The process existing before 1974 was hardly satisfactory, however. It is difficult to imagine returning to a system in which Congress fails to coordinate the revenue and spending sides of the budget or even total them. On the other hand, it is a waste of energy to formulate and pass an elaborate budget resolution if it will be largely ignored, or even worse, circumvented by various budget gimmicks.

Some reformers have suggested solutions to make the process more efficient and therefore more acceptable and workable. One idea, supported by the Nussle-Cardin bill and the Committee for a Responsible Federal Budget, is to move from a concurrent budget resolution that does not require presidential approval to a joint resolution that could be signed or vetoed. Proponents envision a process in which the president and Congress would agree on a budget framework early in the year, thus reducing the hassles over appropriations, taxes, and entitlements that come later. Such a reform would probably increase the influence of the president over budget matters and this may be appropriate. The president can claim to speak for the whole nation, and it is easier to construct a coherent set of national priorities in the executive branch than in a legislature where bargaining among regions takes a lot of time, often with complex, somewhat incoherent results. (Incoherence is, of course, not totally absent from presidential budgets.)

Some opponents of a joint resolution do not believe in giving the president more budgeting power, but more often, reject the concept of a joint resolution for practical reasons. Many speculate that bargaining between Congress and the president would be very complicated and time-consuming and unlikely to conclude within a reasonable period. Moreover, the president cannot practically bargain with the entire Congress. The congressional leadership would have to represent rank-and-file members in the process. Thus, even if a deal is consummated, it is not clear that the followers would always join the leaders in accepting it.

The Nussle-Cardin bill attempted to obviate time delays by decreeing that Congress would revert to a concurrent resolution if an agreement with the president could not be reached within a relatively short time. This would presumably happen frequently, because a president would often—though not always—decide that the administration would come closer to fulfilling its wishes by bargaining over issues one at a time rather than bargaining over a complex package of policies.

Biennial budgeting is another way to expedite the budget process. It is argued that Congress would budget better if it did it less often. The time saved could be devoted to more intense oversight of ongoing government programs.

Biennial budgeting likely would do slightly more harm than good, although it certainly would not be a disaster. Economic conditions and programmatic needs often change unexpectedly, and major adjustments to the budget would be deemed desirable every year, even if a two-year budget cycle were in place. Experience with budget supplementals suggests that partial, mid-stream adjustments to the budget tend to be less disciplined than more comprehensive adjustments.

Moreover, budgeting is extremely complex. Mistakes are made and not every relevant trade-off can be considered even when budgeting is done annually. Frequent corrections are beneficial, and the corrections will be more thoughtful if done within a comprehensive set of priorities.

It is also not clear that much more program oversight would occur with a two-year cycle. Currently, the most intense oversight of programs and agencies comes from appropriation subcommittees when they examine budget requests each year. It is hard to imagine that the scrutiny of discretionary spending would be any more intense with a two-year cycle. Tax policy may evolve somewhat differently, however. In recent decades, there has been some sort of tax bill almost every year. That frequency might decrease with biennial budgeting, if only because reconciliation instructions would appear less often. Nevertheless, significant tax bills could still be expected more often than every two years.

Even if a joint resolution and biennial budgeting worked perfectly and served to greatly expedite and ease the budget process, the process may not suddenly become much more effective. The time-consuming nature and complexity of the process are problems that should be addressed, but they are not the problems that have recently made the process so ineffective. The real issue is the improved budget outlook, which has rendered the process redundant to many of the participants.

However, the carelessness in decisionmaking that accompanied the breakdown of the BEA belies the notion that disciplining rules are required only when deficits are big enough to be dangerous to our economic health. Significant benefits would follow if an effective congressional budget process could again be implemented. Any reforms should be guided by the following principles:

1. Changes in the rules should be motivated by a desire to simplify and expedite. Complexity is not the only problem facing the current system, but the process has become like tax law in that it is too complex for ordinary people to understand. Specialists and IRS enforcers can help make tax law work, but budget process law is different. It will work only if it has moral authority, and no one will know this if it is too complicated to understand. Many of these complications result from the belief that promulgating new rules can solve every budget problem, especially those problems that involve gaming the numbers. This is futile, however. Gaming has exploded in quantitative magnitude as the rules have become more complex, and can be limited only by embarrassing the gamers. If they are beyond embarrassment, gaming will continue regardless of the rules and will have to be accepted.
2. To the extent possible, the rules should be ideologically neutral. When deficits were large, they threatened a debt explosion that could become economically dangerous. It was therefore appropriate to employ a system of rules that was biased toward deficit reduction. However, there is now no reason for rules favoring larger or smaller surpluses or larger or smaller government. The rules should simply assist in making rational choices regarding the allocation of resources given the tastes—presumably derived from its constituents—of a majority of the legislature.

3. Rules that impose a lot of political pain will be broken. Rules can only nudge Congress toward rationality. They cannot bludgeon Congress into it.
4. It must be technically possible to implement the rules. This seems obvious, but Congress has had impractical rules in the past and even recently contemplated rules that cannot possibly work. Such rules set quantitative targets for the budget balance and enforce them with automatic mechanisms, such as sequesters of spending like those included in recent "lock box" legislation. As discussed previously, such a process failed under Gramm-Rudman. Congress must focus rules on legislative decisions and not on targets that are ruled mainly by economic conditions. That does not mean that it is inappropriate to have quantitative goals. It just means that they should not be enforced too rigidly or promised too fervently.
5. Whatever the process, there must be an escape clause for emergencies, even if such escape clauses are abused from time to time.

These rules will improve the process only if there is a renewal of purpose. Legislators have to be reminded of why the 1974 budget process was created in the first place, and provoking a debate on fundamental elements of the process may serve this end.

Such a debate should focus on the adornments added to the 1974 Act since it was enacted and then determine what should remain. Some of the adornments have worked quite well and should be retained without much debate, for example, the Credit Reform Act of 1990. Budgeting credit subsidies as measured by their present value makes it much easier for Congress to compare subsidies conveyed using direct loans with those using loan guarantees.

There are still technical problems involved in making the calculations, but they are less distorting than comparing the programs on a cash basis.

The 1974 Act called for a second budget resolution every fall. That proved redundant and the requirement was wisely dropped. The approach to reconciliation used since the early 1980s is quite different than that envisioned by the original Act, but this change also represents an improvement.

One would think that caps on discretionary spending should also be retained. After all, they impose some constraint and discipline choices—appropriate actions for deficits or surpluses. Caps force legislators to think through priorities more carefully. Capped spending can be separated into categories, such as defense and nondefense spending, if it is deemed appropriate to specify priorities in somewhat more detail at an aggregate level. The caps can be transparently changed from year to year as budget and economic conditions change. In addition, they can be enforced with a sequester mechanism that is relatively simple compared with the complex rules needed to control entitlements.

Voting for extremely stringent spending caps, however, has become a symbolic means of proving one's fiscal conservatism at the aggregate level while remaining free to vote large individual spending increases at the micro level. If we cannot break this syndrome, caps will not serve any useful purpose.

Nevertheless, caps are worth another try. As implied previously, however, it is not worth a lot of intellectual effort to try to design caps that are impervious to gaming (e.g., closing the emergency spending loophole). Attempts to limit gaming will simply add to complexity, and recent experience has shown that caps can easily be exceeded and adjusted without redefining "emergency."

The pay-as-you-go rule is more problematic. It was originally designed to limit increases in budget deficits. Redesigning it to limit the use of surpluses, however, involves inherently complicated rules. An added difficulty arises because committees other than House Ways and Means and Senate Finance have jurisdiction over substantial entitlement budgets; in other words, the responsibility for entitlements is not as concentrated as the responsibility for discretionary spending. The latter largely rests with the Appropriations committees. If PAYGO is drafted to use up a specific amount of the surplus, allocating the amounts among committees will be politically complex, although inherently no more difficult than allocating deficit reduction targets in a reconciliation bill.

In considering PAYGO rule reform, it is important to remember that in its original version, it was designed to protect deficit reduction agreements made separately, like those of 1990 or 1993. Instead of making a surplus reduction or increase mechanism inherent to PAYGO, it may be preferable to create mechanisms that would set goals for the budget balance in a BR or in reconciliation procedures and to invoke a simple PAYGO rule for any subsequent legislative measure that threatens the target. This approach may provoke strategizing that, as a surplus is spent, would consider legislation that is more controversial first rather than later, when PAYGO would apply. It is difficult, however, to devise a process that does not involve some gaming.

It is again important to emphasize that complex efforts to control gaming are likely to be futile. The Byrd rule in the Senate, for example, requires a super majority to enact phased-in tax and entitlement changes where budget impacts occur outside the horizon used for budget decisionmaking. This rule resulted in an absurd design for the tax cut of 2001. In any case, good substantive reasons for phasing in tax and entitlement rules slowly often exist. Again, one has to rely on the embarrassment factor to limit phase-ins that have no substantive merit.

Feuerstein (2001) warns against devising rules that are more lenient toward tax and entitlement policy than toward discretionary spending, because they will distort how Congress chooses to satisfy national needs. That is a valid point, but designing PAYGO rules and spending caps so that they are neutral in the choice of instruments is practically difficult.

The budget resolution horizon should again be shortened from 10 to 5 years. This does not obviate using a longer horizon to evaluate changes in areas like retirement policy—where very long range planning is essential—but where the emphasis is on creating a comprehensive plan for budget aggregates, including the budget balance, we must recognize our technical inability to forecast accurately enough for this purpose.

Indeed, forecasts of the budget balance 10 years hence are only a little better than random noise. Between the first estimate of the 2007 budget balance made in 1997 and the update published in 2000, changes in economic and technical assumptions altered its value by about $800 billion or by over 6 percent of expected GDP. The change is more than five times the 2007 value of the recent tax cut. Yet, considerable intellectual effort went into designing changes in the 2001 tax law for the period 2007–2011 in order to fit within the surplus projections being used at the time. The effort was extremely wasteful, both because the estimates are so unreliable and because tax law will be changed many times between now and then.

Ironically, the extension of the budget horizon to 10 years was done in part to limit gaming, but has actually encouraged it. CBO should continue to make 10-year forecasts, but they should not be given much prominence. Their only purpose should be to identify the budget impact of tax and entitlement phase-ins beyond the 5-year budget window, and even a bad forecast will identify gaming with some accuracy. However, the forecasts would not be used to plan comprehensibly for total spending, taxes, or the budget balance beyond 5 years. Such projections are more likely to mislead than to provide useful information.

When considering a reform of the budget process, Congress might consider giving the president marginally more power in developing priorities. While a joint resolution once might have been a desirable way of achieving this goal (Penner and Abramson 1988), such a reform is too complex and radical to swallow while the system is in a weakened state.

Enhancing rescission power is another way to slightly increase the president's power over the budget. Currently, the president can recommend canceling spending on specific activities, but Congress must vote to approve his request within 45 days. If Congress ignores the request, the spending must occur as originally appropriated. Forcing Congress to vote on all requests sounds like a modest change, but it could be quite potent. By disapproving a rescission request, Congress would be saying that an expenditure deemed wasteful by the president was, in fact, meritorious. Members of Congress may be very reluctant to do so.

Enhanced rescission power would be less powerful than an item veto in that it takes only a simple majority to counter the president's wishes. On the other hand, it is more powerful because the president gets to define an "item." There are precious few items in a typical appropriation bill. Moneys are distributed among detailed projects and programs not by itemizing them legally, but by reports on appropriation bills. These reports technically have no legal status and therefore cannot be vetoed, but an administration ignores such instructions at its own peril. A president who could pick "items" out of reports and force a vote on them would gain much bargaining power that could be used to shape entitlements and tax policy as well as discretionary spending.

There was a recent attempt to give the president item veto power together with the power to define an item at will. However, it did not pass constitutional muster with the Supreme Court.

One should not conclude that enhanced rescission power would reduce spending growth. Studies of item veto power at the state level seldom find such an effect, because governors can use the threat of the item veto of a legislator's favorite program to gain support for additional spending on the governor's favorite program. Put another way, item veto power definitely increases a governor's influence. For a liberal governor, this may mean increased spending while for a conservative it might mean less.

Conclusion

These suggestions represent an attempt to reinvigorate the 1974 budget process, enhanced with spending caps, a simple PAYGO rule, and a few adornments such as the Credit Reform Act. Compared with the procedures advocated by Nussle-Cardin, the Committee for a Responsible Budget, Robert Reischauer, the lock box advocates, and others, this system is intentionally loose. In my judgment, it is impossible to implement anything very demanding in the absence of very significant deficits. Indeed, the main risk in the suggestions offered here is that they may be too restricting under current circumstances.

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