

Improving the Budget Process:
Strategies for More Effective Congressional Budgeting

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Statement of

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I want to thank the Committee for this opportunity to testify on steps that can be taken to improve the federal budgetary process—and to improve the results of federal spending. In particular, shifting to a biennial process makes eminent sense and deserves careful consideration.

Let's start with the obvious—but important—point: The imperative for controlling federal spending has never been greater. Then add the corollary: There are two principal routes for reducing federal spending—deciding that we're going to stop doing things we're now doing, and eliminating those expenditures; and doing what we're doing in better ways, and achieving cost savings through higher productivity. Finally, consider the conclusion: Any budget strategy that focused on just one of these routes is doomed to failure. Congress cannot exercise control over the budget without paying careful attention both to what the government does *and* how well it does it. Indeed, the harder the decisions get on which programs to cut, the more performance improvements will matter.

That leads us to the proposal for a biennial budget. In its most useful formulation, Congress would alternate between the what and the how: It would pass a two-year budget one year, and in the next year it would carefully examine the performance of government programs. The examination of performance would then lead to proposals to refine the budget in the next year. This is the epitome of a virtuous cycle.

Evidence from the states

Many budget analysts have pointed to state budget processes and have suggested the evidence supporting biennial budgeting is scant. In fact, state budgetary practice varies widely. According to an April 2011 report by the National Council on State Legislatures, the trend at the state level

has been away from biennial budgets. In 1940, 44 states had biennial budgets. In 2011, the number had shrunk to 19. A large part of this change, however, has come from the increasing role and influence of state legislatures. In 1940, just 4 states met annually. By 2011, only 4 states met biennially. With more state legislatures meeting in annual sessions and exercising more power, more states have moved to annual budgets (although Connecticut moved in the opposite direction, from annual to biennial budgets).¹

The lineup: 31 states have annual sessions and annual budgets; 15 states have annual sessions and biennial budgets; and 4 states have biennial sessions and biennial budgets. What is the evidence from the state experience?

- *Administrative costs.* Biennial budgets, naturally, reduce the administrative costs of budget preparation. If the budget is prepared half as often, budget analysts don't have to invest as much time in the process.
- *Legislative investment.* Evidence that legislatures spend less time on budgeting in states with biennial budgets is less clear, since in states with biennial budgets the legislature often returns in the second year of the budget cycle to pass supplemental appropriations.
- *Budget forecasting.* States with biennial budgets must often return to forecasts as economic conditions change. That, in turn, often requires budgetary adjustments and, sometimes, more supplemental appropriations.
- *Long-term planning.* Evidence is inconclusive on whether biennial budgets improve long-term strategic planning in the states.
- *Performance evaluation.* There is weak evidence that biennial budgets improve states' attention to the performance of government programs, but there is modest evidence suggesting that the underlying assumption—more time available for oversight in fact produces more oversight—might be true.

The author of the NCSL study, Ron Snell, concluded that he could find “no convincing evidence that the length of the budget cycle, in itself, determines how efficiently a state enacts a budget and whether it requires extensive change during the course of its administration.”

Evidence from other countries

Among national governments, annual budgets are the norm. This appears to be the result, most often, of long-standing practice and the structure of political institutions, in which the

¹ Ron Snell, “State Experiences with Annual and Biennial Budgeting” (April 2011), at <http://www.ncsl.org/default.aspx?tabid=12658>

government of the day prepares the budget for parliamentary review. Spain and some other countries with Spanish histories have had biennial budgets. Annual budgets are the more common practice. The International Monetary Fund's "Code of Good Practices on Fiscal Transparency" (2007) anticipates the use of annual budgets by developing nations.²

Arguments against biennial budgets

Budget and policy experts have often been lukewarm about biennial budgeting. In 2006, for example, Robert Greenstein and James R. Horney argued that biennial budgeting would force Congress to make too many financial decisions too far in advance, force their reliance on economic projections that could be subject to significant changes and therefore create decisions on a less-reliable set of assumptions, create a strong presumption in favor of the status quo and make it hard to shift fundamental budget priorities, and lead to frequent revisions.³

The case for biennial budgets

These arguments deserve careful consideration. However, it is also important to note the following:

- Compared with state governments, less of the federal budget is subject to annual review and change.
- Growing economic and fiscal challenges have increased the need for looking past annual incremental tinkering and focusing more on longer-term strategic questions.

In the face of these issues, what is the case for a biennial federal budget?

1. A biennial budget would increase attention to the fundamental budgetary decisions. As federal expenditures for entitlements rises, the share of federal spending subject to annual (or biennial) budget decisions has been steadily shrinking. Federal outlays for discretionary spending have gone from 58 percent in 1971 to 39 percent in 2010. That's just a bit more than a third of all federal spending—the rest is accounted for by entitlements and interest on the debt. Discretionary spending is subject to annual appropriations, but much of it cannot be changed annually. Much defense spending is locked in through multi-year contracts. Many domestic programs, like air-traffic control, have relatively fixed costs not subject to significant annual adjustment. Congress might well have an annual budget, but a very small share of current spending is annually budgeted.

² See <http://www.imf.org/external/np/fad/trans/code.htm>

³ Robert Greenstein and James R. Horney, "Biennial Budgeting: Do The Drawbacks Outweigh The Advantages?" (June 11, 2006), at <http://www.cbpp.org/cms/index.cfm?fa=view&id=394>

This creates a series of fundamental paradoxes: more of the annual budget process is focused on less of the budget; more of the budget is not subject to annual budgetary review; and Congress spends most of its budgetary time on budget elements that are making less difference in basic budgetary strategy.

It might be true that biennial budgeting would force Congress to make more decisions in advance of rapidly changing conditions. But the really fundamental decisions require just that—and focusing on annual decisions is giving Congress decreasing leverage over federal spending. A regular focus on the big decisions, instead of more-frequent review of the small decisions, would enhance Congress's fiscal control.

2. Congress would commit itself to regular review of program performance. Congress can, of course, conduct as many performance reviews now as it chooses, without a change in the budgetary process. Not only is there no impediment to doing so—a series of major initiatives, led by the Government Performance and Results Act, require federal agencies to supply performance information to Congress. Despite this, however, congressional attention to the review of government performance has been sporadic at best, with limited impact.

No new budgetary process can, in itself, change the incentives for the review of performance. Congress does not have to do what it chooses not to do. There is little evidence that it is the lack of time that hinders congressional attention to performance and, therefore, no strong argument that providing more time, every other year, will in itself increase congressional scrutiny of performance.

However, if a new biennial budget process commits Congress to a biennial review of performance, there could be two salutary effects. First, it would emerge as a result of a series conversation of Congress with itself about its goals and priorities. Second, in making a public stand in favor of more performance reviews, it would issue a strong invitation to the public and the media to join in the conversation about how to make government work better. Those two things could help shift the incentives for more performance reviews.

Add to that a third, inescapable fact: the need for stronger review of how well the federal government works, and a close examination of what can be done to help it work better, has never been more important. We will inevitably deal with part of the budget crisis by deciding to do less. But, for those things we decide to keep doing, we will need to take on a growing responsibility for ensuring those things are done well.

Consider, for example, the need to save money in the defense budget. The department's deputy inspector general, Daniel Blair, recently told Congress, "From the contract officer level to the contract officer on the ground, the more improvement in regulation and oversight of contracts, the more we will know about how we are spending the taxpayers' money." The Pentagon's

business systems manage transactions totaling \$2 to \$3 billion per day.⁴ Making that process work well is an essential part of making good on the government's responsibility to taxpayers.

Consider the Medicare program, where the Centers for Medicare and Medicaid Services estimates that improper payments in its fee-for-service operations cost more than \$24 billion per year.⁵ Everyone agrees that this problem has to be solved, but if it were easy to solve it would have been done long ago. Only strong and concerted attention to rooting out improper payments, led by Congress, will make it happen.

Consider the complex network of federal agencies responsible for food safety, including the U.S. Department of Agriculture and the Food and Drug Administration, as well as the National Marine Fisheries Service, Customs and Border Protection, and the Federal Trade Commission. The fragmentation in this combination of agencies puts the health of Americans at risk.

Consider the Government Accountability Office's 2011 report on opportunities to reduce duplication in federal programs.⁶ The report is an invaluable catalog of actions that could produce significant cost savings and program improvements.

Consider the 30 programs on the Government Accountability Office's high-risk list.⁷ Together they paint a portrait of programs susceptible to tens of billions of dollars of fraud, waste, and abuse. Any serious effort to improve government's performance—and to control federal spending—must use this list as a road map.

3. A longer budgetary time horizon would create significant benefits for executive-branch agencies. Current budgetary practice contains several pathologies that reduce the performance of executive-branch agencies and drive up their costs. Greater predictability in their funding would allow more long-range planning, which would in turn create the opportunity for more efficiencies in everything from the purchase of supplies to the hiring of workers. It would cut—in half—the end-of-fiscal-year race to spend use-it-or-lose-it dollars.

In recent years, there is ample evidence that Congress's inability to pass appropriations bills on time has forced start-stop-start-stop management practices that has undermined the effort to produce better government services at lower costs. More predictability in the flow of funds to

⁴ Charles S. Clark, "Better Oversight of Contracts Called Key to Repairing Pentagon Ledgers," *GovExec.com* (September 23, 2011), at <http://www.govexec.com/dailyfed/0911/092311cc1.htm>

⁵ U.S. Government Accountability Office, *Medicare Fraud, Waste, and Abuse: Challenges and Strategies for Preventing Improper Payments*, GAO-10-844T (June 15, 2010), at <http://www.gao.gov/new.items/d10844t.pdf>

⁶ U.S. Government Accountability Office, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (March 2011), at <http://www.gao.gov/new.items/d11318sp.pdf>

⁷ See http://www.gao.gov/highrisk/risks/high_risk.php

agency managers would allow them to plan far better how to make the most use of the tax dollars Congress provides.

Conclusion

Biennial budgeting is surely no panacea. No process can ever force decisions that individuals don't want to make. It cannot, in itself, force more attention to the performance of governmental programs.

It cannot make long-term budgetary projections more certain. Congress will, inevitably, still need to make mid-course adjustments to federal programs, just as it does now. But a longer-term view could well help Congress focus more on the fundamental strategies than on short-term objectives. At a time when sorting out long- and short-term views has never been more important, that could prove an important step.

A biennial budget will not eliminate the need for supplemental appropriations. Even with annual budgets, supplemental appropriations are a regular and inevitable part of the budgetary process. That won't change and there's little reason to believe it will make it any worse.

Most important, the current process cannot force the change that the budget badly needs: a switch from bifocals to telescopes—from a focus on myopic short-term concerns to far-away longer-term issues. There's growing evidence that the current budget practice is trapped in a rut that makes it hard to look beyond the very near term. A biennial budget could well help force at least a slightly longer view of the issues that matter most and, thereby, strengthen governance and financial decision making.

The congressional budget process is unquestionably struggling. In 1974, Congress decided to move the start of the fiscal year from July 1 to October 1 (starting in fiscal year 1977), to give it more time to complete its work. Congress last passed all 13 appropriations bills in 2006, and then many were well past the October 1 deadline. Congress last passed all the appropriations bills on time in 1994.

But three things are clear. First, the current budget process is not focusing Congress's attention on the right issues at the right time in the right ways. Second, the fundamental budget decisions we need to make require a longer-term view, with a careful look at what we as a national want to invest our money in. Third, focusing just on how much to spend isn't enough—we need to ensure that we get the most productivity from the money we spend.

A reformed budget process, in which Congress promises itself and the American people that it will alternate between a careful review of what we are doing—the budget—and how well we are doing it—performance—offers a real hope for charting the course we need to take in the decades ahead.