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before the
COMMITTEE ON THE BUDGET
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Mr. Chairman and Members of the Committee, I am pleased to be here today to discuss with you the Congressional Budget Office's analysis of advance budgeting.

On February 24th, pursuant to Section 502(c) of the Congressional Budget Act, CBO submitted to the Congress a report that discusses the need for planning the federal budget more than just one year ahead. My testimony this morning summarizes the main points of that report. It is quite short--only sixteen pages--and unique for the CBO in that in this instance the law requires us to make recommendations. Mr. Chairman, with your permission, I will submit the complete report for the record.

As we use the term "advance budgeting," it encompasses three quite separate things:

- o Advance targeting, by which we mean the Congressional adoption of budget targets not just for the next fiscal year, but for the next several fiscal years;
- o Advance spending decisions, meaning the passage of laws this year that assure funds not just for next year but for some period longer than or beginning after the next fiscal year; and
- o Two-year appropriations, which are just what the term implies.

Advance targeting will give the Congress more control over the direction in which the federal government is headed. Advance spending decisions will, in carefully chosen cases, lead to better

program execution. And two-year appropriations, again in particular instances, will save the Congress some time that can be put to other use.

I will discuss all three items this morning. But first, I would like to describe--just eleven days short of the third anniversary of the Congressional Budget Act of 1974--what I think the Congress has achieved under that act; I would also like to touch on some of the problems that remain.

These last three years have seen remarkable and laudable change in the method by which the Congress has gone about its budgeting business. It is not easy for a venerable institution to abandon the old and familiar ways and to impose on itself new disciplines that require not only more work but explicit facing of difficult decisions. But the Congress accomplished both these things. It has proven that it can meet the tight deadlines ordered by the 1974 legislation, that it can fix detailed and overall targets for next year's revenues and spending, that it can stay within those targets or adjust them as the nation's needs require, that it can establish a fiscal policy goal, and that it can shape its decisions in the light of the fiscal policy it has decided upon.

These real accomplishments since 1974 have been achieved in the face of much skepticism both in the country at large and even within the Congress itself, and under extraordinarily difficult economic conditions--namely, the deepest recession since the Great Depression and the most severe sustained inflation in modern times.

When, for the first time in history, the Congress voted on spending and revenue totals, it found itself going explicitly on record for the largest deficit ever. That the process survived such a traumatic start is a tribute to the budget leadership in both bodies.

But the justifiable satisfaction with the achievements of the last three years should not keep us from acknowledging that some of the goals envisioned when the Budget Act was passed are yet to be fully realized. The Congress still has difficulty in debating issues of major national budgetary priorities. It has only begun to come to grips with the basic question of how federal resources should be allocated among competing domestic and international needs.

It seems to me these difficulties are likely to continue so long as the Congressional budget process concentrates primarily on the upcoming fiscal year. Most of the federal spending for next year--probably at least 70 percent of it--will occur because of decisions of past Congresses, not of this Congress; and while the other 30 percent will nominally be decided this summer in the appropriations cycle, practically all of it is foreordained just by the sheer momentum of the government.

Right now, however, spending for fiscal year 1979 is not so much the prisoner of the past and less foreordained than that for fiscal year 1978, and the spending for fiscal year 1980 and future years even less so. This session of the Congress will likely have far more impact on the 1982 budget, whether intentional or not, than the

Congress that meets four years from now. But the budget procedures now in use cause this session to focus on a year--fiscal year 1978--about which it can do very little except at the margin, while it virtually has to ignore a future year about which it could do a lot.

The picture is not very different on the taxing side. Revenue goals are established for the year just ahead, and legislative tax proposals are measured by how they affect the stated revenue goal. But the first fiscal year effects of tax changes are almost always transitional, providing no real guide to their impact later on. Of course, that impact can be predicted, and under current rules it must be predicted for the next five years. But the outyear estimates have no practical force because there is no outyear revenue target against which they can be measured. Consequently, the budget focus for proposed changes in the revenue code is almost entirely on their transitory, rather than their long-run effects.

Advance Targeting

The kinds of problems just described could be ameliorated if the Congress were to begin more formally to make spending and taxing decisions in the light of where it wants to be in some year beyond the upcoming fiscal year. But that would mean deciding now what the outyear goals are to be. In our report of last February, CBO called such a process "advance targeting."

The Congressional Budget Act of 1974 already provides the procedural framework for advance targeting. A part of that framework is the five-year current policy projections report that the act requires CBO to produce as soon as practicable after the start

of every fiscal year. In that report, CBO endeavors to project what will happen--in federal spending and revenue terms--for the rest of the current year and the next five years, if existing programs and their rules remain unchanged and no new programs are started.

It may be useful to think of CBO's projections as targets by default, as what the government's expenditures, revenues, and resulting surplus or deficit will be if no program changes are made--if the economy performs as assumed. Under the new budget process, the Congress looks at those targets each year and decides whether they should be changed and, if so, to what extent. Right now, it does exactly that, but only for one year ahead. Our report recommends that it is feasible and desirable to do so for several years ahead.

Advance targeting is a method of focusing on the future implications of budget choices. Our report recommends that the budget committees formulate, and that the Congress adopt, a plan for voting on advance budget targets, with the eventual goal of annually adopting targets not only for the budget year but also for the four following years. These would be targets, not floors or ceilings. As such, they would not bind future Congresses. Because these would be rolling targets, each session of Congress, besides adding targets for an additional future fiscal year, could revise the previously set targets for the intervening years.

In many ways a process of advance targeting would actually increase the flexibility of any individual Congress. Under the present process, the budgetary flexibility of any session of any Congress is severely limited. As I pointed out earlier, 70 percent of this year's budget expenditures were determined by the decisions of past Congresses. Thus, the present Congress is already severely bound by past decisions.

Because of its restricted flexibility, the Congress tends to concentrate heavily on issues that can be decided this year. For example, in the defense area, procurement decisions have an immediate impact--the decision not to purchase a naval vessel means no money will be spent. However, manpower matters, such as reform of the military compensation and retirement system have only limited current impact. Even if enacted for the next fiscal year, the major budgetary impacts would not be felt for several years.

Concentrating on current year dollar effects does not allow the Congress to deal with those issues that cannot be affected in a single year. But in a multiyear targeting system, the dramatic dollar impact of adding major new programs or of reforming or abolishing existing programs can be clearly seen and voted upon by the Congress.

An advance targeting system will also illuminate the trade-offs that face the Congress between its fiscal and programmatic goals. Once a set of outlay targets for permanent federal programs is established, it will be possible to analyze the range of tax changes

and/or countercyclical spending changes which would be required to achieve outyear economic growth goals in the face of different assumptions about the strength of nonfederal demand. Such a procedure would permit analysis of future prospects for balancing the federal budget at low levels of unemployment. It would continue to recognize, however, the important impact of the highly uncertain future behavior of the nonfederal sectors. A multiyear targeting framework would allow the Congress to phase in or phase out programs in a manner that would be consistent with its fiscal policy goals.

Advance targeting would also increase Congressional budgetary control by providing a mechanism to affect the 70 percent of the budget, which now can only be affected by modification of authorizing statutes. Under the present system, the ability of the budget committees to achieve cost savings through reforms of existing programs is frequently severely limited either because the authorizing committees feel that they do not have enough time after the passage of the first concurrent resolution to enact the reforms, or because of the fear that a change in the program this year would cause great hardship to the program's beneficiaries.

I believe both the Senate and House Budget Committees have had these types of experiences over such issues as Impact School Aid and medicare and medicaid reform. A system of advance targeting would allow the Congress to plan these changes over a number of years; this would give the authorizing committees the time they need and ensure that

the programs' beneficiaries are forewarned of future changes. At the same time, it would put the Congress on record that the changes should be made.

Our report outlines a possible implementation schedule that would permit the Congress to move into an advance targeting process in a series of stages over a three-year period. The Congress could start year after next by stating targets for two years--fiscal years 1980 and 1981. We recommend that the Administration be requested to submit budget proposals for both years, as President Ford did in his last budget submission. Similarly, under this plan the March 15 reports from the standing committees would cover their views and budget recommendations for two years.

In succeeding years the Congress could add third, fourth, and fifth year targets to its budget resolutions. Eventually, Congress would focus mainly on the fifth year target issues, shaping its current year taxing and spending decisions to fit the fifth year target decisions it has made.

If such a method were adopted, the Congressional budget process would proceed much as it does now. But the specific taxing and spending recommendations emanating from the committees would be measured not only against the established targets for the current budget year, but also against targets for succeeding years. The Congress would always retain the power to amend those targets. Indeed, it would be surprising if Congress did not change the targets every year, primarily for fiscal policy reasons. But these target changes would come not because the Congress had no choice,

but because the Congress will have given itself the opportunity to make an explicit choice. It is better to make a plan and change it, than not to have made a plan at all.

Advance Appropriations

As I noted earlier, about 70 percent of all federal spending is the result of advance spending decisions. By that we mean decisions made, not just before the start of the fiscal year, but at least a year earlier, and in some cases many years earlier. The remaining 30 percent of federal spending flows from current decisions, those made by the Congress during the summer prior to the start of the fiscal year October 1st.

Advance spending decisions take several forms and are made for several reasons. For example, interest on the national debt is a permanent appropriation that was enacted in 1847. Congress could appropriate the money annually, but it dealt with the problem 130 years ago and there is no need to do so again.

Similarly, entitlements, advance appropriations, contract authority, and fully-funded defense procurements also represent decisions made by the Congress to spend money in future years for various purposes. All of these devices represent Congressional responses, either as a matter of convenience or as a matter of common sense, to the fact that the central government is a complicated, sprawling, economically interdependent society and cannot go along deciding one year at a time everything it is going to do and spend during

the next twelve months. A great many decisions in such a society must be made well ahead of time.

The question then that dominated the second area of our report is, are there federally funded programs now handled by current decisions that are natural candidates for advance funding?

Federal programs for aid to state and local governments are likely candidates for advanced appropriations. CBO commissioned a special study of the impact of the timing of federal funding decisions on program execution at the state and local level. One of the greatest complaints of state and local officials is that most federal grant programs involve too many uncertainties in funding, with a consequent sacrifice of program effectiveness.

It seemed to us, and to the advisory panel of state and local officials who participated in designing and reviewing our study, that the complaints we heard were sufficiently well grounded to warrant two recommendations:

- 1) That the Appropriations Committees evaluate present federal programs for funding state and local activities, using criteria stated in the report, to determine whether any programs not now funded a year or more in advance should be so funded, and
- 2) That the Congress (a) consider a rule for completing reauthorization action on federal-state-local programs a year before expiration of the authorization, and

(b) extend the practice of fixing firm statutory deadlines for federal agency action on submitted state and local applications.

Two-year Appropriations

Our third area of concern in the advance budgeting report dealt with the possibilities of reducing the annual workload of the budget process by using two-year appropriations.

Every year the two Appropriations Committees recommend appropriations actions for about 1,500 line items. Those recommendations follow an immense amount of toil by the committees and their staffs, and by scores of thousands of men and women in the executive branch charged with developing budget documents.

It was a thesis of our report that the amount of toil for everyone concerned could be significantly cut, and the quality of budget decisions maintained or improved, if appropriations for many federally operated programs were sought and made every other year for two years rather than every year for one year.

Some federal programs deserve and receive intense budgeting scrutiny every year. But it is probably that for a host of federal activities an annual scrutiny is justified only by habit; they could as well receive their funds and their scrutiny two years at a time. To pick a few examples, the United States Tax Court, the International Boundary Commission, the Soldiers' and Airmen's Home, the National Cemetery System, and the Bureau of the Mint do about the same thing, at more or less the same program level, from one year to the next.

It seems reasonable to suppose that they, and the managers of hundreds of other programs, could prepare and justify a budget request for two years of funding, and live with the resulting appropriation.

Two year appropriations are, after all, a form of advance budgeting. The concept is neither radical nor untested. It is practiced, and it works, in 21 state governments where the whole budget is enacted for two years at a time.

The arguments against two-year appropriations revolve mainly around possible diminution of Appropriations Committee oversight and the difficulty of forecasting a program's warranted level of resources for 24 compared to only 12 months ahead. But if the committees did not have to spend so much time each year on routine budgetry they would in fact have more time for their oversight work. Unexpected demands can always be accommodated by supplemental appropriations.

Consequently, we recommended that the Appropriations Committees establish standards acceptable to themselves for the identification of programs amenable to a two-year appropriations cycle.

The Appropriations Committees might then direct a legislative agency, in conjunction with OMB, to prepare a list of candidate programs and a plan for shifting them to two-year appropriations to be submitted to the Congress for its consideration.

Mr. Chairman, this concludes my formal statement. Thank you for the opportunity to discuss our recommendations with you. I will be pleased to answer any questions you or Members of the Committee may have.

