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Testimony of Maya MacGuineas

Committee for a Responsible Federal Budget

Hearing before the Senate Subcommittee on Federal Spending Oversight and Emergency Management:

Terrible, No Good, Very Bad Ways of Funding Government: Exploring the Cost to Taxpayers of Spending Uncertainty caused by Governing through Continuing Resolutions, Giant Omnibus Spending Bills, and Shutdown Crises

February 6, 2018

Chairman Paul, Ranking Member Peters, and Members of the Subcommittee, thank you so much for inviting me here today to discuss the challenges in the current ways we fund the government and govern through continuing resolutions (CRs) and omnibuses. The way we budget, in practice, is very broken, and some form of budget process reform is necessary and long overdue.

I am Maya MacGuineas, President of the Committee for a Responsible Federal Budget. The Committee for a Responsible Federal Budget is a non-partisan organization dedicated to educating the public about and working with policymakers on fiscal policy issues. Our co-chairs are Purdue University President and former OMB Director Mitch Daniels, former Secretary of Defense and former OMB Director Leon Panetta, and former Congressman Tim Penny. Our board includes past directors and chairs of the Office of Management and Budget, the Congressional Budget Office, the Federal Reserve System, the Treasury Department, and the Budget Committees. Our partner organization, Fix the Debt, is a non-partisan coalition that supports a "grand bargain" to help deal with the debt. The group is chaired by Senator Judd Gregg and Governor Ed Rendell.

I will touch on several main points today:

1. Budgeting is one of the most basic functions of governing, and we are failing.
2. CRs and omnibuses represent a failure of the budget process.
3. Our fiscal situation is approaching dangerous territory, and we are not only failing to address it, we are making it worse.
4. There are multiple ways to improve the budget process. None can replace political will.



Budgeting is one of the most basic functions of governing, and we are failing

Budgeting is central to governing. It is the opportunity to agree to national goals, contemplate the policies to achieve them, and lay out the means of financing them. Our budget reflects our values, our priorities, and our game plan, not to mention our shared purpose. No business would consider operating without a thoughtfully-designed budget. Neither should a country.

And yet, the way we budget now represents how broken our process of governing has become. We have one budget process on paper and another in reality. The process suffers from a **lack of transparency** (including confusing baselines, overlapping budget categories, spending through the tax code, increases that are called cuts, etc.); a **lack of accountability** (missed deadlines, budget resolutions that aren't followed, circumvented enforcement mechanisms); a **focus on the short-term**; an abundance of **gimmicks** (no more pension smoothing and Roth IRAs please!); **auto-pilot spending and auto-pilot tax expenditures**; and **increasingly terrible fiscal outcomes**. The fact that shutdowns and defaults have become budget terms (with many people not knowing there is a difference) is utterly alarming.

Where has all this gotten us? Deficits approaching \$1 trillion during an expanding economy and a virtual fiscal free-for-all.

CRs and omnibuses represent a failure of the budget process

The breakdown of the budget process has caused policymakers to bounce from one self-imposed crisis to the next, keeping the government open (if at all) through the use of continuing resolutions and massive omnibus spending bills. This is most certainly a symptom of how broken our budget process is.

CRs generally maintain program funding at existing levels. While appropriators sometimes include slight adjustments to spending in CRs, the type of funding changes that reflect shifting priorities within agencies are much less likely to result from a CR than from the regular, full-year appropriations process.

Almost every fiscal year has begun with at least a partial CR.

The last year where no CR was necessary because all appropriations bills were passed before the fiscal year began was over two decades ago in FY 1997. But even then the bills weren't passed individually as intended.

More commonly, appropriations bills are packaged together in lengthy omnibus legislation. The last year that began with all appropriations bills passed separately and on time was FY 1995. Congress has enacted omnibus appropriations legislation during nine of the past 10 fiscal years. Omnibus laws do not have to include all 12 bills, and full-year funding for certain programs can



get paired with CRs. In FY 2017, for example, appropriators attached a full-year spending bill for military construction and Veterans Affairs to a short-term CR at the beginning of the fiscal year.

Problematically, CRs and omnibuses waste resources and can end up increasing the government's costs.

Under a continuing resolution, agencies are generally limited to operational expenditures and prohibited from beginning new projects, undermining long-term planning. For instance, the Pentagon [identified](#) more than 70 programs hobbled by a CR, including 56 programs that would have been started and 26 that needed to be increased.

The thousands of hours agencies spend on budget planning are wasted when Congress simply bypasses the regular appropriations process and uses a CR. Operating under a CR also means that projects that have been identified as wasteful or unnecessary or that have been scheduled to be shuttered are instead continued. These and other costs of relying on CRs are significant. [According](#) to Navy Secretary Richard Spencer, inefficiencies arising from continuing resolutions have caused the Navy to waste \$4 billion since 2011.

By not passing appropriations bills on time and relying on CRs to fund the government, lawmakers set up must-pass legislation later in the year. These situations have often led to bad fiscal outcomes since they often use deficit-increasing policies to grease the wheels for passage. If lawmakers completed appropriations bills well ahead of the funding deadline, it would eliminate the scramble for votes.

Scrambling for votes often creates "Christmas tree" legislation in order to attract the votes for passage. This is especially likely if a funding deadline coincides with other policy deadlines like reauthorizations or sunsets.

The most recent example came just a few weeks ago in the CR ending the brief shutdown. That bill contained a two-year delay of the Cadillac tax, a one-year suspension of the health insurer tax, and a two-year suspension of the medical device tax. These delays cost \$31 billion over ten years, a cost that could balloon to over \$300 billion if they are repealed permanently.

Fig. 1: Ten-Year Cost of the Tax Cuts in the Continuing Resolution

Policy	Temporary Cost	Permanent Cost
Two-year delay of Cadillac tax	\$15 billion	\$105 billion
One-year delay of health insurer tax	\$13 billion	\$185 billion
Two-year delay of medical device tax	\$4 billion	\$20 billion
Total	\$31 billion	\$310 billion

Sources: Joint Committee on Taxation, Congressional Budget Office, and CRFB calculations.

Generally, omnibuses are better for governing than a CR because they at least allow Congress to update spending levels for new priorities and the totals for the current fiscal year. However, bundling appropriations measures (and on occasion other, totally unrelated legislation) together



into one must-pass bill obscures important tradeoffs inherent in budgeting. Instead of reviewing individual bills in committee and then on the floor, with the opportunity to hold hearings and propose amendments, Members are given little time to review massive bills and remove extraneous or wasteful provisions.

Yet for all the faults of CRs and omnibuses, government shutdowns are worse. There have been 13 lapses in appropriations since 1980. Three of the funding lapses (in 1995, 1996, and 2013) were “true” shutdowns, and lasted several days. The other 10 lapses in appropriations were three days or less, and mostly spanned weekends, similar to the shutdown that just ended.

These shutdowns not only undermine public confidence in our leaders, but they can be costly and inefficient. While estimates vary, most evidence suggests that shutdowns tend to cost, not save, money. For one, putting contingency plans in place has a real cost. The uncertainty of whether or not the government will be funded can also cause federal contractors to include risk premiums in their bids to account for the possibility of not being paid. User fees and other charges often go uncollected during a shutdown, and while many federal employees are forced to be idle, they have historically received back pay.

Our fiscal situation is approaching dangerous territory and we are not only failing to address it, we are making it worse

Year after year after year of failing to budget responsibly, make choices, and confront tradeoffs has left our fiscal situation in very bad shape.

Our national debt held by the public was already at a post-World War record of 77 percent of GDP. It now appears that deficits may reach \$1 trillion next fiscal year – an inauspicious benchmark that is the result of poor policy choices rather than an economic downturn.

What is even more troubling is where we are headed in the longer term. The debt was already projected to reach 91 percent of GDP in a decade in CBO’s June projection, but it now is likely to reach 98 percent due to the tax cuts and other recent legislation, and possibly as much as 100 percent if the sunsets and other gimmicks in the tax bill are done away with.

Despite recent fights over appropriations, discretionary spending is not the main driver of our debt problem. Mandatory spending and interest will account for 89 percent of nominal spending growth through 2027. The aging population and growing medical costs will cause Social Security and major health programs to each grow by roughly 75 percent by 2027 while interest payments on the debt are the fastest-growing part of the budget.

This situation should cause concern for a number of reasons. Excessively high debt slows economic growth. Since growing our economy should be one of the nation’s primary economic objectives, continuing to allow the debt to grow on an unsustainable path stands in the way of



that objective. Adding to debt – as the tax bill did and as Congress is on course to in the coming weeks – makes the challenges to getting faster sustained growth even worse.

It also leaves us vulnerable to the next economic downturn or emergency. Before the last recession, debt was half of where it is today relative to the economy. Now it seems we borrow in bad times *and* we borrow in good times, increasingly risking our ability to effectively borrow in bad times. We need to be smarter about following the model of pairing borrowing for downturns and emergencies with measures to get the debt under control in the medium and longer term.

Just as the broken appropriations process worsens our fiscal situation by encouraging deficit-increasing policies, lawmakers' continued unwillingness to deal with our fiscal situation only amplifies the dysfunction of the appropriations process. The deep "sequester" cuts that have been the center of recent budget battles were put into place because the 2011 "Super Committee" could not agree to a balanced package of entitlement reforms and tax increases. The growing costs of mandatory programs and interest payments threaten to put even more pressure on the discretionary side of the budget.

To enact enough savings to replace the sequester and make long-term debt sustainable, lawmakers will need to look for savings across the budget. This means reforming entitlement programs like Social Security and Medicare that are the true drivers of debt, raising revenue through base-broadening or new forms of revenue. It also means working to grow the economy in a sustained manner, which is *not* achieved through debt-financed policies.

There are multiple ways to improve the budget process. None can replace political will

There are few defenders of how the current budget process is working, and there are a variety of approaches for improvement.

First, we have to recognize smart reforms have potential to improve the way we make decisions, but they are not a panacea and cannot replace the political will to make responsible choices.

I would break possible reforms into three basic categories: incremental reforms, stronger incentives and/or punishments, and major overhauls.

My preference is for a major overhaul, but given how hard it is to make progress on pretty much anything these days -- these changes should most definitely be bipartisan since they are about setting up fair rules of the game – starting smaller may make more sense.



1. Incremental reforms:

Automatic Continuing Resolutions – We could avoid shutdowns all together if default funding went into place when the appropriations process broke down. Some type of auto-CR has the important benefit of avoiding a shutdown or even the threat of one – and the subsequent must-pass legislation – though it would still have the general shortcomings of CRs. Chairman Paul recently proposed a bill of this kind, and Senator Portman (R-OH) has had a bill of this type for many years. I support this type of approach but any automatic changes (such as spending cuts) should be chosen carefully to either promote sound policies or to discourage the use of the auto-CR. I tend to like including small policy changes that neither side would favor but which would improve the overall fiscal situation.

Biennial budgeting – We could expand the budget to a two-year process to allow more time to consider and pass appropriations. This would also allow more time to evaluate the effectiveness of policies, which doesn't currently get as much consideration as it could. I think there are potential benefits to this change, though if Congress continues to wait until the last minute as it has in recent years, the change might not be meaningful and instead result in longer periods of procrastination.

Make the budget resolution into a law – We could change to using a joint budget resolution. This would make the upfront decisions between Congress and the President potentially much more difficult but would strengthen the process by making the budget an enforceable law.

2. Stronger incentives:

Punishments for failure to meet deadline – We could employ punishments for failing to meet budget deadlines. A number of suggestions have been developed including No Budget, No Pay; prohibiting paying Members on Congress during a shutdown (Ranking Member Peters' has co-sponsored a bill); canceling August recess if appropriations are not yet completed; or compelling the Senate to be in session in the chamber if the government has shutdown (Senators Bennet (D-CO) and Gardner (R-CO) have such a proposal).

3. Real overhaul

Fiscal goals and longer-term budgets - The Better Budget Process Initiative at the Committee for a Responsible Federal Budget [suggested](#) an option to divide the budget resolution into two parts: fiscal goals and an enforceable legislative framework. A pie-in-the-sky budget is not always effective. Separating the governing documents from the incredibly important work of setting a fiscal goal could reduce partisanship in the appropriations process.



The Peterson-Pew Commission on Budget Reform [recommended](#) we:

- Create a multi-year budget with annual fiscal targets that Congress would need to meet;
- Use multi-year budgets that would remain in place until the next budget is passed, which could be every year but might not happen for many years at a time;
- Create a medium-term trigger for enforcement of the multi-year budget that includes both spending and revenues if Congress falls short of the fiscal goals;
- Include in the process budgeting for entitlements and tax expenditures. This would make coming to an agreement much *more* difficult but would likely improve the fiscal situation.

Finally, I am a member of Convergence's *Building a Better Budget Process*, a multi-stakeholder group that has reached consensus on a package of budget reform recommendations it will be releasing in the next few weeks, many of which will be helpful in addressing these challenges.

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Lurching from shutdown to shutdown is a terrible way to govern. While it is good to avoid shutdowns, it is not much better to rely on continuing resolutions to fund the government for months, then finally set spending levels months into the fiscal year. Omnibuses are better but still represent an abdication of oversight that often leave individual Members without the opportunity for meaningful comment.

Budget process reforms are no substitute for the tough choices needed to restrain spending or increase revenues in order to reduce the debt. That said, properly structured reforms to the CR process can be a valuable to end the cycle of waste created by continual shutdown planning, rebuild public confidence in Congress being able to fulfill its most basic function, and end the cycle of lurching from crisis to crisis.

I thank the committee for holding this hearing today and would be delighted to work with you on any of these issues. Thank you.