Statement of Martha Phillips on behalf of the Concord Coalition before a joint hearing of the Senate Budget Committee and the Senate Governmental Affairs Committee

January 27, 1999

I am appearing today on behalf of the Concord Coalition, a nationwide, grassroots, bipartisan organization dedicated to strengthening the nation's long term economic prospects through prudent fiscal policy. Concord's co-chairs are two former senators, Warren Rudman (R-NH) and Sam Nunn (D-GA). They, along with our approximately 200,000 members, who hail from every state, have worked hard in recent years to help build a political climate that permits and encourages elected officials to make the tough choices required to balance the federal budget and keep it balanced during times of peacetime prosperity.

Although Concord is heartened to see that, at least on a unified basis, the budget has achieved balance, our members remain concerned that the rhetoric of the press, politicians and the public focus on this surplus even though on-budget accounts remain in deficit. In fiscal year 1998, while newspaper headlines were trumpeting a $70 billion surplus, on-budget accounts were $29 billion in deficit. Only the $99 billion Social Security surplus brought the unified total up to $70 billion surplus.

Concord is also eager to go beyond merely achieving short-term on-budget balance. We advocate using the current economic, fiscal, demographic and political windows of opportunity to address the long-term Social Security and Medicare deficits that will accompany the aging of our nation's population. These deficits threaten to undo the hard work and fiscal discipline of recent years and undermine our potential for future economic growth.

Given this mission and set of concerns, it should be readily apparent why the Concord Coalition is interested in establishing tight fiscal discipline procedures and observing them scrupulously. That is why we are pleased to endorse the proposed set of budget process changes that are the subject of today's hearing. As the closing weeks of the 105th Congress revealed, the politics of surplus are as tough, and perhaps even tougher, than politics of deficit. Attached to my statement is Concord's Quarterly Report Deficit Report, which reviews this dismal history and awards Washington policymakers a near-failing grade.

Rather than commenting on the particular details and small print of specific legislative proposals, I will address the generic concepts that have been suggested.

Biennial Budgeting

The Concord Coalition is on record in support of moving to a two-year budget process. Putting the President's Budget, the Congressional Budget Resolution, appropriations and oversight on a two-year cycle that coincides with sessions of Congress makes excellent sense for a number of reasons.

The most important, from Concord's perspective, is that it would lessen the opportunities for fiscal irresponsibility. Some traditional opponents of biennial budgeting have contended that by moving from an annual to a biennial process, policy makers would relinquish half their opportunities to enact reconciliation bills and reduce the deficit. Now that we appear to be entering a period of budget surpluses, the reverse argument can be made in support of biennial budgeting: with a two-year process, policy makers will have only half as many opportunities to reduce the surplus. That's desirable.

With budget deficits nearly erased, there is no longer the need for an annual reconciliation bill, or for a Congressional Budget Resolution requiring it.

Congress functions in a biennial mode, and conforming the budget cycle to the congressional rhythm is a sensible change that could replace wheel spinning with productive work, including more attention to oversight. Indeed, a two-year cycle would improve the efficiency and efficacy of both the Executive and Legislative Branches. Too much time is consumed needlessly in repetitious budget preparation, justification, and appropriation. This energy could be more usefully put to work on oversight and improving government performance. Far too much of the Legislative Branch's time and energy goes into repetitiously renewing or disputing "decisions" that often have been made "final" only a few months earlier.

Moving to a biennial budgeting process would constitute a continuation of the gradual lengthening of the budget cycle that has occurred since adoption of the Congressional Budget process in 1974. When the Congressional budget process was launched in calendar 1975, the process began with two budget resolutions for fiscal 1976. By the next cycle, there were three budget resolutions for fiscal year 1977, enacted on April 29, 1976, September 9, 1976, and March 2, 1977. For the remainder of the first decade of the Congressional budget process, there were two budget resolutions annually, plus a formal revision of the second budget resolution in the following year. By 1982, the second budget resolution was settling into a pro forma exercise that essentially reaffirmed the figures contained in the first resolution. However, not until Gramm-Rudman was enacted in 1985 was the requirement for a second budget resolution abolished.

In some ways 1998 marked a new, though unintentional, point on this continuum when Congress was unable to agree on any budget resolution at all. Without the discipline provided by a budget resolution, the end-game antics during the pre-election closing weeks of the 105th Congress became needlessly expensive. Certainly it is possible to improve on this first unsatisfactory experience with a two-year budget cycle.

Formally converting the annual appropriations process to a two-year cycle would be a significant change, but perhaps not as large as it might seem. Some two-thirds of the budget accounts on the annual appropriations cycle already provide multiple-year or no-year funding. Advance appropriations are already made for programs, such as education, where there is a clear need to have funds immediately available at the beginning of the fiscal year. The Department of Defense already submits a two-year budget, though Congress has yet to authorize or appropriate for defense on a two-year basis.

Would the priorities established in the first year will hold up for two years? And if adjustments were required, how would Congress respond? On the first question, there is little reason why priorities established at the beginning of each two-year Congress ought not provide a workable guide for a two-year period, particularly during the current era of extraordinary peacetime prosperity. Should there be substantial and unanticipated changes in the economy, alarming international developments or extraordinarily severe natural disasters, Congress and the White House would unquestionably respond. The machinery for urgent supplementals and rescissions is well developed. The chief challenge therefore would be not whether there could be a timely and appropriate response to new priorities during the two-year period, but rather how to hold to a minimum the number of such extraordinary responses and their dollar level. If urgent supplementals are permitted to become the commonplace rule rather than the rare exception, the rationale for moving to a two-year budgeting cycle will have been defeated. One potential partial solution would be to withhold allocation to the Appropriations Committee of a small portion of the two-year total until the second year. This specific "pot" of set-aside funds could function as a safety valve to accommodate new, unexpected needs that, while useful and beneficial, do not constitute true emergencies.

Emergency Procedures

The Concord Coalition supports requiring a 60-vote point of order in the Senate on any emergency spending bill and on any non-emergency provision in an emergency supplemental appropriations bill. Concord also supports the proposal that the President's request and the congressional committee's report analyze whether a proposed emergency expenditure or tax change meets five criteria:

Necessary expenditure-an essential or vital expenditure, not one that is merely useful or beneficial; Sudden-quickly coming into being, not building up over time; Urgent-a pressing and compelling need requiring immediate action; Unforeseen-not predictable or anticipated as a coming need; and

Not permanent-the need is temporary.

These criteria were developed by the Office of Management and Budget in 1991 to provide guidance in determining what constitutes an emergency expenditure. They are still relevant today. For the most part, they did not govern the emergency spending provided at the close of the 105th Congress.

Making some sort of reasonable exception to tight budget discipline for compelling emergencies is a necessary safety valve. The problem is keeping emergencies to a minimum. If our government moves to a two-year budget cycle, the likelihood will increase that necessary, sudden, urgent, unforseen and temporary needs will arise after the budget plan has been adopted. It is even more likely that merely desirable, helpful, useful or popular needs for additional spending will increase, particularly as election day nears. The record of the 105th Congress was dismal in this regard. A legitimate safety valve in the budget process was widened into a huge loophole through which Congress and the White House jointly enabled each other to permit more than $20 billion to leak away.

Should the five criteria constitute a reporting requirement or provide a point of order? Concord leans toward requiring a point of order. The risk in the case of a reporting requirement is that, like so many other requirements, compliance with them could become routine boiler plate. Report after report could attest that a proposed expenditure met all the requirements even though common sense would dispute this. A point of order would be a stiffer requirement. However, it would require the parliamentarian to make the determination whether the proposed expenditure indeed met the five criteria. In some instances this would be a judgment call, and in borderline cases, Congress might disagree with the parliamentarian's ruling, in which case the ruling of the chair could be appealed. But what's important is that the point of order would establish a higher hurdle than only the reporting requirement.

Concord favors enacting appropriations in the regular appropriations bills for the principal emergency relief programs at their long-term average levels. Natural disasters-floods, droughts, fires, hurricanes, tornadoes, and earthquakes-occur with dismaying regularity. Expenditures in response to these occurrences tend to fall within a predictable range. To budget in anticipation that there will be no disasters is disingenuous.

Others have suggested that a reserve fund be set aside within the annual discretionary caps at amounts equal to the five-year rolling average. This would provide budgetary resources within the discretionary caps in advance of emergency needs and would eliminate the need for most supplemental emergency appropriations. At issue would be how funds would be released from the reserve, under what circumstances, and what to do with unused funds at the end of the fiscal year. If such an advance funding reserve were created, Concord would oppose establishing it as a trust fund or investing reserves in government interest-bearing debt. Instead, we would prefer to see it function as a score-keeping entry in which credit for unused funds could be rolled into future years for possible appropriation should the need arise.

Pay-as-you-go Changes Regarding Tax Cuts:

The Concord Coalition does not oppose permitting on-budget surpluses to be used for tax cuts. Concord favors balancing the on-budget accounts. It is opposed, therefore, to deficit-financed tax cuts. But if there are truly on-budget surpluses, then Concord believes it is entirely legitimate to debate how best to allocate them among the three possible uses: tax cuts, spending increases, debt reduction, or some combination. Concord's preference among these options would be to reduce the debt, but other allocations of on-budget surplus funds are also legitimate, particularly if they devote the resources to increasing national savings or otherwise investing in future economic growth.

If PAYGO rules are amended to permit on-budget surpluses to be used for tax cuts, however, we would urge Congress and the White House to keep in mind that the surpluses are not likely to be permanent unless steps are taken to address the long term deficits in entitlement programs for the elderly, and in particular, the Medicare program. Tax cuts usually last forever, and permanently diverting a portion of the surplus to tax cuts means that it will no longer be available to address the fiscal problems that will accompany the aging of our population.

Pay-as-you-go and Discretionary Caps:

Concord suggests an additional PAYGO change. Even though we support retaining the discretionary caps at their established levels, it is becoming obvious that great pressure is building to increase them to accommodate both defense and non-defense spending. Back-loaded appropriations in last year's omnibus legislation means that almost $30 billion in reductions from current levels will be required this year in order to comply with the caps. And despite modest current inflation rates, real reductions of 9 percent will be required in discretionary spending between now and 2002.

It's unlikely that these reductions will be made. Indeed, when the 1997 budget agreement was adopted, Concord cheered, "Hip, hip but no hurrah" because we did not believe at the time that the caps were sustainable.

In the process of revising the caps to higher levels, Concord would urge that the increases be offset on the PAYGO scorecard. PAYGO was established to deal with the permanent aspects of the budget: taxes and entitlements. It has become apparent that the caps have also become a permanent part of the budget process. It is extremely unlikely that discretionary spending will be reduced; if the caps change, the direction will almost certainly be upwards. Therefore we believe that it would be good for long-term budget discipline to require that any increases in the caps be scored under PAYGO.

We would not favor the reverse. One-time reductions in appropriations to bring totals temporarily beneath the allowable caps are extremely unlikely to be permanent. Therefore we would oppose permitting discretionary cuts to offset tax cuts on the PAYGO scorecard. Tax cuts are forever, but discretionary cuts could disappear with the next supplemental.

Automatic Continuing Resolution

An automatic CR is another budget process change that Concord has long favored. We support making a CR automatic at the lower of the President's requested level or the previous year's appropriated level.

While this change would undoubtedly alter the leverage points during the end-game period at the close of a session of Congress, this change would be for the good. The leverage has tended to favor agreements to increase spending rather than to force tough bargaining to trade increases and reductions within the agreed-upon limits.