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4 THE BROKEN BUDGET PROCESS:

5 PERSPECTIVES FROM FORMER CBO DIRECTORS

6 WEDNESDAY, SEPTEMBER 21, 2011

7 House of Representatives

8 Committee on the Budget

9 Washington D.C.

10 The Committee met, pursuant to call, at 10:00 a.m., in
11 Room 210, Cannon House Office Building, Hon. Paul Ryan,
12 [Chairman of the Committee] presiding.

13 Present: Representatives Ryan, Calvert, Price, McClintock,
14 Stutzman Lankford, Black, Mulvaney, Huelskamp, Young, Amash,
15 Guinta, Van Hollen, Doggett, Blumenauer, McCollum, Pascrell,
16 Wasserman Schultz.

17 Chairman Ryan. The committee will come to order.
18 Welcome all to this hearing. The purpose of today's hearing
19 is to highlight the need to reform our broken budget process.
20 This summer, we got a first-hand look at how bad things have
21 gotten. After a request from the president to increase the
22 debt limit, Congress was seemingly faced with basically two
23 impossible choices. Either hand the president a blank check
24 to continue these unsustainable spending policies, or let
25 America default. Fortunately, Congress was able to chart a
26 middle course that coupled immediate spending restraints with
27 a process to cut at least a dollars worth of spending for
28 every dollar increase in the debt limit. But it should not
29 have gotten to this point and that is the point. Congress
30 created a budget process that was intended to prevent this
31 kind of ad-hoc policy making. Clearly, the process is not
32 working.

33 The budget proposed by the president in February offered
34 no plan to deal with that he has since acknowledged as the
35 nation's growing physical challenges. Meanwhile, it has been
36 874 days. I will say that again. It has been 874 days since
37 the Senate even bothered to try to pass a budget. Congress
38 has struggled with this process for a long time. This year's
39 breakdown in the federal budget process, however, could not
40 have happened at a worse time. Right now, it is contributing
41 to the crippling uncertainty about physical policy that is

42 discouraging businesses from making the kind of long-term
43 investments that create jobs. There are parts of the budget
44 process that are irredeemably broken, but other parts still
45 work well, even if they could use some improvement.

46 In the 1974 Budget Act, it called on Congress to review
47 the entire federal budget to both ascertain the economic
48 impacts of our budget decisions and to help us make informed
49 choices about how to raise revenue and how to allocate
50 spending. To accomplish this, the Act established the House
51 and the Senate Budget Committees and charged them with the
52 responsibility to develop and enforce annual budget
53 resolutions.

54 In addition, it created CBO, to give us non-partisan,
55 objective budget estimates and economic projections. CBO is
56 far from perfect, but it is important to note that before CBO
57 was created, Congress was reliant on the executive branch for
58 budget projections and cost estimates of legislation. I do
59 not agree with everything CBO produces, but I do think CBO
60 strives to provide us with non-partisan, independent analysis
61 to help us do our jobs.

62 Today, we are going to be hearing from two former CBO
63 directors. Actually, the first two former CBO directors. In
64 addition to being former CBO directors, Alice Rivlin and Rudy
65 Penner, are witnesses here today, have had long careers as
66 budget experts in Washington, and we are fortunate to have

67 the benefit our their wisdom today. Before I yield, I want
68 to emphasize one point. There is a lot we can do to fix our
69 broken budget process, but process reform alone cannot work
70 unless members of Congress have the will to make it work.
71 Reform or no reform it will take political courage and
72 leadership to get our fiscal house in order. I am proud to
73 have worked with members of this Committee to pass this
74 year's budget on time and even those members who disagreed
75 with our reforms contributed to that process for which I am
76 grateful. To his credit Mr. Van Hollen offered a substitute
77 budget during floor consideration of the budget resolution.
78 That is how the process is supposed to work. Americans
79 deserve a real debate about our fiscal future and the budget
80 process is an appropriate form for that debate. Let's fix
81 what is broken and build upon what is working and with that I
82 would like to yield to the Ranking Member, Mr. Van Hollen.

83 [The prepared statement of Chairman Paul Ryan follows:]

84 ***** COMMITTEE INSERT *****

85 Mr. Van Hollen. Thank you, thank you very much Mr.
86 Chairman, and thank you for calling this hearing to explore
87 ways that we might be able to improve the budget process and
88 I join my friend the Chairman in welcoming our distinguished
89 witnesses here today, two veterans of the budget process.
90 And I do think there are some budget process measures that
91 can help to improve the process. The Chairman mentioned the
92 establishment of the Congressional Budget Office. I have
93 introduced, along with many colleagues on this Committee, a
94 piece of legislation that would expedite congressional
95 consideration of spending cut proposals and other measures
96 proposed by the president, by the Executive Branch to give
97 those an expedited review in certain areas of the budget. I
98 also believe that the PAYGO rule that has been in effect at
99 different periods has played a useful, even though limited,
100 role in trying to prevent the deficit from getting even
101 worse. However I want to now turn to the Chairman's
102 concluding point.

103 Our rules, our congressional rules, our congressional
104 process are like flashing yellow lights like stop signs.
105 When Congress chooses to ignore them they do not do any good
106 and unlike stop signs that are enforced by an external police
107 power, Congress of course, is the ultimate enforcer of its
108 own rules. Which means when it decides to blow through the
109 yellow flashing lights or the stop signs it can decide to do

110 that, which brings me to my main point and the point the
111 Chairman concluded on which is the real challenge we face is
112 not a change in the rules. There may be some things we can
113 do to modify and improve them. I do not disagree with that
114 and I welcome the opportunity to explore this but our
115 fundamental problem is not the budget process rules; it is
116 the lack of political consensus and it is the lack of
117 political will. We are now in an era of divided government.
118 We have a Democratic president. We have a very close
119 Democratic majority in the Senate. We have Republican
120 control in the House. In the era of divided government the
121 only thing that stands between divided government that works
122 for the country and dysfunctional government is the
123 willingness to compromise. And I do not mean just find
124 common ground because all of us have very different views on
125 how to tackle some of these issues. So it is going to
126 require a compromise in order to move some of these issues
127 forward and I will just conclude with that because this is
128 the Budget Committee; we spend a lot of time looking at the
129 deficit.

130 We have within the last 18 months had three groups,
131 three bipartisan groups that looked at ways to try and
132 address our deficit problem over the long run. We had
133 Rivlin-Domenici. We had Simpson-Bowles. We have the Gang of
134 Six that does not have a piece of legislation but has a

135 | concept. All three of those situations represent the kind of
136 | framework that is put together when you have bipartisan
137 | compromise. Nobody liked every provision in those
138 | recommendations. I certainly did not, but the overall
139 | framework addressed the way forward in a bipartisan way.
140 | Again not finding common ground because not everybody agreed
141 | with every provision in those reports but tough compromises
142 | made to try and advance the good of the country.

143 | So again I welcome the opportunity to explore ways to
144 | improve the budget process but as you said Mr. Chairman I
145 | think we all recognize at the end of the day, especially in
146 | the areas of divided government, only principled compromise can
147 | help move us forward for the good of the country and I thank
148 | you.

149 | Chairman Ryan. Thank you and since you are the only two
150 | witnesses we will not restrict you to the hard five minutes.
151 | So Dr. Rivlin why do we not start with you and then Rudy we
152 | will go with you.

153 | [The prepared statement of Chris Van Hollen follows:]

154 | ***** COMMITTEE INSERT *****

155 STATEMENTS OF ALICE M. RIVLIN, SENIOR FELLOW, BROOKINGS
156 INSTITUTE; RUDOLPH G. PENNER, INSTITUTE FELLOW, URBAN
157 INSTITUTE

158 STATEMENT OF ALICE M. RIVLIN

159 Ms. Rivlin. Thank you very much Mr. Chairman, Mr. Van
160 Hollen. There is no doubt that the budget process is broken.
161 The clearest evidence is the fact that we are all counting on
162 this Joint Select Committee with its extraordinary powers and
163 its unusual composition to avoid total gridlock or a replay
164 of the near catastrophic debt ceiling brinkmanship of this
165 summer. Now I am an optimist about the chances that the
166 Joint Select Committee with the strong support of the
167 president and the leadership in both Houses and both parties
168 will be able to agree on actions that will stabilize the
169 rising debt and set the Federal budget on a sustainable path.

170 However, even if the Joint Select Committee succeeds the
171 budget process has failed. Our much vaunted democracy should
172 not have to abandon its normal decision processes and
173 concentrate power in the hands of ad hoc group even if one of
174 them is Mr. Van Hollen, to solve a budget problem. The
175 regular budget process of which this Committee is an

176 essential part should have functioned long before now to put
177 in place both a near term budget and a sustainable long term
178 plan.

179 Congress has no choice; you have to fix the budget
180 process but as the Chairman pointed out in his opening
181 remarks a better process will not make budget decisions easy
182 or create the will to compromise and solve problems without
183 which a diverse democracy cannot move forward. Process can
184 either hamper decision making or facilitate it but only at
185 the margins. The current congressional process makes it
186 harder to make fiscally responsible budget decisions for
187 reasons I will get to in a minute, but bad process is a
188 symptom not a cause of unwillingness to make the compromises
189 necessary to solve hard problems. No process will work
190 unless the participants want it to work.

191 Now budget making, as no one needs to tell you, is
192 inherently hard. Even the budget of a small town or a small
193 company is difficult to agree on because there are always
194 more claims than resources. The budget of a huge country
195 presents added dimensions of difficulty since the
196 government's budget affects the economy and is affected by it
197 in ways that are hard to document and provide room for sharp
198 disagreement.

199 In the United States we have a special problem. The
200 checks and balances built into the Constitution make

201 budgeting especially complex and require a multistage process
202 that greatly compounds the difficulty of getting budget
203 decisions made. Countries with a Westminster type
204 parliamentary system do not consume as much time and energy
205 or rhetoric in making budgets as we do. The results may not
206 be better but the process is far more efficient. The prime
207 minister's party or coalition writes the budget and the
208 parliament after a short debate approves it, sounds great.
209 Voting down the budget means a new election so it is not done
210 lightly, but our Constitution was not designed for
211 efficiency. On the contrary the founding fathers designed a
212 system of checks and balances that disburses power and slows
213 the decision making process sometimes to the point of
214 gridlock.

215 Moreover since the power centers or sub-power centers
216 such as executive agencies and congressional committees
217 rarely want to relinquish their particular piece of decision
218 making authority as new actors and responsibilities are added
219 the process tends to accrete complexities over time until it
220 becomes dysfunctional. The congressional budget process is
221 at that point. It needs a complete overhaul to enable it to
222 function effectively within the limits of our Constitution.

223 The Budget Act of 1974, which created the Budget
224 Committees and the Congressional Budget Office, which I am
225 glad to hear good things spoken about because I am very proud

226 of it as I know Rudy is too, it created the framework for the
227 decisions. Before its enactment, as the Chairman noted,
228 Congress had the power of the purse but no organized way of
229 exercising it and was very dependent on the administration
230 for analysis.

231 The weakness of the 1974 reforms, however, contributed
232 to the breakdown of the process that we are witnessing today.

233 First, the process was unnecessarily complicated and
234 hard to understand. The schedule for making budget decisions
235 was lengthy and complex and, in fact, in the beginning it was
236 worse there were two budget resolutions. Even slipping the
237 fiscal year to October 1, did not allow time for all the
238 complex steps to be completed on time. Moreover the new
239 process had been layered on top of an already redundant
240 committee structure. As far back as 1971, I testified that
241 the distinction between authorizing and appropriating had
242 blurred over the years and that budget reform should involve
243 abolishing that distinction altogether. My proposed
244 committee structure had program committees with jurisdiction
245 over spending areas, defense, health, et cetera, a revenue
246 committee and a budget committee in each House. You can
247 imagine how well that went over.

248 Second, much of the spending side of the budget, the
249 mandatory programs was essentially unaffected by the budget
250 process. In 1974, mandatory programs not counting interest

251 were only 11 percent of total spending. In 2010, however,
252 the mandatory portion was 55 percent of the total. Moreover
253 these programs especially Medicare and Medicaid are the main
254 drivers of projected spending over the next decade and
255 beyond.

256 Third, the time horizon for many decisions was too
257 short. The budget impact of spending programs and tax
258 changes may build up slowly and become increasingly expensive
259 over time or it may be deliberately designed to do that.
260 Over the years the participants have struggled with different
261 ways of taking a longer view. Five year window, 10 year
262 window, you know the history but never solved the problem.
263 Moreover the major retirement programs which now drive the
264 budget can only be changed with substantial lead time and are
265 not part of the regular budget process.

266 So that leads me to a few very general principles of how
267 to reform. First, include all spending and revenue in the
268 budget process. Under the current process a dwindling
269 portion of the budget is subject to annual scrutiny and
270 increasingly complex rules while major mandatory programs and
271 the tax code operate on automatic pilot. No wonder the
272 process broke down and the Joint Select Committee had to be
273 created to bring revenues and mandatory spending into a
274 comprehensive decision process. And no wonder the Congress
275 has chosen to put increasing proportions of spending into the

276 mandatory category and into the tax code.

277 Now I am not suggesting that you review Medicare or
278 Social Security laws or the Tax Code in detail every year.
279 That would be chaotic. In fact changes in retirement
280 programs and taxes should be made as infrequently as possible
281 with long lead times so that people and businesses can plan
282 their lives. But the Congress must bring the retirement
283 programs and tax expenditures into a process of periodic
284 review and decision so that you can actually control the
285 major drivers of the budget and the deficit and the debt. It
286 should vote a comprehensive long term budget, review actual
287 spending and revenues in relation to the intended long term
288 budget, and have a process for deciding what to do if the
289 numbers are veering significantly from the intended track.

290 Second, take a longer view. Discretionary spending
291 should be reviewed less frequently, moving to a biennial
292 appropriations process would help, it would give the Congress
293 more time for oversight and the Executive Branch more time
294 for planning and implementation. Mandatory spending and tax
295 expenditures should be reviewed, perhaps, every five or six
296 years.

297 Third, simplify the structure and reduce the number of
298 decision points. Reforming the budget process will be next
299 to impossible unless the Congress is willing to revamp the
300 whole committee structure with respect to activities that

301 impact the budget. I still believe that authorizing and
302 appropriating are no longer meaningful distinctions and
303 having the major mandatory programs under the jurisdiction of
304 the tax writing committees is not sensible. Too much work
305 for them. A better structure would be to create six or eight
306 program or spending committees, a revenue committee and a
307 budget committee to put it all together.

308 Finally, recognize that our Constitution requires
309 willingness to compromise as both the Chairman and the
310 Ranking Member have eloquently said. The founding fathers
311 bequeathed us a system of checks and balances that make it
312 very hard to get decisions made unless the participants work
313 tirelessly to make it work. It requires negotiation between
314 the Executive and Legislative Branches, between the two
315 Houses of Congress even when all are controlled by the same
316 party. I am a veteran of the first two years of the Clinton
317 Administration. Believe me it is harder to negotiate with
318 your own folks. It requires negotiation and compromise
319 between the political parties especially but not exclusively
320 when different parties are in control. No budget process
321 reform will work well until participants realize that making
322 this complex structure function requires a patient
323 willingness to try to understand each other and to work
324 together to make sustainable budgets. Thank you Mr.
325 Chairman.

326 [The prepared statement of Alice M. Rivlin follows:]

327 ***** INSERT *****

328

Chairman Ryan. Thank you Alice. Dr. Penner.

329 STATEMENT OF RUDOLPH G. PENNER

330 Mr. Penner. Thank you Mr. Chairman and thank you Mr.
331 Van Hollen and other members of the Committee for this
332 opportunity to testify. It is tempting to believe that if
333 only we could come up with some clever budget rules, fiscal
334 prudence would follow. But as you implied Mr. Chairman and
335 Mr. Van Hollen as well, it does not work that way. The
336 desire for fiscal responsibility must come first then rules
337 can be important in strengthening the efforts of those
338 supporting fiscally responsible policies.

339 Rules can also protect those who are fiscally
340 responsible from the special interest that will inevitably
341 oppose them. The problem in recent years has not been a lack
342 of rules. It has instead been the failure of the Congress to
343 follow rules that are already on the books. You said Mr.
344 Chairman the Senate has not passed a normal budget in two
345 years so I guess the Budget Control Act is now their budget.
346 Last year the House failed to pass a budget for the first
347 time in the history of the modern budget process and also it
348 is a very rare event for appropriations to be finished on
349 time.

350 This suggests to me that it may be more productive to
351 think about changes in the structures of spending programs

352 and tax policies that would allow us to control deficits more
353 easily. For example, my colleague Gene Steuerle and I have
354 written on how automatic triggers could slow benefit growth
355 to raise revenues when Social Security is forecast to have
356 financial problems. Such triggers have been used in many
357 other countries. It is possible to structure a broad based
358 low marginal rate tax that yields revenues growing more
359 rapidly than GDP. But nothing is foolproof. The Congress
360 put an automatic trigger for Medicare in the Prescription
361 Drug Bill. It later suspended it before it took full effect.

362 As Alice emphasized we have to find better ways of
363 controlling mandatory spending. Now that is especially true
364 of Medicare and in my view it is necessary to alter Medicare
365 so that it is subjected to a fixed budget. The premium
366 support system suggested by you Mr. Chairman and in the
367 Domenici-Rivlin Report would serve that purpose. We can
368 argue about how large the Medicare budget should be, but once
369 that is settled we would have a lever with which to control
370 it.

371 Turning to issues more directly related to the existing
372 budget process I will discuss three commonly proposed rules
373 changes that I think are bad, two that I would adopt, and one
374 I am not so sure of.

375 I used to think it would be a very good idea to replace
376 the concurrent budget resolution with a joint resolution that

377 would be signed into law or vetoed by the president, thus
378 getting agreement on the outlines of the budget early in the
379 process. But given the difficulty that Congress has faced in
380 recent years about passing any budget at all, I guess I now
381 think it totally impractical to get agreement with the
382 president in a timely fashion.

383 I rarely, rarely disagree with Alice but one of her
384 ideas that I am not too enthusiastic about is the notion of
385 biennial budgeting. As Alice said budgets are extremely
386 complex. They are never perfect. I think we should try to
387 improve them every year and besides economic and other
388 conditions often change unexpectedly and by large amounts.

389 Third, the Balance Budget Amendment is not a good idea.
390 The first response of a state when it feels constrained is to
391 engage in some outrageous budget gimmickry and over the long
392 run states have created a host of independent agencies and
393 off-budget accounts that make state budgets extremely hard to
394 understand. Admittedly, balanced budget provisions exercise
395 restraints in a severe recession but that is not a good time
396 to have it.

397 Two things that should be done, here I very much agree
398 with Alice that the budget horizon should be lengthened to
399 deal with the long run and the Congress should set an
400 explicit target for stabilizing the debt GDP ratio and the
401 date for doing it. The Committee for a Responsible Federal

402 Budget has suggested techniques for enforcing such a target
403 using a sequester as a last resort.

404 Second, we badly need a new baseline. The current law
405 baseline as CBO must now compute it is useless because so
406 many tax cuts and spending increases have passed on a
407 temporary basis even though we are essentially certain that
408 they will be extended. Most groups suggesting fiscal reforms
409 start with the current policy baseline but different groups
410 tend to interpret current policy differently. Codifying of
411 current policy version which admittedly will not be perfect
412 could help end much confusion.

413 The last idea that I am not so sure about has often been
414 suggested, it is the notion of creating a post Senate budget
415 committee. Congress can then start the debate with one
416 resolution but I defer with those with legislative experience
417 to assess whether this would really be a good idea, but I
418 certainly think it should be given considerable thought.

419 Thank you Mr. Chairman.

420 [The prepared statement of Rudolph G. Penner follows:]

421 ***** INSERT *****

422 Chairman Ryan. Thank you very much. Dr. Rivlin, when
423 we wrote the 1974 Budget Act mandatory spending was 11
424 percent of spending and back in those days it was called
425 backdoor spending. It was 11 percent then now it is
426 approaching 60 percent. You both suggest that we should
427 budget for these, that we should put these on budget. How
428 exactly do you think we ought to do it? Should we put hard caps
429 with sequesters? What do you think is the best way to bring
430 this category, the largest category of government on budget?
431 And I will just ask Dr. Rivlin and then Dr. Penner.

432 Ms. Rivlin. Well first I think it is hard, but a way
433 you could go is to have the Congress vote on a long term
434 budget. I mean really long like 20, 30 years for those
435 mandatory programs, and I believe also for tax expenditures.
436 Those are the two big categories that are on automatic pilot
437 and not that really dealt with in the budget process. And
438 then you look at it periodically, every five years or even
439 oftener and you decide what to do. Now you could have some
440 kind of automatic enforcement mechanism if you are veering
441 off track, say on Medicare, then you could have some kind of
442 sequester. That is hard.

443 I would really like to have the Congress without a
444 sequester or a sort of Damocles. Have an explicit vote on
445 what you are going to do about this veering off track when it
446 happens and in the case of Medicare if you do have something

447 that is a defined contribution plan then at that moment you
448 could say costs are going up and it seems to be faster than
449 we anticipated and we have got to decide what we are going to
450 do about that. Do we raise the cap, et cetera? But you need
451 an explicit decision moment on the mandatory programs and
452 these tax expenditures in which you review what you thought
453 was going to happen, what has happened and what to do about
454 it.

455 Chairman Ryan. So Dr. Penner both of you said we should
456 go to a defined contribution which is the type of system
457 premium support is. We can debate how you do it, growth
458 rates and all of those things on Medicare but lock in that
459 growth rate and then revisit it to make sure that it is
460 sticking within trend.

461 And Dr. Penner you mentioned that the GDP ratio triggers
462 with some kind of an enforcement mechanism such as a
463 sequester behind that. Is that what both of you are
464 basically saying? So Medicare's the big problem with respect
465 to drivers of our debt. That is the biggest unfunded
466 liability. You are saying take an entitlement like this, put
467 it on the kind of track you just mentioned and then if you
468 are veering off that path then have a backup mechanism to
469 make sure you get back on the track.

470 Ms. Rivlin. Right. With respect to Medicare if you
471 really did premium support you would not be veering off

472 track.

473 Chairman Ryan. Right.

474 Ms. Rivlin. But for others like Medicaid or tax
475 expenditures I mean those are really big and they are
476 expenditures and you have to look every once in a while at
477 what is happening there and the present process does not give
478 you a moment for doing that.

479 Chairman Ryan. Dr. Penner?

480 Mr. Penner. I just very much agree with everything
481 Alice said and if you did indeed have a premium support
482 system for Medicare you could vote on the budget every year.
483 I mean other countries, Canada, United Kingdom they have
484 fixed budgets for their health system. In Canada every
485 hospital has a budget and has to live within that. So you
486 can set long run targets and you can adjust continually
487 depending on conditions.

488 With regard to Social Security it was really not on a
489 completely automatic pilot until the mid-1970s. Before that
490 it was assumed that benefits would be fixed in money terms
491 and that, of course, with growing payroll tax revenues meant
492 that the Congress could every now and again increase those
493 benefits depending on conditions.

494 In the late 60s and early 70s the Congress increased
495 benefits enormously and there was a feeling that I believed
496 in at the time that the Congress could not discipline itself

497 with regard to Social Security. So instead they put it on
498 automatic pilot thinking that would save money in the long
499 run. Now I am very dubious about that theory. I wish we
500 were back in a system where the Congress had more discretion
501 depending on what is happening to wages in the economy and
502 all sorts of other things to alter these benefits. And you
503 would want to design the program so they altered them in a
504 good direction so they were not in a position of having to
505 cut. Now with this automatic system it becomes sort of
506 symmetrical. Sometimes you would be in a position where you
507 should cut them and sometimes maybe increase them but the
508 bottom line is that we have not done anything at all and we
509 just let the automatic pilot fly on.

510 Chairman Ryan. Dr. Rivlin you said something that
511 really peaked my interest about the way we organize ourselves
512 here on committees and things like this and you have been at
513 this for a long time. It is a fairly dysfunctional way: the
514 separation between authorizing and appropriation. Are you
515 suggesting that we go to more of a streamline system where,
516 say, jurisdiction is clean, broken up by budget function or
517 something like that, and authorizers also do the
518 appropriating as well? Is that the kind of system you are
519 talking about?

520 Ms. Rivlin. Exactly. And I am not sure it is a very
521 meaningful distinction. But if it is it is done by the same

522 people.

523 Chairman Ryan. Right, so I remember there was a Dryer
524 Commission in 1995, I think, that did this and they said
525 break it up by budget functions. Budget Committee sends the
526 numbers to the authorizers/appropriators and authorizers have
527 a subcommittee, an appropriations subcommittee, so the people
528 who are doing the oversight and looking at these programs for
529 the long term and short term also do the appropriating. Is
530 the kind of system you are talking about?

531 Ms. Rivlin. Yes. I thought of it just as there is a
532 Defense Committee.

533 Chairman Ryan. Yeah.

534 Ms. Rivlin. And it spends its time worrying about
535 defense strategy and how much money we want to spend for
536 defense and its relationship to the Budget Committee as you
537 describe.

538 Chairman Ryan. Okay, I am going to get some pretty
539 nasty looks from some people here in a minute because I keep
540 going down this path.

541 Ms. Rivlin. It is not a popular idea.

542 Chairman Ryan. No I know it is not. Let me ask you
543 about baselining. So Dr. Penner you talk about the base,
544 let's put aside the assumptions within the baseline. You
545 know "doc fix" and tax policy. I want to quote Governor
546 Cuomo who called the baseline budgeting process in New York a

547 sham and deceptive and a contributor to the dysfunctional
548 budget process. Here is his quote.

549 "Who was responsible for setting the growth in the
550 state's budget, the answer is shockingly no one. It is
551 dictated by hundreds of rates and formulas that are
552 immobilized throughout New York State laws that govern
553 different programs, formulas that have been built into the
554 law over decades without regard to fiscal realities,
555 performance or accountability."

556 We face the same problem here in Washington. The
557 assumptions of what ought to be in the baseline whenever
558 there is a reduction in the growth of a program like
559 mandatory it is considered a cut. When in real terms it
560 actually is an increase. Should we go after that? Should we
561 revisit the actual composition of a baseline which is really
562 the definition of autopilot?

563 Mr. Penner. I think that would be very useful. I mean
564 what is going on now is that we have a discriminatory budget
565 structure. We look at discretionary and mandatory quite
566 separately and when you cut a discretionary program it is
567 really not cut usually in real terms. Whereas as you said
568 Medicare can be growing at an extremely rapid rate and any
569 slowdown in the growth is called a cut and the same tends to
570 be true of Social Security.

571 So I think that would be very useful. I think it would

572 be helped if, in fact, we had fixed targets for Medicare that
573 would help control it. Another way of helping I think would
574 be a change in the way we display the budget, where every
575 year you have a kind of source and uses of funds and then you
576 can see very clearly how much of your tax revenues and boring
577 goes to Medicare, how much it has increased or to Medicaid
578 and that would be very helpful as well.

579 Chairman Ryan. Yes, Doctor?

580 Ms. Rivlin. I think Rudy goes too far. You need a
581 baseline. If you are going to sit down and look at the
582 budget you need to say where do we start? And in terms of
583 Medicare and Social Security for instance it does not make
584 any sense to say we start with what we are spending this year
585 because next year there are going to be more old people and
586 10 years from now there are going to be a lot more old
587 people. So it makes a lot of sense to compute what would be
588 the spending given the number of claimants that we expect.

589 Chairman Ryan. A per capita adjustment in the baseline.
590 I heard.

591 Ms. Rivlin. Well not necessarily. I am saying that
592 with respect to entitlement programs, programs that depend on
593 the characteristic of the beneficiaries you really need to
594 know how many beneficiaries there are and so you need to
595 adjust for that.

596 With respect to discretionary spending it is essentially

597 arbitrary. You could decide we are going to start with this
598 year's budget or you could decide a lot of these programs
599 will have higher cost because of inflation. Now we are not
600 in an inflationary period now but suppose you were and that
601 they are going to need to provide the same service, they are
602 going to need more money and you could start there. It does
603 not matter so long as you decide and everybody understands
604 what it is. But you do need a baseline.

605 Mr. Penner. Well I was not implying Mr. Chairman that
606 we should not compute the kinds of things that Alice says we
607 should compute. That is to say what are the spending
608 implications of the current law? But I am suggesting
609 additional displays which make it clearer than in our present
610 system just how much that is costing.

611 Chairman Ryan. Right. Thank you. Mr. Van Hollen.

612 Mr. Van Hollen. Thank you Mr. Chairman. Let me thank
613 again the witnesses for their testimony. As I listen to your
614 testimony it sort of led me back to some of the comments that
615 you made early on, the chairman and I made in which Dr.
616 Rivlin ends her written testimony on essentially in big bold
617 letters in the sentence. "Above all recognize that our
618 Constitution requires a willingness to compromise because we
619 can invent all the budget rules that we want but if at the
620 end of the day there is not a willingness to compromise
621 especially in the area of divided government it becomes a

622 very difficult."

623 And Dr. Penner as I look at your testimony and I have to
624 say I agree with your review of some of the budget processes.
625 Joint resolution no, I think the key points there, biennial
626 budgeting. Frankly I am kind of agnostic on that. I am
627 willing to listen to people.

628 Balance budget amendment, you pointed out that there are
629 a lot of gimmicks that are played with that. Ultimately with
630 that as well it is a matter of enforcement. I mean I do not
631 think anyone should kid themselves thinking if there was a
632 balanced budget that it would not be subject to the same kind
633 of game plan you see at the state level. But also ultimately
634 who is going to enforce it, the courts? They are not going
635 to get in the middle of a big battle over that.

636 Lengthening the budget time horizon? I think all of us
637 in this Committee realize that the time structure is designed
638 in a way that you do not get very much credit for politically
639 tough decisions because you only look in the 10 year window
640 while a lot of changes take place over a period of time,
641 whether it is on the revenue side or cutting spending. So I
642 think that is something we should look at.

643 Baseline, I am happy to engage in a conversation on
644 baseline, too. But I think if you look at both your
645 testimony you would acknowledge, and this is my point, that
646 really the recommendations you are making for addressing this

647 | issue are really beyond the purview of budget process. You
648 | are really making decisions with respect to fundamental
649 | policy choices.

650 | For example, when you set up a sequester mechanism, if
651 | we were to do that, you have to decide now. What subject to
652 | sequester? Are you going to include revenue when you miss
653 | your debt to GDP target, or deficit to GDP target? All those
654 | questions come into play right up front. We have sort of all
655 | discovered that as you go through these different exercises.
656 | Dr. Penner, you mentioned the Rivlin-Domenici Commission
657 | recommendation regarding premium support. You did not
658 | mention that their overall approach is sort of 50 percent on
659 | the revenue side 50 percent on the cut side, and that other
660 | bipartisan groups that have looked at these challenges have
661 | come up with similar frameworks. You mentioned one of the
662 | tax approaches broadening the base that was discussed in
663 | choosing the nation's fiscal future. Great piece of work,
664 | but as you know you outlined four different fiscal scenarios
665 | here and had a lot of different proposals with respect to how
666 | you raise revenue including raising payroll taxes, right?

667 | Mr. Penner. That is right.

668 | Mr. Van Hollen. Okay, so the point here is that
669 | biennial budgeting, some of this little stuff we can work
670 | around the edges but the fundamental crunch comes with making
671 | the political choices. And I just throw that question, is

672 | that not?

673 | Ms. Rivlin. Absolutely.

674 | Mr. Penner. No disagreement here.

675 | Ms. Rivlin. If you are criticizing us for not making
676 | your job easy, you are right.

677 | Mr. Van Hollen. I am not. I just I think that we can
678 | and I am willing to engage in you know process and discussion
679 | and looking into how we can change this as I have said. I
680 | have introduced legislation cosponsored by a number of our
681 | colleagues with respect to expedited rescission. It can I
682 | think make a little difference around the margins
683 | potentially. But with respect to the fundamental issues
684 | every one of the proposals that you have put forward, the two
685 | of you, with respect to really changing the direction is not
686 | really a budget process proposal. It presumes fundamental
687 | political choices about how we are going to get there I
688 | believe.

689 | Ms. Rivlin. I think that is right, if I may chime back
690 | in, but there are things that you can do to make it easier to
691 | grapple with the hard choices and right now the fact that
692 | entitlements and tax expenditures are sort of outside your
693 | purview and you are spending enormous amounts of time on a
694 | small part of the budget. That is silly and you can fix
695 | that.

696 | Mr. Van Hollen. Well I think there are things you can

697 do to focus more attention and discussion on as you said tax
698 expenditures. The other thing is as someone who is on
699 temporary leave from the Ways and Means Committee I am happy
700 to vote now for all your proposals with respect to my other
701 colleagues on other committees.

702 But I do think that all of these issues should be
703 subject to more scrutiny and I think there are things we can
704 do as you say to make it easier. I am just making the point
705 that you are making too, which is there is no budget process
706 magic bullet here, and the point I made in my testimony, when
707 you look at the different groups that have grappled with it,
708 it is not as if this has not been part of our national
709 conversation for the last 18 months in terms of looking at
710 these fundamental choices. I mean we have Dr. Rivlin and the
711 Rivlin-Domenici Commission. Dr. Penner you were part of the
712 National Academy of Sciences study and grappled with these
713 exact issues. Simpson-Bowles did, Gang of Six did and my
714 point is if at the end of the day we take Dr. Rivlin's
715 advice, and what I think Dr. Penner's advice, which is that
716 you have got to make these tough political decisions and be
717 subject to compromise.

718 My only point is we now look to the bipartisan groups
719 that have grappled with this and what kind of compromises did
720 they frame? Again not with respect to every particular piece
721 of it, people will differ but in terms of the fundamental

722 approach. There are three clear products that demonstrate
723 and reflect what happens when people of good will and good
724 faith get together and grapple with these questions. Would
725 you agree with that, Dr. Rivlin?

726 Ms. Rivlin. I would. I mean there are differences
727 obviously but the basic arithmetic of the problem drives you
728 to similar solutions.

729 Mr. Van Hollen. Dr. Penner?

730 Mr. Penner. Yes, the problem now is not a lack of
731 options. We have literally dozens of them as you say from
732 various committees. The problem is a matter of compromising
733 among those options.

734 Mr. Van Hollen. Thank you.

735 Chairman Ryan. It is Mrs. Black.

736 Mrs. Black. Thank you Mr. Chairman and I want to thank
737 both the witnesses for your very enlightening remarks that
738 you did make. I want to go to the regulatory increases and
739 spending that piece. In formulating the baseline CBO makes
740 so-called technical adjustments to account for regulatory
741 policies that would change direct spending. Do you think
742 that this process is significantly transparent to Congress so
743 that we are made fully aware of the spending policy changes
744 that are being made administratively without further
745 congressional enactment? Ms. Rivlin.

746 Ms. Rivlin. I do not really know. I mean I would talk

747 that through with Dr. Elmendorf but I assume they are trying
748 as hard as they can to make it as clear as possible. If
749 there are other things you need to understand, ask.

750 Mr. Penner. They do report on a regular basis in terms
751 of their estimate, both of the private spending implications
752 and public spending implications, the regulatory changes. It
753 is pretty dense stuff I will admit, but I think as Alice said
754 if it is not clear enough you could work with CBO to change
755 the format.

756 Mrs. Black. Let me go to another subject on the CBO
757 versus the Joint Tax Committee. or Joint Committee on
758 Taxation. Responsibility for estimating the budgetary effect
759 of legislation is divided between CBO and JCT with JCT
760 responsible for providing estimates from most revenue
761 measures while CBO is responsible for all the legislative.
762 From your experience at CBO what challenges do you think that
763 this arrangement poses or are there challenges there?

764 Ms. Rivlin. Well I was the first director so I
765 inherited this division of responsibility and as we staffed
766 up in our tax division we tried to figure out how do we do
767 this best? But my experience was pretty good. I think it
768 worked reasonably well. The staff of the Joint Tax Committee
769 is very competent and they have been doing this for a long
770 time and there was a lot of back and forth between the two
771 staffs and I do not remember it being especially difficult.

772 Mr. Penner. I would agree. The division of
773 responsibilities was actually codified on my watch and made
774 clear in the legislation. I did not object to that. I
775 thought it was a good idea to clarify these things. I cannot
776 say that I ever experienced real difficulties because of this
777 division of responsibilities. It worked very well. They
778 always cooperated very well with us. Sometimes we had
779 disagreements but that was a rare event.

780 Mrs. Black. Well I appreciate both your testimony and
781 also in the questioning because we certainly want to find
782 things that work well and then fine tune the things that do
783 not. Thank you very much. Mr. Chairman I yield back my
784 time.

785 Chairman Ryan. Mr. Blumenauer.

786 Mr. Blumenauer. Thank you Mr. Chairman. I must say I
787 have appreciated the food for thought that you are offering
788 up. Just sort of take a moment to exhale amongst some of the
789 activities around here. I am looking at some big picture
790 items. I particularly appreciate your putting before us the
791 potential of changing the dysfunctional congressional
792 structure itself. I was taken by your proposal to sort of
793 merge authorizing and appropriating. I think you were right
794 40 years ago and I think, certainly, you are correct today.
795 It is interesting how authorizers increasingly are attempting
796 to sidestep appropriators and with mixed success and how our

797 friends in the Appropriations Committee routinely weigh into
798 the policymaking. I am hopeful that there may be an
799 opportunity for us at some point to step back and look at
800 this because ultimately this is a notion of broader
801 congressional dysfunction, the size of committees and the
802 inability to actually get things done. You are suggesting,
803 not only I think, fiscal restraint but an opportunity to
804 exercise what policymakers should do which is actually policy
805 make.

806 Dr. Penner I appreciate your reference to not falling
807 victim to gimmicks. I note the late Senator Hatfield
808 recently passed away and one who stood tall against the so-
809 called balanced budget amendment, which is something
810 sidestepping our responsibility. And I am particularly
811 interested in the notion of our being on autopilot with the
812 mandatory spending with tax expenditures.

813 I am thinking about ways that we might be able to break
814 the cycle and I would like to just put one item before you.
815 Dr. Rivlin, we talked briefly before the hearing about the
816 infrastructure issue. An area that is not given much
817 attention sadly is the infrastructure deficit. We have user
818 fees that have gotten all out of cycle that have required
819 trust funds to be propped up by general funds and these are
820 areas, particularly the Highway Trust Fund, where we are
821 talking about long term investments. Do you think that there

822 | is some approach that would involve a capital budget in
823 | trying to zero in separately on the user fees that support
824 | some of the infrastructure that could maybe help get out of
825 | the budget conundrum and be able to lead towards better
826 | policymaking?

827 | Ms. Rivlin. Well I think they are two separate issues.
828 | One is how do you get more investment in infrastructure? And
829 | I think everybody thinks we need that and how do you fund it
830 | in a way that is more conducive to efficiency? And you and I
831 | have talked about road use pricing and congestion fees and
832 | that sort of thing. And I think more shifting to user fees
833 | in infrastructure is a good thing.

834 | However, I think of that as a separate conversation. I
835 | do not think that a capital budget for the federal government
836 | would be particularly helpful and for a couple of reasons.
837 | Unlike states and cities the federal government actually does
838 | not do much direct investing in capital goods except in the
839 | military. Most of the investment in what you would really
840 | think of as capital goods, battleships, whatever; we do not
841 | use them anymore; aircraft carriers or our military hardware.

842 | On the domestic side it is mostly grants to state and
843 | local governments, a grants from the Highway Trust Fund or
844 | whatever, matching grants. That makes it much more difficult
845 | to have them in the capital budget but the more important
846 | thing is immediately everybody who is conscious of not just

847 the infrastructure deficit but the skills deficit and other
848 deficits will say, "But wait a minute infrastructure is an
849 investment but so is investment in the skills of the
850 workforce." And you get an ever expanding definition of what
851 is investment which leads me to believe it is not a terribly
852 useful concept at the Federal level.

853 Mr. Penner. I agree completely. You talk about budget
854 gimmickry; if the presumption is that it is okay to borrow to
855 finance capital, whereas you should pay for current
856 expenditures up front then I think experiences show on that
857 almost everything gets defined as being capital. In the case
858 of the New York City bankruptcy long ago they went so far as
859 to call janitor salaries capital because they worked on
860 buildings after all.

861 So it is just very hard to control that and also there
862 are all kinds of measurement problems. The fact that you do
863 not really know what you get from a grant. The way most of
864 the highway grants are constructed, they do not really
865 provide much incentive to states to actually build highways.

866 And then of course you have the much more difficult
867 measurement problems if you consider education to be capital
868 or research and development to be capital. And if you do
869 not, then you have a capital budget then you are
870 discriminating against those things.

871 Chairman Ryan. Thank you. Mr. Stutzman.

872 Mr. Stutzman. Thank you Mr. Chairman and thank you for
873 being here today. I want to touch a little bit on biennial
874 budgeting and Dr. Rivlin your comments you mention supporting
875 the concept. I am a big fan of biennial budgeting. I come
876 from the State of Indiana.

877 Ms. Rivlin. I am a Hoosier, too.

878 Mr. Stutzman. That is right; from Bloomington. And we
879 have biennial budgeting there and our Governor Mitch Daniels,
880 former OMB director, has done a fantastic job and we have a
881 balanced budget in Indiana. I will say this, I think
882 gimmicks can always happen whether you have a balanced budget
883 amendment, whether you have a biennial budget. It is up to
884 decision makers to make wise decisions and it does not matter
885 what parameters we put around ourselves, anybody can still go
886 around those rules.

887 I would like, if you could Dr. Rivlin, to kind of give
888 us an idea what a federal biennial budget could look like?
889 Could work like? And also what some of the benefits and
890 maybe some of the downsides are?

891 Ms. Rivlin. I think the main benefit is that it saves
892 everybody time. The Congress does not have to do this every
893 year, it can do other things in the other year, and
894 especially the Executive Branch which spends an enormous
895 amount of time working on the budget every year and
896 presenting it to Congress and appearing before these

897 unnecessarily duplicative committees to defend the budget and
898 chews up a lot of time when they ought to be running their
899 programs. So I think that is the main benefit and there are
900 always problems. The Indiana Legislature is notorious for
901 holding the clock and running longer than they are allowed to
902 and all those things. And that would maybe happen here, but
903 the other thing is Rudy is right that conditions change and
904 if you have a hurricane or something you have to deal with
905 it, and you have to deal with that now. You have to do that,
906 but I think the saving that you would get and the ability to
907 have a longer planning horizon.

908 Members of the Appropriations Committee with whom I have
909 discussed this over the years have always thought they had
910 more control if they appropriated every year. I think they
911 would have more control if they did not because you cannot
912 change things. It gets back to incremental budgeting. You
913 cannot change things very much if the fiscal year is about to
914 start. And you can change them more if you have a little
915 longer planning horizon.

916 Mr. Stutzman. Go ahead.

917 Mr. Penner. I am against them mainly because changing
918 conditions. I think if you had a biennial system you would
919 have enormous number of supplementals and supplementals are
920 extremely difficult to discipline.

921 Mr. Stutzman. In Indiana we can always open the budget

922 | back up in the off year and if there is a situation that
923 | needs to be addressed the governor can always call us back
924 | and we can address that issue in particular. And I think if
925 | we continue to keep the earmark controls, the self-will of
926 | making sure that we do not spend more money than what is
927 | necessary in a particular situation whether we are dealing
928 | with emergency spending on a hurricane or any natural
929 | disasters, any of those things. We can always come back and
930 | address those particular issues and I think oversight is
931 | needed more today than ever before in our budgeting process
932 | and that is obviously why we are having this hearing. Dr.
933 | Rivlin, could you touch a little bit on a balance budget
934 | amendment and your position on a balance budget amendment?

935 | Ms. Rivlin. I am against it. The difference between a
936 | state and the federal government is the State of Indiana
937 | basically does not have to worry about the impact of its
938 | budget on the national economy; the federal government does.
939 | And so it is not always desirable to have balance in the
940 | Federal budget. Now we should balance over the cycle and
941 | when you start thinking about writing a balanced budget
942 | amendment then you start writing in lots of exceptions.
943 | Suppose a war starts in the middle of the year. Suppose we
944 | have a sharp recession and you get so many exceptions written
945 | into the law. My colleague Charlie Schultz said all of a
946 | sudden you are writing algebra into the Constitution and I

947 think that is undesirable. That you should simply try to do
948 the best you can to have a sensible fiscal policy and that
949 means that you balance over the cycle and you have a
950 sustainable budget going forward, but I would not put it in
951 the Constitution.

952 Chairman Ryan. Thank you. Mr. Pascrell.

953 Mr. Pascrell. Mr. Chairman thank you for putting us
954 together today and I found something that you and I do agree
955 on, and I felt I should make that announcement.

956 Chairman Ryan. Take note.

957 Mr. Pascrell. I think in your discussion and your
958 remarks about real growth, you used the term in the budget
959 which are marbleized, cemented, whatever term you want to
960 use. And I think that may be an important area for
961 compromise and resolution. I think we ought to take a look
962 at that very seriously and I think there is a lot of money
963 involved that we can debate and come to some kind of
964 agreement. So I would not make that an addendum to what you
965 said. I think it is very important and this is an area I
966 think we should take a look.

967 Chairman Ryan. I will make sure I quote more Democrats
968 that I agree with, like Governor Cuomo in the future to get
969 the consensus, so thank you.

970 Mr. Pascrell. Well that helped. I would also take a
971 look at something folks on both sides of the aisle have

972 talked about and distinguish between the mandatory part of
973 the budget and discretionary parts of the budget. If you
974 take a look at, and we have two very prominent panelists
975 today, that perhaps looking at a longer term budget for the
976 mandatory and a yearly budget in terms of discretionary. So
977 what if we had a two-year budget? And I think it is utter
978 nonsense. We can have a skeleton, we can have protocol, we
979 can have this model of a 10-year budget, but you saw what
980 happened the last time we did this and it did not work out.
981 And we were moved from 2000 to 2008 and 2009, and you go back
982 at the prognostications about what would be produced, what
983 would not, and then what really happened. So there is a real
984 danger here.

985 Ours side of the aisle took tremendous hits last year
986 because we certainly did not pass a budget. It does not look
987 like it is going to be happening this year either and it is
988 beyond our control almost because on the other end of the
989 Capitol is an arcane society that we need 60 votes to get
990 something to vote on.

991 Chairman Ryan. We keep agreeing with each other. There
992 is something happening here.

993 Mr. Pascrell. It will get better or maybe not. So I
994 would like to ask a question Ms. Rivlin. Let me give you an
995 example of that on health care, mild subject for a Wednesday
996 morning. I want to ask about the delivery system reforms

997 that were included in the Health Care Reform Act. How do we
998 save Medicare money? In February, before the Ways and Means
999 Committee, I asked a question to the CMS actuaries, Rick
1000 Foster, I think his name was, and this is what he said to me:
1001 He testified that he did, indeed, believe that the reforms in
1002 health care had the potential to create great savings in
1003 Medicare. We are talking about process, here. I like
1004 results. We are talking about process today and how we get
1005 to those results.

1006 Unfortunately, we cannot score the actual savings very
1007 well because these reforms are innovative ideas, we do not
1008 really know how they are going to turn out. There is no data
1009 to project the savings, so we have to give it a few years
1010 before we find out. Ms. Rivlin, do you agree with this
1011 assessment? In your estimation, is this correct?

1012 Ms. Rivlin. Yes. I do. I think that many of the
1013 delivery system reforms and mechanisms for getting delivery
1014 system reforms that are being talked about now and that are
1015 actually embedded in the Affordable Care Act are very good
1016 ones, very promising ones. It is likely that we will get
1017 some serious improvement in the cost-effectiveness of health
1018 care, but the evidence is too weak for it to be counted on.

1019 Mr. Pascrell. But does it not reflect, really, the
1020 weakness of the scoring system of legislation, that we ask
1021 CBO to reflect upon? This is both sides of the aisle, I

1022 think, are involved in this. I really think that when you
1023 are talking about examining the process, by which we put the
1024 budget forward, that scoring legislation needs to be reviewed
1025 and perhaps changed, do you think?

1026 Ms. Rivlin. No, I do not. Let me defend my former
1027 colleagues at the CBO. I think you must have scoring for the
1028 reasons we have been talking about that you need to know to a
1029 reasonable degree of certainty what something will cost or
1030 how much it will save. And the CBO does the best it can to
1031 rely on hard evidence and if there were, for example, a set
1032 of experiments that said a particular delivery system
1033 changed, what these results, and you could measure them, CBO
1034 would use that information, but there are not. And once you
1035 loosen the rules and say it is anybody's guess, then you have
1036 lost the usefulness of having a scorekeeper.

1037 Mr. Pascrell. Mr. Chairman, would you not say, and this
1038 is my final question if I may, if these experiments that I am
1039 referring to in the Health Care Act, which you are not
1040 particularly thrilled about, but if these experiments created
1041 a substantial service, and we could be talking about
1042 anything, any legislation, now; I am talking about
1043 Healthcare. Does this mean Medicare's solvency would have to
1044 be reevaluated? That is the point that I am trying to make.

1045 Chairman Ryan. We are out of time, but the same debate
1046 occurs on the tax side of the ledger, which is do we get

1047 reality based scoring based on dynamic changes in personal
1048 behavior because of changes in the law? So, can we do things
1049 that create preventative medicine, disease management, which
1050 will ultimately save money? Well, they do not know how to
1051 quantify that at CBO right now. Maybe we will learn how to
1052 do that. Do we increase economic growth and therefore
1053 revenues of the federal government by lowering tax rates and
1054 broadening the tax base? We think so, based on evidence, but
1055 they do not quantify it that way right now. Perhaps, we
1056 ought to try having these models speculate on what they think
1057 might be under these policies, then we use a static analysis
1058 and track the measurement of those over time and then see
1059 which one proves to be more close to reality and then go with
1060 that. So, Dr. Price.

1061 Mr. Price. Thank you, Mr. Chairman, and I want to thank
1062 the panelists for their service and for their testimony. And
1063 I do not want to get too sidetracked here, but I have to pick
1064 up on this health care issue because as a physician, I could
1065 tell you that I adamantly oppose the quote reforms that were
1066 put in place. And CBO was pretty doggone clear about where
1067 the savings were coming from, at least \$500 billion of it,
1068 \$150 billion, essentially, for decreasing the choices for
1069 seniors in the Medicare Advantage Program, and \$350 billion
1070 through the opportunity to have a 15 member panel of
1071 individuals here in Washington to deny care to seniors if

1072 they did not meet the bottom line. So, the CBO was pretty
1073 doggone clear about where that money was coming from and it
1074 is the denial of care for seniors.

1075 I am in my fourth term here and have been frustrated
1076 from the very moment I arrived, that all of the inertia here
1077 in Washington is to spend money. So when people say that
1078 nobody wants to talk about process, that it is not an
1079 attractive issue at all, but process in our spending drives
1080 policy. And so I want to commend the chairman for calling
1081 this hearing, because I think it is incredibly important.

1082 Dr. Rivlin, you said something that I think is
1083 absolutely to the point, and that is that we need to make it,
1084 "Easier to grapple with the hard choices." And we have all
1085 touched on, I think, the frustration that we have with CBO
1086 and the scoring mechanism that appears to be less dynamic or
1087 realistic in reflecting the policies that have already been
1088 put in place. I think would basically agree that is a
1089 challenge or a problem. What are the solutions that could be
1090 put in place to allow the CBO to have greater capability to
1091 reflect the dynamism of the problems that are put in place?
1092 Dr. Rivlin?

1093 Ms. Rivlin. I think they are trying as hard as they can
1094 and they produce analyses, for example, of the impact of tax
1095 cuts, and there is some evidence, certainly, that reducing
1096 some kinds of taxes contributes to economic growth, but there

1097 is also evidence that a higher deficit is bad for economic
1098 growth, and if you are getting both, they sort of cancel each
1099 other out.

1100 Mr. Price. And I want to talk about the policy side. I
1101 am truly interested in the process, because CBO, they are
1102 good folks that are working over there. They are trying as
1103 hard as they can under the rules that they have, but
1104 sometimes, oftentimes, they are tens or hundreds of billions
1105 of dollars off in what actually has occurred, if you go back
1106 in history. That is not their fault. I would suggest it is
1107 the fault of the process. So, help me understand how we can
1108 improve the process, Dr. Penner, if you will maybe.

1109 Mr. Penner. Well, let me make a very general point
1110 about all of this, the last two interchanges. All of these
1111 estimates are very uncertain as you are implying. We do not
1112 have good data, we do not have good models or maybe we have
1113 too many models. And the Congress does not deal well with
1114 uncertainty. I am always amazed how the 10 year baseline
1115 projections are taken as so we know with 100 percent
1116 certainty that we are going to go right along there and the
1117 whole deliberations over the budgets assume that. I think
1118 other countries do a better job of dealing with uncertainty
1119 and I think the thing to do is to build mechanisms into
1120 programs, I would call them trigger mechanism, so that if
1121 things do not turn out the way you expect, especially if

1122 something costs much more than you expect, that there would
1123 be an automatic mechanism for slowing down the spending in
1124 that kind of program. But we will never eliminate the
1125 problem of huge uncertainty, especially in the medical area.

1126 Mr. Price. So an automatic sequestering in any program?

1127 Mr. Penner. Well, there need not be a sequester. I
1128 mean, most countries apply these mechanisms to Social
1129 Security where you might have an automatic, very gradual
1130 increase for the retirement age, for example, if the system
1131 goes astray. Some would like to do it on the tax side, maybe
1132 with an automatic increase in the tax base. Again, things
1133 that would bring the system into line.

1134 Mr. Price. Dr. Rivlin? Any comments on the dynamism?

1135 Ms. Rivlin. Well, I agree with Rudy. There is a great
1136 deal of uncertainty and people who are very strong proponents
1137 of a particular thing, whether it is a tax cut or a delivery
1138 system change in health care, always believe that it is going
1139 to work. And the evidence is not as strong as they often
1140 think it is. I mean, for example, in the middle of the
1141 1990s, we raised taxes at the top bracket. Any modeler would
1142 have said that is going to cut into economic growth and we
1143 got a burst of economic growth. So it is very hard to make
1144 sure that you have got these dynamic things right.

1145 Mr. Price. Thank you. Thank you, Mr. Chairman.

1146 Chairman Ryan. Mr. Lankford?

1147 Mr. Lankford. Thank you, and thank you for being here
1148 as well. In your testimony the dynamic part of it I am with
1149 you. It is difficult because I have seen multiple models. I
1150 just left a meeting before where one of the members was
1151 saying if we change the particulate levels a little bit,
1152 again, then it will save \$350 billion next year in health
1153 care costs. It is just one of those things that is very
1154 interesting. How do you determine that? Just a raw guess in
1155 the middle of it, but being able to find some way to have a
1156 trigger, some way to be able to manage that.

1157 Let me bounce a couple questions off of you. Let's be
1158 optimistic that we can both balance our budget and get on top
1159 of it. And I am a proponent of a balanced budget amendment,
1160 I understand where your coming from on that, I can see both
1161 sides on it. I would love to see Congress but responsible
1162 and be able to do it on their own, I just do not see a
1163 tremendous level of long-term responsibility year after year.
1164 And just maintaining that and having a parent in the
1165 legislative room, I think, is an asset. Just saying, I know
1166 you are going to do the responsible thing because you are
1167 going to do the responsible thing.

1168 Ms. Rivlin. Well, I think both of us are for the
1169 Congress forcing itself to do the responsible thing. I am
1170 only saying that I would not write it into the Constitution.

1171 Mr. Lankford. I understand that. Optimistically out

1172 | there, is there a benefit to having a rainy day fund, for a
1173 | disaster mentality, something that is set aside and that is
1174 | funded, or does that just mandate every year? You are going
1175 | to always spend that because you will make up a disaster
1176 | because you have got the money set aside?

1177 | Ms. Rivlin. No, I think that disaster funding should be
1178 | done on the basis of taking as careful a look as you can at
1179 | the average cost of disasters, and pre-funding it and if you
1180 | run out of money then that is another problem. Many
1181 | disasters, the average frequency, over several years, is
1182 | pretty predictable.

1183 | Mr. Penner. I agree with that. We should have some
1184 | sort of allocation for emergencies of that sort.

1185 | Mr. Lankford. We just talked about supplementals and I
1186 | understand that supplementals will always be an issue. I
1187 | think it is just one of those things that we can assume, we
1188 | are going to have a hurricane, a set of tornadoes, or an
1189 | earthquake pretty reliably at any given point based on our
1190 | history on it.

1191 | Let me ask you as well, some of our committee
1192 | structures, and some of your statements I really appreciate
1193 | on how the committee structure itself seems to slow down
1194 | oversight and managing budget, dealing with appropriations,
1195 | authorizations, the tax, the budget, all of those things, as
1196 | well as an oversight. If you want to have oversight over an

1197 agency, it is almost impossible to have real oversight over
1198 an agency, because the oversight is spread out over multiple
1199 different committees because our agencies are not aligned up
1200 with our committee structure. Whether that is by design, or
1201 whether that is by accident, it is working still the same.
1202 It is very difficult to do an oversight.

1203 Broadening out from the budget and tax areas, is there a
1204 need to do a broad-scale reform of how we do committees in
1205 the House to align it better with our agencies and also to
1206 align it better with an efficient budget process?

1207 Ms. Rivlin. I think so. The testimony I referred to
1208 was, I believe, and then this is back when the chairman was
1209 in diapers, it was, I believe, it was before a select
1210 committee on committees. This was a moment at which the
1211 Congress decided it should reform its committee structure and
1212 did not end up doing it, or only partially, I guess. But,
1213 yes, I think it is time to revamp the whole thing.

1214 Mr. Lankford. Okay.

1215 Mr. Penner. I must confess, when I was CBO director,
1216 there was nothing I feared more than to get into an argument
1217 about committee jurisdiction. Certainly, there is a logical
1218 case. If you want a really radical view, the budget process
1219 was invented because we have this peculiar custom of making
1220 spending and tax decisions in separate committees. Before
1221 the Civil War, Ways and Means was Ways and Means. They did

1222 both spending and taxes at the same time. And most countries
1223 do that, most countries have a kind of super, let's call it a
1224 Budget Committee, that makes appropriation decisions and tax
1225 decisions all at the same time. And I think ultimately, that
1226 is where you should go, but there are, as Alice suggests,
1227 more modest ways of better aligning the committee structure
1228 with departments and programs.

1229 Mr. Lankford. That is my other question. Is there a
1230 way to be able to get a year ahead in our planning process,
1231 going back to 1920 and before, is there a way to be able to
1232 get to a number? That when the president presents a number,
1233 the House, the Senate and the president have already agreed
1234 on what that top line number is and we are really arguing
1235 about the details within and how to shuffle that. So that
1236 the president does not submit one number, the Senate does
1237 another, the House does a number, and this drags all the way
1238 out and creates tremendous uncertainty until the fiscal year
1239 and then we bump up against it.

1240 Ms. Rivlin. That really is the concept of the Joint
1241 Budget Resolution signed by the president, which Rudy once
1242 favored and now does not. I think only because he thinks it
1243 would not happen. But, that is the basic idea that everybody
1244 agrees on the top line even by functions and then works
1245 within it. Sounds like a very good idea if you could do it.

1246 Mr. Lankford. It is just trying to get that done.

1247 Mr. Penner. The first step is to do appropriations on
1248 time, I think. I think it really adds to the inefficiency of
1249 government when bureaucrats do not know what they are going
1250 to have to spend until after the fiscal year has already
1251 begun

1252 Mr. Lankford. I would completely agree with that. I
1253 yield back.

1254 Chairman Ryan. Thank you. I, too, was for it before I
1255 was against it, as well. Mr. McClintock?

1256 Mr. McClintock. Thank you, Mr. Chairman. I would like
1257 to just test out a theory that I have evolved over the last
1258 few years since I arrived here at the Congress, and that is
1259 that we have a parliamentary system that has evolved over
1260 centuries. And it has become very good at distilling many
1261 diverse viewpoints into a common direction for a nation.
1262 Each House reflecting different elements of decision making
1263 and independently arrives at a decision. The differences
1264 between those two Houses are then resolved through a
1265 conference process, which itself has become very good at
1266 resolving differences between the two Houses, when it is used
1267 properly, not to draft new legislation, but simply to
1268 identify the differences. If the House says \$5 billion and
1269 the Senate says \$10 billion, the only question is where
1270 between \$5 billion and \$10 billion do we end up? We do not
1271 go under \$5 billion, we do not go over \$10 billion. When it

1272 is used in that way, it seems to me the system works very
1273 well. The problem is it is not being used. We have not
1274 passed a budget in the Senate in nearly three years. The
1275 House failed to fulfill that responsibility last year. How
1276 much of this is failure of process and how much of it is a
1277 failure to follow process?

1278 Ms. Rivlin. Well, I think very much is a failure to
1279 follow the process, and there have been times in the history
1280 of the budget process when it worked quite well.

1281 Mr. McClintock. When it was followed.

1282 Ms. Rivlin. When it was followed, yes, absolutely.

1283 Mr. McClintock. Well, the question I come to is are we
1284 running a file of the old maxim, if it is not broke, do not
1285 try and fix it?

1286 Ms. Rivlin. Well, I think that are many elements of the
1287 current process which make it hard to get done on time
1288 because of the complexity and the number of committees and so
1289 forth.

1290 Mr. McClintock. I did not say it was not hard; it is
1291 really hard work. But, when it is followed, it seems to
1292 produce reasonably good work products. But what I am
1293 watching is the system has completely disintegrated. I mean,
1294 the super committee, this constitutional abomination, which
1295 sidelines 523 representatives of the people in favor of a
1296 closed process that short circuits all of the independent

1297 mechanisms that were built into a bicameral, legislative
1298 process.

1299 Ms. Rivlin. I could not agree more. It is the failure
1300 of the Congress to follow its own rules to get the job done
1301 that has lead us to this point.

1302 Mr. McClintock. So, all of this discussion about
1303 changing the process is simply averting the responsibility
1304 that we all have to follow that process.

1305 Mr. Penner. Well, I think you are right on that the
1306 major problem is not following the rules that we have, but
1307 that does not mean that we should not work on the rules some.
1308 I think one of the problems with the budget process, as Alice
1309 implied, is that to try to close various loopholes in the
1310 rules, we have added more and more rules and the whole
1311 process has become as complicated as our tax system, almost.
1312 And it is beyond the understanding of 99.9 percent of all
1313 Americans, at this point.

1314 Mr. McClintock. But all of the accretions we built onto
1315 that, but the basic system, which works well, is known to
1316 every reasonably well-educated school child.

1317 Mr. Penner. Well, I am not so sure of that.

1318 Mr. McClintock. The problem is we are not following it.
1319 Let me go on because my time is brief. The balanced budget
1320 amendment: Dr. Rivlin, you say you oppose it because it is a
1321 fool's errand to try to look hundreds of years in the future

1322 and anticipate the conditions that a future Congress might
1323 face. Was that essentially what you were saying with the
1324 comment about it requires us to build algebra into the
1325 Constitution?

1326 Ms. Rivlin. No, it was that you do not always want to
1327 balance the budget. And there are certainly times when you
1328 are falling into a recession, when a requirement to balance
1329 the budget would require you, at that moment, to cut spending
1330 and raise taxes, and that is exactly the wrong thing to do.
1331 For that reason, the balanced budget amendments that make
1332 sense write all these exceptions in.

1333 Mr. McClintock. Why not just say no more borrowing,
1334 except by extraordinary majority vote of the Congress, say
1335 three-fourths of the Congress, for a single object or work?
1336 Future Congress by three quarters vote is going to be able to
1337 recognize a real emergency, as opposed to the simple urge
1338 just to keep spending. And a single object or work means
1339 that you have to identify what it is that you are borrowing
1340 for by that extraordinary majority.

1341 Ms. Rivlin. Well, maybe, I just think there are better
1342 ways of getting fiscal responsibility than writing it into
1343 the Constitution. And super majorities give an awful lot of
1344 bargaining power to people who are on the margin of being
1345 part of the super majority.

1346 Mr. McClintock. Well, they require a certainty of

1347 action the higher that super majority has expended.

1348 Ms. Rivlin. Well yes, but you also see people
1349 bargaining, "I will join the super majority if you will build
1350 a bridge in my district." That is not what you want to
1351 encourage.

1352 Chairman Ryan. Thank you, let me just follow with one
1353 final questions. Dr. Penner, I understand your views of
1354 biennial, and it is a fairly common criticism to the idea.
1355 Both of you talked about the need to pre-fund emergencies on
1356 sort of a rolling average basis. If Congress could come up
1357 with a suitable system to define and more or less pre-fund
1358 emergencies so that the supplemental process is as airtight
1359 as it can get, would that alleviate your concerns on going
1360 towards a biennial system? If that is fixed are you in the
1361 Alice Rivlin camp, where then it has virtues to it?

1362 Mr. Penner. Well, that would help a lot to somehow
1363 figure out a way of disciplining supplementals, but I think
1364 there are all kinds of other things that change. It is not
1365 only a matter of national emergencies. Your revenue
1366 estimates are, frankly, very bad; they can change radically
1367 from year to year, even in the absence of recession. There
1368 are all sorts of spending issues, or spending programs, that
1369 can go off in surprising directions. So, I think I would
1370 still not favor biennial budgeting.

1371 Chairman Ryan. All right, thank you very much. Thank

1372 | you for your indulgence and your time. This is something we
1373 | have to wade into, because I think all of us agree the system
1374 | is not working to the extent that it needs to. Congress has
1375 | to have discipline first for any system to work, but if we
1376 | could get a system that makes it as easy as possible for us
1377 | to exercise discipline, that is what we want to achieve.
1378 | Thank you very much for your wisdom. Hearing is adjourned.
1379 | [Whereupon, at 11:31 a.m., the Committee was adjourned.]