

STATEMENT

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BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

HEARING ON: *"Alternate Approaches to Federal Budgeting"*

JULY 6, 2016

Thank you, Chairman Price, Ranking Member Van Hollen, and Members of the Committee. I appreciate the opportunity to appear here today to discuss the problems we face in setting effective and timely budget policy.

The wise use of the resources available to the federal government can have an extraordinary impact on our economy. While we value the great achievements of our private sector, those achievements are often far more closely linked to effective government and smart budgeting than most people realize. Consider for a moment:

- It was the National Center for Agriculture Utilization Research in Peoria, Illinois that took the first steps toward allowing penicillin to be produced commercially and in quantity thereby spawning what we now know as the pharmaceutical industry.
- It was a contract awarded by Aberdeen Proving Ground to the University of Pennsylvania that developed the first mainframe computer .
- It was a contract awarded by the National Institute of Standards that facilitated the commercial production of that computer as the Univac.
- It was an Army Signal Corps contract with Texas Instruments that produced the first semiconductor.
- It was the Apollo and Minuteman missile programs that purchased semiconductors in sufficient numbers that allowed the price to fall to a level that they could be used in personal computers.

- It was a Defense Advanced Research Agency contract that allowed a computer at UCLA to be linked with one at Stanford (the first leg of the internet) and it was a National Science Foundation grant that created the Computer Science Network, the original backbone of the internet we use today.
- It was another National Science grant to the University of Illinois that created MOSAIC, the first internet browser later to become Netscape and the forerunner of all of the browsers we use today.
- It was a government contract with Bell Labs that discovered that communication between the ground and an orbiting object could provide precise information about where an object or individual is located anywhere on the face of the earth. That opened the door to the government's development of the global positioning satellites and the entire series of industries that have sprung from that.
- It was National Institutes of Health grants in the 1960s and early 1970s that funded the first experiments in recombinant DNA. Those experiments were the advent of what we know today as biotechnology which is revolutionizing not only every field of Medicine but profoundly affecting the course of agriculture. It continues to spawn thousands of new products each year.

Of course, effective resource allocation is not only critical in terms of science and innovation, it is also important in terms of the physical infrastructure needed to support business activity and the transportation infrastructure needed to tie businesses together and to facilitate the sale of domestically made products around the world. That would include our roads, bridges, rails systems, airports and air traffics systems, harbors and waterways, our electrical grid and sewer and water systems.

And perhaps most important is the ability of government to assist in developing human capital capable of conceiving new products and the skills needed to produce and distribute them. This would include education at all levels from solid preschool programs to the financial assistance that some of our brightest students must have to reach college or graduate school. There is no more dramatic example of smart government investment in this area than the original GI Bill which by dramatically improving the education of the American workforce became a pillar of the post war economic miracle enjoyed by American families.

And while we often hear more complaints than praise about government regulation, smart regulation has made American pharmaceuticals the world standard for safety. Government regulation of the securities industry is the backbone of this nation's dominance in world finance. Technological advancement is dependent competent government agencies providing inventors and

investors the ability to protect their intellectual property. And commerce generally can flourish only in a society in which government can insure the rule of law through ethical and competent law enforcement and an unbiased judiciary. Competent, well run, adequately funded government agencies are critical to efficient regulatory policy needed by dozens of industries.

All of these activities require resources and under our Constitution that is primarily the responsibility of the Congress. The resources necessary for such activities must be considered and allocated each year through a system we call the budget process. It is not just about how much money is spent but whether or not we are spending the right amount in the right place and at the right time.

Looking back on what we accomplished during the 1950s, 60s and 70s and the economic foundation those investments and accomplishments provided for today's businesses, I would say somebody did a pretty darn good job. My question to this committee is, will people 30 years from now who look back on the current period be able to say the same thing.

I am afraid they will not. I am afraid they will say that we under invested in their future and that even the modest share of the budget that we are putting toward investment is not spent with the care and wisdom that such investments deserve.

I began watching this process 50 years ago this summer as an intern for a junior member of the House from my home state of Missouri. Later I worked in the 1970s and early 1980s as an associate staff for this committee. We did two budget resolutions a year during that period and I spent many long hours in this hearing room. I also spent nearly two decades in one role or another with the House Appropriations Committee and since I retired from that committee in 2004 I have dedicated most of my time to digging deeper into how we as a society make decisions about resource allocations and following the efforts of people like your selves in your day to day deliberations.

To me the budget process should not be viewed in terms of the adoption of a joint resolution by the two houses of Congress. That is one procedure that is only one phase of a much bigger process and it is the entire process that must succeed if tax payers are to get their due.

The full process begins when the thousands of team leaders in the various agencies and departments across the government pull their staffs together to sit down and talk about what they are doing right, what they are doing wrong and what they could do with more money if they had it or how well they could get along with less money if they needed to. That usually occurs about 8 to

10 months before the President's Budget is submitted to Congress. The process is concluded about 18 to 24 months later when the president signs the final spending legislation which Congress has produced, be it appropriation bills; entitlement changes or new provisions to the revenue code.

What happens during that 18 to 24 months has a great deal to do with the quality and effectiveness of government and that in turn has a great deal to do with the quality, safety and prosperity of the society we live in. You may never convince the man on the street of this but budget process is a big deal.

My view after years of watching this process is that it has deteriorated dramatically in recent decades. I think the deterioration is at both ends of Pennsylvania Avenue and I think the consequence is a government that is no longer as forward looking as the one we had decades ago, no longer investing in the way it should be in technologies and infrastructure that will guide our future and no longer performing the thousands of day to day tasks which citizens depend on in ways that will insure our safety and prosperity.

There are numerous reasons for this deterioration but I will touch on what I consider to be some of the main ones. Budgeting has become overly politicized. This is in large part a product of the increased polarization of American politics—a polarization that largely centers over a deep divide that has evolved over the past 40 some years over the role of government and how to finance it. For those wishing greater insight into the nature of causes of that divide, I strongly recommend Jane Mayer's recent book entitled "Dark Money." Since the early 1970s we have experienced the investment of huge sums of money in a coordinated effort aimed specifically at denigrating government and reducing public confidence in government solutions. This has given rise to an extreme form of libertarianism that now infects and deeply divides one of the two major political parties.

But the politicization of budget policy cannot be entirely explained by the depth of the nation's ideological divide. The executive budget process was established by law in 1921. It provides authority for the president to gather the requests of the various agencies and departments review and alter those requests as he ultimately decides is necessary and submit a budget for the entire executive branch to the Congress.

Increasingly that document has become more of political football than a serious exercise in understanding resource needs. It is largely a top down exercise. People who run programs for the federal government are instructed on what they should ask for and ordered to keep quiet as to

what they believe the real needs are of their agency. An example of that kind of budgeting was graphically described a few years ago when the Government Accountability Office examined why the Bureau of Prisons was consistently so far off in estimates about its annual needs. GAO found that the Bureau was in fact quite good at estimating future costs but was told by higher ups that the increased number of prisoners being committed to their custody by the courts was not going to result in increased costs. As a result, we were for several years faced with the prospect of prisons being shut down in the last months of the fiscal year.

But the top down approach to understanding resource needs and allocations has far broader impact on the quality of decision making. Those at the top who have the power to dictate the amounts to be requested and silence those who disagree have very limited understanding of the programs and policies that are at issue. The real experts that should be enriching the debate over resource allocation have been gagged. In the end, the amounts requested are based largely on some adjustment made to prior year numbers. As a result much of the government has been largely on automatic pilot for years if not decades. Opportunities for big budget savings are ignored as well as opportunities to vastly improve the quality of services.

This could not have happened if those granted the power of the purse by the Constitution were not asleep at the switch. The Appropriations Committees have the power to reopen the debate about what resources are necessary to perform which jobs. They have the power, if necessary to mute those voices in the White House and the Office of Management and Budget that direct agencies to not make honest judgements about their resource needs.

But that takes an enormous amount of skill, time and attention to details that Wolf Blitzer will never talk about. The classic work on this process is called appropriately enough, *The Power of the Purse*. It was written by Richard Fenno and published in 1966. Fenno conducted more than 90 interviews with Congressional leaders, Appropriation Committee Members, staff and executive branch officials over a period of 6 years.

More recently the full text of Fenno's interviews have become available through the National Archives. Here is an excerpt from one interview with former Congressman Edward Boland of Massachusetts who was junior member of the Appropriations Committee at the time explaining how his particular subcommittee chairman managed the hearing process. In later years many would use very similar terms to describe Boland's leadership on the same subcommittee. I think that it is quite telling:

He knows the bill backwards and forwards. He works it hard, awfully hard and the members know it. He's worked with these people for years. And he knows them like a book. He does more work on the bill than all the other members combined...in the hearings he develops his case so completely, has his questions ready and takes maybe two days questioning the witness. When he's through, there isn't much left to ask about. It's all in the record.

I think the members of the Appropriations Committee still work hard but their efforts pale in comparison to this standard. Given the work schedule of the current Congress developing such expertise would be impossible even for the most dedicated member.

Simply look at this year's calendar posted by Majority Leader McCarthy. It is remarkable. Of the 251 days in 2016 that are neither weekends nor holidays, the House is in session only 110 and out of session 141. But the story gets worse. There are 28 of those 110 days in which first votes aren't until 6:30 p.m. and another 26 on which the leadership promises that last votes will occur before 3:00 p.m.—so in effect you have 56 full days of session. By contrast you have 84 full days of “district work” and an additional 51 week days that are not scheduled for work in either Washington or the district.

I went through my first full round of budget hearings in the spring of 1974 on what was then called the Labor-HEW subcommittee. Members were expected to be in attendance and the subcommittee met both in the morning and afternoon and often for 4 or 5 days a week. We held a separate hearing for each agency and often for administrative entities or activities within agencies. For instance, every year we held a separate hearing for each of the separate institutes within the National Institutes of Health. Today, the subcommittee dismisses NIH witnesses after one morning's testimony on the agency's budget request of \$30 billion.

When the time came to put that appropriation bill together the markup often lasted several days. Members argued passionately for specific priorities within the jurisdiction of the subcommittee with some items not being resolved before hours of debate had taken place and every member of the subcommittee had weighed in on one side or the other. There were hundreds of separate programs within that bill and nearly all members of the subcommittee had detailed working knowledge of the majority of them.

That simply does not happen today. Because of the calendar there are only a limited number of days that hearings can occur. Because so many committees must meet on those days, hearing are often lightly attended. The tenure of members is lower and the tenure of chairman is much lower. One change in the rules of the House Republican Conference is in my judgment enormously problematic.

It imposes term limits on committee and subcommittee chairs. About the time that a member develops the level of expertise necessary to effectively challenge the executive branch on policy matters he is pulled completely out of that jurisdiction and given a different assignment.

In 2002, Ralph Regula of Ohio had more expertise on public land policy which included the operations of such agencies as the National Park Service, the Forestry Service and the Bureau of Land Management and so on than any member of Congress on either side of the Capitol. He had studied those problems and the men and women who managed those agencies for decades. The effect of this rule was to remove Regula from that jurisdiction and move him to assume the chairmanship of the Labor-H subcommittee—a subcommittee that he had never previously served on. It was a red letter day for bureaucrats in the Departments of Interior, Health and Human Services, Labor and Education who wanted to operate their shops without Congressional interference. It was a very bad day for the Congress.

A very big part of the problem with appropriations, however, is in the purview of this committee. Any effective resource allocation process starts with the knowledge of what resources are available to be allocated. That has for much of the past two decades been a mystery to appropriators for much of the period in which they charged with putting together appropriation bills. In some instances, there simply is no 302a allocation from which the Appropriations Committee can work. At other times the allocation made by this committee is completely out of line with the possible. One of many examples of this was during the summer of 2013 when the House defeated the FY 2014 Transportation, Housing and Urban Development Appropriations Bill. Republican Congressman Jack Kingston of Georgia explained the dilemma that the majority party found itself in:

When it came time for the general (Republican) conference to affirm the Ryan budget in the form of 12 appropriations bills, the conference balked. ... We need to regroup and say, “OK, was your vote for the Ryan budget a serious vote or was that just some political fluke that you don’t intend to follow up on?”

Rep. Hal Rogers (R-KY), chairman of the House Appropriations Committee, explained the legislative misfire in a statement released after the bill was pulled, saying that the legislation:

... was the first major attempt by the House to consider and pass an Appropriations bill that funds domestic programs under the austere level delineated under the Budget Control Act and the House budget resolution.

The bill today reflected the best possible effort ... to fund ... highway, air and rail systems, housing for our poorest families, and improvements to local communities – while also

making the deep cuts necessary under the current budget cap. In order to abide by sequestration budget levels, this bill cut \$4.4 billion below the current, post-sequestration total.

I recall Republican Appropriations Chairman Bob Livingston's frustration in the late 1990s when he was repeatedly placed in the same situation. Those crises were resolved in much the same manner as Speaker Boehner resolved the crisis in Fiscal 2016 and attempted to avert the 2017 crisis that we currently face. Livingston simply waited until the end of the year when all of those insisting on radical austerity wanted to go home and at that point they were willing to pay whatever price was necessary. Repeatedly in the late 1990s, end of year appropriation packages were sent to the president that were dramatically higher than the amounts the budget committee had been insisting on all year long.

You might say that ultimately the appropriations were enacted; a shutdown was averted; Congress did its job and all is well that ends well. But that kind of herky jerky process which has been the rule rather than the exception over the past two decades does not lead to the kind of careful decision making that should be employed in deciding where additional resources will most likely yield the highest return for the tax payer. It is a colossal waste of time and effort that could more profitably be spent evaluating programs and allocating resources.

So what can be done to improve this process? I take issue with those who say that one more bell or whistle will do the trick. I think the problems we face are ones of practice much more than ones of process.

First and foremost, the Congress in general and the Budget Committee in particular must accept the mandate that the founding fathers established for the Congress. The purpose of a legislature is to find a common course that people from all across the country of different regions, religious beliefs and views of government and society can get behind. The essential purpose of the Congress is compromise. People who are elected to Congress on the promise that they will not compromise are destroying our capacity to govern ourselves.

With all of the flaws of the 1974 Budget Act, and I think there are many, it worked reasonably well as long as Congress was willing to compromise and in the end the principle problem with the budget process is the principle problem with the legislative process generally: an unwillingness to look for a common denominator and forge a broad coalition around a path forward.

What can be done from a process standpoint? I think we have some interesting proposals before us this morning. None of them actually require amendments to the Budget Act and in some respects these proposals are being used already.

Performance based budgeting makes a great deal of sense within the proper framework. If we find that two programs are directed at the same objective and one works better than the other we should clearly terminate the one that is working less well and invest more heavily in the one that works the best. I think budget policy makers in both the executive branch and the legislative branches do that when such situations present themselves.

But performance in a huge portion of federal spending is not easily evaluated. I have spent more than 40 years trying to understand the effectiveness of Title I of the Elementary and Secondary Education Act. The answer is that some school districts do a great job with it and others not so much. The only way we can apply performance based budgeting to that program at the federal level is to take decision making about what happens in the class room away from local school boards and that is a step many in Congress understandably refuse to take.

I think it is also true that government activities are generally far more difficult to evaluate than the more routine processes used in industry. Much of what is left to government are things that the private sector simply can't do and at the outset no one actually knows how to do them. That extends from establishing security measures to protect against terrorism to building the next generation of technical systems to manage air traffic control.

We can't evaluate research based on a performance. Until the experiment is complete and the results are tabulated you have no performance to base your judgment on and by that time the money is spent. Deciding which potential experiments are worthy of the resources necessary to conduct them is largely a matter of scientific intuition and in many cases, plain serendipity. We can set up processes to insure that the best scientific minds are involved in making those choices but beyond that it is an arena in which good policy simply requires us to take our chances.

We also are often in a situation in which we have a program that is not working particularly well but it addresses a need that must be met. We can encourage our prisons to innovate and produce alternative models for incarceration and reintegration of inmates into the community but we can't zero them out just because they are not doing a good job.

There is a lot that can be learned from performance based budgeting but it must be applied on a case by case basis. In the end nothing is more important than a solid grasp of what a program is and what it is trying to accomplish and how much we as a society need it. Once we clearly understand those three things we need to come up with common sense approaches for improving our evaluation.

I would also say that Portfolio Budgeting represents the kind of thinking we need to reinstitute in government generally and that thinking should flow into the budget process. I mentioned at the beginning of this statement the work of the Illinois Agricultural Research Center in the development of Penicillin.

The effort of the Agriculture Department and in particular the War Production Board in the years leading up to World War II to develop that drug and put it into production is one of the great untold stories in American history. There was essentially no pharmaceutical industry in the United States prior to World War II. Very rudimentary research conducted in the United Kingdom, however, indicated that certain molds had a dramatic effect on infection.

It was believed that there was the potential for creating a drug out of mold and mass producing it and that that could potential have a dramatic impact on survival rates among wounded soldiers. The federal government in a matter of months literally conducted the applied research necessary to demonstrate that the mold could be produced in large enough quantities and then contracted with a hodge podge of businesses that would later emerge as the American pharmaceutical industry to begin efforts to manufacture.

That bold initiative stands in stark contrast to the incrementalism with which much of government today goes about the tasks that Congress has mandated they achieve. As the advocates of portfolio budgeting argue, the world is changing and many of the problems we face need longer term and more innovative solutions than simply doing a little more of what we are already doing. In certain cases we need to take bold steps that leap over current approaches and create entirely new systems—that has always been important but in a world that seems to be reinventing itself every day it is even more so.

This approach to governance, however, is unlikely to take place in an environment where you are deadlocked between whether you will give agencies a two percent cost of living increase or flat line them at their current spending levels.

In the end, I think the failing of the 1974 Budget Act is rooted more in the fact that it tried to do too much and with way too much bravado. Nothing is more critical in the work of a legislature than time. If the first five months of a year are allotted to developing a plan for Congressional action on budget measures, that leaves only half of the year (and perhaps only a quarter of the legislative year) to accomplish the plan. One possible reason that the Budget Committee has had such limited success in impacting entitlement spending is that each year it uses up the time that would be necessary to craft fundamental change in entitlements.

But beyond time, I think the current process of producing a joint budget resolution sets a bad tenor for achieving the legislative compromises that a successful budget cycle requires. After months of political vibrato by both parties extolling their budget plans and attacking the proposals of the opposition, the voters speak and we get a new Congress. The first job of that Congress should be to sit down and see what can be achieved based on the choices the voters made. In specific, what are the areas of potential agreement that a reasonably broad coalition of members could work together to achieve?

Instead, the 1974 Act requires us to endure 5 more months of political theater in which the differences between parties or even factions within parties are exaggerated and faux budget proposals that have carefully omitted the painful details of the choices they would force are paraded through committee and across the House Floor. When that is all over with, we wonder why the Ways and Means Committee or the Commerce or Appropriations Committees can't put the real budgets requiring real compromises together in the 60 remaining days before the August recess.

To the extent that we need to have a planning committee to coordinate or direct the tax writing and entitlement committees, I think the work should be done in the legislative session before the session in which the actual legislation is to be considered.

With respect to incorporating a cap on discretionary spending, I see no reason that producing such a number could not be done in February in a reasonably low key manner. The resolution that this committee reported several months ago proposes that discretionary spending be cut in fiscal 2018 from the 2017 cap \$1,164 billion to \$1,138 billion. I am sure Mr. Van Hollen would like to see a number at least somewhat higher than \$1,164. That is a decision that will weigh heavily of the success of the appropriations process but it is not a big deal in terms of the \$3.9 trillion in spending

contained in the budget reported by this committee earlier this year. If we need to pick a number to constrain discretionary spending, why can't we do that in February?

Finally, I think the 1974 Budget Act has always been deeply flawed by the manner in which the budget committee is constituted. It is in essence a legislative planning committee. It is supposed to direct the work of the most powerful committees in Congress. The success of those committees and therefore the success of the entire Congress hinge on the directions that the budget committee provides.

So why then should it be made up of a multitude of relatively junior members who have no particular stake in the success or failure of the process once their opportunity to participate in crafting a resolution has passed? To compound this problem, the Budget Committee has attracted members who sought a platform to express their particular views on budget matters. In many instances those views were extreme relative to others in their party or in the institution generally. But that is not at all what the adoption of a Congressional Budget Resolution should be about. If it is to facilitate the adoption of legislation that contains the actual spending and taxing policies, it must bring the power centers of the institution together rather than attempt to expand the number of ideological options.

I think the Congress could be more effective if the Budget Committee were much smaller, were more closely tied to the leadership and the committees responsible for producing actual budget legislation and capable of completing its work much sooner in the legislative calendar.

I hope you find my views of some value and I would be happy to answer any questions you may wish to ask.