

**Hearing on
Alternative Approaches to Federal Budgeting**

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Chairman Price, Ranking Member Van Hollen, and members of the Committee, thank you for inviting me here today to discuss new ideas for the federal government's budget process.

I am Steve Redburn. I teach a graduate course on the institutions and processes of the federal budget in the Trachtenberg School of Public Policy and Public Administration at George Washington University. I also direct fiscal studies for the Centers on the Public Service in the School of Policy, Government, and International Affairs at George Mason University. I am a member of the National Budgeting Roundtable chaired by Stuart Butler, Maya MacGuineas, and Paul Posner. That group has worked for over two years now to develop and assess fresh ideas for reform of the federal budgeting process. I will be drawing in my testimony from the pool of ideas presented to the Roundtable, <http://www.budgetingroundtable.com/working-papers/>. However, the views I am expressing are my own.

One idea we have explored in the Roundtable is a new approach to budget development that Dr. Posner and I have named 'portfolio budgeting.' Paul testified on the approach before this Committee in April. Today, I will talk about practical steps that could help implement that approach, and discuss related ideas such as 'performance-informed budgeting' and 'zero-based budgeting.'

These and other reforms could be brought together in a new budget process more likely to put the budget on a sustainable course and meet the expectations of voters. I will outline briefly a few additional reforms that would complement the introduction of portfolio budgeting.

First, let me explain why I believe such changes would be beneficial. The current budget process, in both its executive and congressional stages, is largely incremental, focused on marginal changes. It also is organized by agencies and programs, rather than around the policy goals that are the focus of most public discussions – that is, the way most leaders and citizens talk about what they want government to pursue. The current process also separates decisions on spending from decisions on revenue policy, including use of the tax code to support particular policy objectives. These provisions function much like spending programs, and are commonly referred to therefore as ‘tax expenditures.’

The new President and next Congress will need a working budget process to help them put resources behind their policies and govern the Nation effectively. In my view, a return to the “regular order” is not enough. We need a new order that will help leaders make tough fiscal choices in a complex and turbulent world. A different budget process would help leaders translate promises into resource allocations aimed at achieving a desired future, anticipating a broad array of complex challenges amid great uncertainty.

Goals for Federal Budgeting Reform

To evaluate specific reform ideas, it helps to have a set of goals against which to measure their likely effects. I would suggest that budgeting reforms aim at giving the federal government a budget process that:

- Is more disciplined, predictable, and institutionalized;

- Facilitates negotiation and compromise;
- Regularly reviews all elements of the budget, including revenue and spending policies;
- Is more forward-looking, giving greater attention both to growth-producing investments and to long-term commitments;
- Supports decisions to stabilize publicly held debt at a safe level over the far horizon;
- Is neutral with regard to specific policies, including the balance between revenues and spending; and
- Supports more use of evidence showing how alternative resource uses would improve the government's performance in achieving national goals.

Recommended Actions

Creating a stronger budget process almost certainly will not be the work of a single Administration and Congress. But, it is important to begin. The new President and Congressional leaders could begin by taking these major steps toward a budget process that meets the aims listed above.

1. Budget for national goals.

As noted, the current process for developing the budget – because it is biased toward marginal, short-term changes and familiar policies and is piecemeal, fragmented, and stove-piped – is often blind to major shifts in the Nation's economy and social structure. The result: it misses bigger, strategic options that could produce breakthrough gains in how resources could be used to achieve national goals. That is why it would be helpful to add a 'portfolio budgeting' approach to the current process. This would make room in the process for selective, deeper consideration each year of a few important policy objectives that cut across agency, program, and committee jurisdictions.

Each year, for each selected policy objective, the full portfolio of spending, tax provisions, and other policies addressed to each selected goal would be compared with alternative strategies that use resources very differently with the aim of finding a new strategy to achieve a better result at lower cost. Because it looks not only at increments but at the *base* of current spending and revenue policies, it resembles the ‘zero-based budgeting’ approach used by some states. This approach is designed to identify breakthrough gains in the productive use of resources. Budget savings resulting from a more productive strategy could be reinvested in the same effort or in other policy priorities that promise higher long-term returns.

Portfolio budgeting is a way of introducing better evidence on cost and performance into budget decisions – a version of ‘performance-informed’ budgeting. Doing so leverages an ever-growing body of systematic research evidence about which policies are more cost-effective than others in achieving various outcomes. Just take housing policy as an example: in the last few years, research has provided new insights into how better targeting of low-income housing assistance to families with young children who will use it to locate to neighborhoods offering better schools and job opportunities can maximize the benefits of this federal spending. Similarly, careful evaluation of efforts to get chronically homeless into permanent assisted housing has formed the basis for the success of the last two Administrations in reducing the numbers of people on the streets at a net savings of public dollars. The challenge now is to make better use of such insights when budgeting.

Enactment of the Government Performance and Results Act in 1993 started a long process in which executive agencies have learned how to better measure and evaluate their programs’ performance and bring evidence to bear in their program management. And, the GPRA Modernization Act of 2010, GPRAMA, has provided an improved legal framework for applying information about how policies are working to budgeting. It also supports the identification of cross-agency performance goals that in many cases better

correspond to the government's portfolio of efforts to achieve important policy objectives.

The executive agencies' setting of multi-year goals has now been synchronized with the presidential election cycle. Therefore, in the first year of the next Administration and as the new President is preparing a first fully detailed set of budget proposals for FY 2019, the executive agencies will be updating their strategic plans. The GPRAMA requires agencies to consult with Congress as they set priorities consistent with their legislative missions. At a leadership level, one can imagine a parallel consultation about policy priorities between a new President and Congressional leaders in early 2017, as work begins on the Administration's first full budget. Such an exchange, should it take place, would be an early opportunity to build a more constructive relationship between the two branches respectful of their respective strengths and constitutional responsibilities. This could include identifying policy areas that the Administration and Congress agree are ripe for review, even if they do not agree completely on the best way to achieve them. Here are just two examples of goals that could be chosen in a given year for a portfolio review leading to budget proposals in the following budget cycle:

- Higher education policy: The federal government has taken on a large role in promoting access to higher education, but many analysts believe the current system of federal support – through grants, loans, and tax expenditures – is far from optimal. Many proposals have been advanced for changes in federal strategy.
- Infrastructure needs: While estimates vary, analysts have identified a large backlog of needs for infrastructure maintenance and improvements that is not being met under current policies. A portfolio review might develop new strategies that leverage federal subsidies, including tax expenditures, more effectively to help support the most urgent and highest return infrastructure investments.

Through enactment of the GPRAMA, in other words, Congress has given itself an opportunity for input into the executive's selection of targets for in-depth review – identifying a select set of policy goals that could be the basis for 'portfolio reviews' during the months to follow in each branch. Or, leaders of the House and Senate, working through the budget committees, could make their own selection of targets for portfolio review, perhaps drawing on GAO's analysis of 'fragmented, overlapping, and duplicative' programs. The Budget Committees might then direct GAO, CBO, or others – such as the congressionally chartered National Academy of Sciences and National Academy of Public Administration – to conduct deep reviews of the portfolio of policies constituting current strategy to address each goal and ask them also to identify and assess alternative strategies that could be more productive and could yield budget savings.

The budget committees could use their budget resolutions to direct the work of other committees consistent with the findings of the portfolio reviews they commissioned in the previous year. The resolution might, then, include reconciliation instructions to those committees with jurisdiction over parts of the relevant policy portfolio. The details of how this is done will depend on how the role of the budget committees in this reformed process is defined, and it may require changes to the 1974 Act.

As discussed below, changes to the role of the budget committees and other reforms would complement the introduction of a portfolio approach. These include reforms that would:

2. Strengthen the budget committees.

The 1974 congressional budget act that shaped today's congressional process was a compromise that limited the ability of the new budget committees to shape a coherent congressional budget resolution and to enforce its targets and priorities. As a result, the new process has been used only erratically and to limited effect.

To make Congress an effective partner with the President in shaping budget priorities, the House and Senate budget committees must have a stronger role in shaping budgets and directing the work of other committees. If they are reconstituted as leadership committees – for example, by including the chairs of the appropriations and tax-writing committees – they can become a forum for negotiating the outlines of the budget at the beginning of the process, giving specific policy instruction to other committees to hit savings targets. Later in the process, they can use a robust reconciliation process to ensure compliance with the resolution.

A working paper for the National Budgeting Roundtable authored by Phil Joyce describes options for enhancing the role of the budget committees in the congressional process.

3. Establish a multi-year budget framework and process.

One of the great weaknesses of the current budget process is its myopia. The Nation cannot meet its long-term commitments and invest in future economic growth if its focus is only short-term and it fails to align spending with expected revenues.

The U.S. already uses a ten-year scorecard to measure how mandatory spending and tax law changes affect future deficits. Nations in Europe and elsewhere have adopted a host of innovative practices, partly as a response to the 2008 financial crisis, including use of a multi-year framework for budgeting. To budget within a multi-year framework would require Congress to set and enforce spending and revenue targets, and possibly targets for deficits and the debt, within which more detailed budget choices are to be made each year. You have heard recent testimony from Maya MacGuineas on how targets might be set and used in the process. While the targets could be revised as often as each year, they would nevertheless encourage Congress

and the President to think about the multi-year implications of their decisions and to think about whether present commitments can be sustained over a longer horizon.

Adopting a multi-year framework probably would require a prior negotiated agreement on broad fiscal goals for at least the medium term, perhaps the next 3 to 7 years. Through the budget resolution, Congress could then set annual targets for budget savings and investment that put the budget on a trajectory toward eventual sustainability. Portfolio reviews could provide a smart method of identifying potential savings while improving performance in selected policy areas.

4. Budget for tax expenditures and mandatory programs.

The largest programs (including the major entitlements) and tax expenditures are not subject to the same scrutiny, regular review, or degree of control as are discretionary (annually appropriated) programs. Ironically, these are the parts of the budget that are driving the long-term imbalance between spending and revenues estimated by CBO and others. They therefore require regular, closer review.

The process should be revised to put all parts of the budget on the table, and perhaps on the same scorecard, and to ensure regular review of tax expenditures and mandatory spending. Budget resolutions could require such reviews. Evidence of the effectiveness of tax expenditures should be developed and used in the process. Tax expenditures should be added to both revenue and spending totals to more accurately represent the true size of the budget. Consideration should be given to the best way of controlling or capping the growth of so-called mandatory programs, as is done in many other countries, while providing flexibility to meet any growth caps without harm to vulnerable recipients.

5. Revisit the use of budget concepts.

Basic concepts used in constructing the federal budget are in disarray. The last comprehensive revision of basic concepts and their use was made in response to recommendations of the 1967 President's Commission on Budget Concepts. Seemingly dry and technical, decisions about the way the budget is organized and presented shape decisions and public understanding of how much money government raises and spends.

One issue deserving attention is the way the budget treats capital investment. Although most States and many countries have separate operating and capital budgets, repeated studies have not yielded a consensus on whether the federal government should budget separately for capital. Good reasons for making this distinction at the state level do not apply to the federal government. On the other hand, there is a strong case to be made for budgeting differently for spending and tax policies that support 'investments' – a broader category that includes physical capital but also research & development, and human capital investments. The distinctive character of investment is that it produces a long stream of social benefits that can extend far into the future. Current budget concepts and procedures mostly treat investments the same as other spending or tax expenditures, whose benefits are produced immediately. If analysis suggests that this has created a bias in the process against investments, then changes in budgetary treatment might be considered. A simple one would be to establish separate spending caps for investment and consumption spending, which could then be adjusted independently based on the preferences of policy makers.

It is time to consider creating a new bipartisan process – this time including Congress – to review and recommend changes in the use of budget concepts. The rationale and agenda for such a commission has been presented by two veterans of the process, Barry Anderson and Rudy Penner,

<http://www.brookings.edu/about/programs/economics/reimagining-the-federal-budget-process>. Without recommending specific changes, they list a series of unresolved

issues about how budget concepts should be applied to improve the way budgets are shaped and presented.

Conclusion

Globally, we are in an era of accelerating budgetary process reform, driven in part by pressures for austerity and by conflicts over the best use of the public's resources to achieve national objectives. The U. S. has been the model for some reforms, such the establishment of an independent budget office answerable to the legislative branch – in our case the Congressional Budget Office. However, in other ways, we can learn from innovations in budgeting elsewhere.

Reforms should aim not merely to restore an assumed 'regular order', but at giving the Nation a federal budget process that helps it better address important policy goals by achieving breakthrough gains in the productive use of limited resources.

Of necessity, process reforms must be the product of agreement between the Administration and Congress. Finding areas of agreement will require rebuilding channels of dialogue and negotiation that have attenuated in recent years. Budget process may be an easier focus for rebuilding such connections and finding consensus than more substantive policy areas, where positions are polarized. Because negotiation and compromise are the essentials of a healthy budget process, efforts to reach broad agreement on budget process reforms may contribute directly to the conditions for better budgeting. And, a stronger budget process is one precondition for realizing the promises of a new Administration and Congress.