**Summary: The federal budget process: Turning reform into political reality**

**First Panel: Summary of the substance of the problems of the budget process**

Panel includes: **Steve Redburn** and **Phil Joyce**; Moderated by **Dan Blair**

**Butler** began the event by summarizing various problems with the budget process to the audience. He highlighted the notion that we budget from ‘crisis to crisis,’ which prevents us from dealing with national problems in a rational way, as well as leading to growing distrust towards government among the public. He also delved into the work of the Roundtable – bringing together bipartisan budget experts and political scientists – to discuss not only reforms, but also how to overcome political obstacles to reform.

**Blair** discussed the role of NAPA and various projects they have been working on, such as the Transition’s project. He then outlined some of the problems with the budget process, while introducing the panelists: Steve Redburn and Phil Joyce.

**Redburn** addressed some of the issues with the current budget process to open his statement – debt ceiling debates and the failure to pass budget resolutions. Solutions are typically proposed around resolving these issues – make it easier to pass (enhancing decisiveness) – such as biennial budgeting or automatic CR’s. Another conversation regarding reforms centers on the notion of analyzing the process more holistically – asking what the purpose of a federal budget process is in a country as large and complex as the United States. He discussed his work with Paul Posner, which undertakes more of this holistic approach to reforming the budget process (through portfolio budgeting). This memo they put forward is one of about two dozen that will be published in the upcoming months – this first one outlines a handful of proposals. For instance, it is more disciplined, predictable, and institutionalized – and facilitates compromise. It should regularly review all elements of the budget – both spending and tax expenditures. It supports stabilizing of the debt over the long-term. Finally, a process that makes more use of evidence would improve outcomes. He acknowledged we won’t get to all of these characteristics overnight, and thus we should consider a handful of incremental proposals.

First, we should budget for national goals via portfolio budgeting. Currently we are short-sighted and stove piped in our decision-making, which prevents us from achieving optimal outcomes. He briefly outlined the portfolio approach – identifying overlapping policy goals and combine them for budgetary purposes through the committee structure and agencies. They could analyze the portfolios and evaluate policy objectives in comparison to alternative policy options.

Secondly, we should strengthen the budget committees – which Joyce will elaborate on during his presentation.

Third, he recommends employing a multi-year framework for budgeting regarding targets and savings, which has been utilized in various democracies in Europe already.

Fourth, we should regularly review tax expenditures and mandatory spending programs – make them subject to regular annual review (develop more evidence of their effectiveness). If we add the true costs to both revenue and expenditure sides of the budget – we would get a clearer depiction of their effectiveness.

Fifth, we should review budget concepts. The last time we did this was during the president’s commission in 1967. This is long overdue, and would provide a fresh look at the scope of the budget, and how we define spending and revenues – and would have a profound impact on budgetary decisions (Penner and Joyce recently have written a paper on this).

**Joyce** evaluated some of the process reform ideas that have been proposed in recent years, both by budget experts in the Roundtable, as well as in Congress. First, strengthening the budget committees – is important because it reflects the original aims of the 1974 Budget Act. The Budget Resolution was the key vehicle for Congress to identify its priorities, and remains so today (if it could pass). In the absence of being able to articulate a fiscal vision for the nation, because of the weakening of the Budget Committees, it becomes very difficult to achieve this goal. Thus members of Congressional leadership should occupy the seats of the Budget Committees, which would it make it less likely that the budget resolution would fail (it failed to pass in both chambers this year).

Secondly, Joyce made the case for a longer-term focus on budgeting. The federal government is extremely large and complex, and it makes sense to have a long-term forward outlook with budgeting. This would entail fiscal targets and enhancing the visibility of long-term effects regarding press coverage.

He then identified the major players of budget process reform: CRFB and BPC, as well as the Roundtable. These ‘usual suspects’ are putting forward serious proposals, but it’s even more telling how much congressional attention budget reform is receiving. There have been eight hearings on various topics of the budget process – biennial, enforcement, long-term budgeting, etc. Chairman Price has proposed a ‘total rewrite’ of the 1974 Act and has produced a series of papers looking at various aspects of the budget process. On the Senate side, they have hosted a series of hearing as well, in addition to a number of specific proposals that are generally bipartisan (biennial, budget resolution as a law, etc.).

Joyce claimed there is a reasonable consensus that the current process is dysfunctional, which is why there is growing interest in reform. However, he cautioned that it doesn’t necessarily follow that our proposals are the correct solution to the problem. It has been impressive that the Budget Committees took this time over the past year to be productive in educating their members on budget reform ideas. They now have ideas ready should they undertake legislative deliberation in the next congress.

Blair asked the panel what makes next year especially fortuitous regarding the prospects for budget process reform.

Redburn replied that there will be an opportunity for the president and congress to utilize the GPRA objectives under portfolio budgeting to consult with one another about major policy priorities. They might not agree on solutions, but they could at least agree on policy areas ripe for analysis and develop strategic objectives. There could also be a scenario in which Congressional leaders do this on their own after the election – along with the work with GAO on selecting programs for review (with the help of CBO to conduct the analysis).

Joyce added that history tells us that it is more likely to see action on these fronts just after a presidential election because we are further away from the next election. However, polarization is real and pervasive, so we should refrain from implying that it will be easy to do after the election. Process reforms create winners and losers, so there will be opposition.

**Question #1:** Stan Collender, from Forbes and teaches at Georgetown: Criticizing ‘academic naiveté’ – he asked what made the panelists think that politicians would be interested in enacting any of the proposals – or process changes of any kind (to do something they don’t want to do)?

Joyce replied that the problem we have isn’t necessarily a problem with the budget process, but rather a larger political problem. The current budget process isn’t broken if used correctly – the members of congress simply don’t use it effectively. The failure to pass a budget resolution this year was beyond the power of the Budget Committees themselves – deciding to work on the process and how to improve it was a useful way to spend their time this year. When the president and congress are focused on budget policy, they don’t talk about the process – they only talk about the process during periods in which they aren’t debating budget policy.

Redburn added that with the reputation of congress at a record low, it might be perceived by the members that it’s within their interest to reform the process to make it more functional (and thus improving the standing of the institution, which also enhances their electoral fortunes).

Blair asked whether it would be advantageous to pursue incremental or larger scale reforms.

Joyce replied that it will probably be incremental and part of a larger budget deal of some kind. There probably won’t be a stand along process reform proposal to vote on.

Redburn agreed that it will be incremental, but also added that it’s important to have a vision of where you want to end up (and how the pieces fit together).

**Question #2:** Peter Gluck, Professor Emeritus of political science and public administration (focuses on budgeting): echoing previous comments – observing that it’s more of a larger political problem to not utilize the current system; there’s no consequences for failing to raise the debt ceiling and signing a pledge to not raise taxes – which makes enacting a budget difficult regardless of the process

Joyce replied that reforms are typically focused on improving the information available to decision-makers. Personally, he thought that we have never had better information that we have now, so he agreed that this is more of a political problem, rather than a budget process problem. The fact that we have a second panel talking solely about the politics of the problem – underscores the notion that it’s less of a technical problem and more of a political problem. Without dealing with that, the rest of it is somewhat irrelevant.

**Question #3:** Lisa Driskill; budget technician at the OMB: asked for recommendations in terms of presentation and information – how to present reforms that aren’t budget process but can help decisions get made.

Joyce identified tax expenditures as an aspect of the budget that are relatively invisible in the budget in terms of expenditures – that are relatively similar to spending (but aren’t categorized that way). We could also expand accrual concepts for long-term commitments, which mis-categorize current spending.

Redburn agreed, adding the isolation of investment spending from other tax expenditures in the budget. We could sort out the tax expenditures that are good or bad for economic growth and evaluate them accordingly. The president’s budget would be a better document if it was reorganized around better policy objectives.

Blair asked how we could improve transparency in the budget process.

Joyce replied that Redburn and Posner’s approach would help in that regard. Currently, barriers to transparency is the organization of congress – spending, taxing, appropriations are all under different jurisdictions and committees. If they were centralized and considered at the same time, so we could consider the tradeoffs more effectively.

**Question #4:** Harry Stein, Center for American Progress: asked about caps on spending and taxes and enforcements through triggers; he asked whether there was another category for these proposals

Joyce answered that he is not a supporter of caps or hard triggers – they only work if we already have a broad consensus. Going back to GRH in 1984 and the BEA of 2011, it became obvious that the targets were insufficient for binding decisions because the participants weren’t willing to follow through. This reflects a broader theme – the budget process is not good at forcing people to make decisions they don’t want to make it; it can only force compliance on decisions in which there is already a consensus (caps and PAYGO when they worked).

Redburn agreed with Joyce, while adding that it’s an empirical question as to the effectiveness of caps and triggers (BEA’s). There has been downward pressure of the caps on spending, so there’s some use for them but they are only sustainable as long as there’s political will.

**Question #5:** Larry Checko: asked how a budget resolution is possible if many members of congress have already signed a pledge not to raise taxes.

Joyce replied that this is part of a ‘vanishing’ middle that is emblematic of the polarization on both sides of the aisle. Many Democrats are also opposed to making entitlements, just as Republicans are opposed to raising taxes – it’s very difficult to get where you need to go with both sides digging in like this.

Redburn referenced tax reform in the 1980s, which was successful because both sides gave in to a certain extent.

**Question #6:** Rick May, House Budget Committee: observed that the budget resolution failed to pass this year because of leftover angst from the agreement reached last fall (was more of a spending program); many of the members don’t understand the process or see no ramifications for not doing the process; he asked if there’s anything we can do to educate members the relevance of the process

Joyce answered that they have to figure out how to broaden the education beyond the budget committees. The members of the budget committees are more educated than they were a year ago, so we have to figure out how to expand that beyond the rank and file.

**\*\*\*End of the first panel\*\*\***

**Second Panel: Politics and Prospects of Budget Process Reform**

Panel includes: **Molly Reynolds, Roy Meyers, Bill Hoagland,** and **Alice Rivlin;** moderated by **Stuart Butler**

**Butler** led the second panel with opening remarks regarding the political prospects of budget process reform. Generally, the events over the last few years (polarization, inability to pass a budget resolution) could easily lead one to be pessimistic about the prospects of reform. However, there are some positive developments as well. For instance, the leadership in Congress from the Budget Committees has been encouraging. They’ve developed a ‘menu of ideas,’ and even if they are unlikely to move forward soon, but they are at least there for public conversation (an important starting point). Secondly, there’s some indication that some interest groups and other stakeholders are beginning to engage in the conversation about how to craft a more effective budget process (the Convergence project for instance). Third, the research community have increased their work on the topic and have well thought out ideas available for policymakers. Last, it’s entirely possible that political leaders realize that it’s within their interest to convey to the American people that government can actually function effectively.

**Meyers** acknowledged the difficulty of reforming the process, but also argued that it’s becoming more optimistic in the next few years. Certain reforms might appeal to members of both sides of the aisle, such as portfolio budgeting (both sides want a ‘fair fight’ over allocations). Unfortunately, the norm that we have to pass budgets on time has died, which presents a challenge to reformers. However, this election might create openings. Among them is the fact that Senator Kaine has been a vocal supporter of budget process reform. Moreover, Speaker Ryan has shown interest in tax reform and other budgetary issues. The fallout from internal conflict within the GOP might create an opening, but it’s hard to say (more on that from Reynolds).

Regarding the activities in the Budget Committees – they might be perceived as a cover for inactivity on the budget, as well as partisan goal pursuing. He observed that Dodd argued process reforms in Congress typically occur when electoral prospects are harmed when the institution is dysfunctional. At some point, the members want to fix the ‘broken branch’ and can’t all continue to ‘run against congress’ to win elections. Also, the Senate Budget Committee is focusing on realistic reforms, such as ending vote-a-rama. Rather than pursue a ‘grand bargain,’ we should focus on how the process would better help decision makers deliberate and allocate limited funds – which is where portfolio budgeting would be useful. He pointed out that legislation is not needed to achieve this – the Budget Committee could employ GPRA and create subcommittees to make this reorganization reform a reality. The real challenge is convincing both sides that the portfolio approach is beneficial enough to both sides to be worth pursuing. He concluded by making the case that we need to use ‘carrots’ rather than ‘sticks’ when inducing lawmakers to support reform – how to make the process more effective at achieving their policy goals (fair competition of ideas is appealing regardless of your ideology).

**Reynolds** identified a few questions for reformers to answer regarding the allocation of power within the chamber: first, can we convince them that it’s within their interest? For instance, biennial budgeting – it perhaps could be within their self-interest if they think it’s more likely individual appropriations bills are considered. Relatedly, reforming consideration of the budget resolution, members claim to dislike vote-a-rama – however, it’s one of few chances for members to offer amendments that’s unrestricted by party membership (thus are unlikely to support relinquishing this privilege).

Secondly, she asked what are the current existing power bases in congress. One of the lessons of the 1974 Act was that it didn’t really alter the power structure of congress. Today, the power of authorizing committees has declined – so possibly strengthening committees would strengthen them (portfolio budgeting might help). If we strengthened the Budget Committees, where would the power come at the expense of?

Finally, how would process changes affect outcomes? Members are going to be skeptical of any changes being proposed because those who are pushing them are likely to be doing so to achieve partisan goals.

Reynolds then commented on the ways in which the election could impact the prospects for process reform. First, if the Republicans lose a number of seats in the election, they are likely to come from swing districts with more moderate members. This ironically might reduce the probability of moderation and ideological flexibility. The Freedom Caucus has been influential in nominating candidates who have a good chance of winning elections as well, which wouldn’t be good for reform. In the Senate, Democrats or Republicans are likely to have a small majority. If the conservative wing of the House is influential, it’s unlikely the Senate would adopt them. A more bipartisan approach would create problems for the Speaker of the House, and he’s unlikely to use political capital on budget process reform. She argued that a more likely outcome is that process reforms are added to a broader agreement over the budget – either another two-year agreement or a debt ceiling deal.

**Hoagland** highlighted the notion that when a majority of the public thinks an institution is dysfunctional, it is clearly an indication that the process is broken and needs to reform (if you can’t govern, you can’t budget). The key with reform is restoring confidence in government. The basic structure of the 1974 Act was sound – it didn’t favor a particular outcome or ideology (it set broad parameters and was intended to be transparent). Various changes over the years have altered this principle, which explains in part why we have had difficulty in achieving optimal outcomes with budgeting. He concluded by observing that congress needs to ‘heal itself before it’s too late’ – the ideas are there, but the will isn’t yet (but could be). The time has perhaps arrived to open the window for reforms (for the entire political process, not just the budget process), as it has in the past various times. He cited a recent development in which Congressman LaHood and Lipinski (a Republican and Democrat) agreed to substantial congressional restructuring legislation. It would establish a bipartisan joint committee on the reorganization of congress, and the hope is that more will sign on to this during the post-election period (the Senate hasn’t undertaken it yet and is unlikely to). Something like this could pave the way for budget reform recommendations – and subsequently restoring public confidence in government.

**Rivlin** didn’t think the problem was primarily in the polarization of views – but in the idea that we need to have a process of compromise (a constitutional ideal). This is especially evident in budget-making, which is essentially an illustration of compromise. The original Budget Act of 1974 had a number of flaws: 1) it’s too complicated for most members to understand and too many layers that eat up too much time; 2) it leaves out the most important parts of the budget – entitlements and tax expenditures (which were already growing in 1974); 3) it never involved the president and the leadership of congress in a clear way that enabled them to resolve major differences. Going back to regular order is unlikely to solve the problem, since it wasn’t doing its job when we followed it. The process should be: inclusive, have a longer time horizon, have the leadership more involved – it’s hard to do this without restructuring the committees first. One way to start might be to enact an omnibus compromise for two years, and start working on some of the policy proposals where there’s common ground (infrastructure, investments in research, corporate tax reform, Social Security reform). They key is to get some of the less controversial issues dealt with first, then move on to other more polarizing issues.

Butler asked whether a more incremental approach was advisable when promoting these reforms to congress. We could start with small steps, then work towards more large-scale reforms.

Reynolds replied that smaller reforms are indeed more feasible.

Hoagland agreed, and by setting up a joint committee you are moving incrementally in that direction.

Rivlin added that these aren’t incompatible notions – an incremental act, such as forming a committee, can lead to a non-incremental decision and legislation as a result.

**Question #1:** Romina Boccia, Heritage Foundation: asked whether it will ‘take a crisis’ to incentivize political actors to deal with process reform (the entitlement programs are the ones needing reform, but are the most popular)

Meyers answered that excessive cost growth is also an opportunity, and we need to restructure the budget process to enable us to make incremental changes each year (healthcare). Endless votes on ‘repeal and replace’ not the way to do it; rather, we need a process that allows lawmakers to evaluate tradeoffs in a reasonable manner (one of the advantages of the portfolio approach). The current process focuses too much on annual scoring and not enough on big picture.

Rivlin observed that we currently have a ‘crisis of governing’ – although maybe not an economic crisis – but it should be sufficient to propel newly elected leaders to get governing back on track. Also, with health, it’s too difficult to deal with – Social Security would be easier. Most of the cost-saving reforms for health were already enacted in the ACA, so there’s less of a crisis there.

Hoagland agreed that Social Security seems like a feasible area for reform – the time is now to address it. Part of the problem is the ‘baselines’ – we’re talking about slowing the rate of growth, which is different from making cuts. Addressing the crisis question – we can also just reform through bipartisan leadership taking initiative – all walking the plank together.

Reynolds commented that we need to consider the political incentives for a coalition big enough to get agreement on these issues.

**Question #2:** Larry Checko: asked about voter resentment/anger over the Washington establishment; are we out of touch with voters and why they are upset (Sanders and Trump success this year)

Rivlin answered that the 2008 crisis responsibility does fall on the shoulders of Washington leaders. That being said, we are going to have divided government and a polarized situation; we need to focus on policy.

Hoagland agreed with the observation that there’s real anger in the public, but commented that we still make policy to improve the lives of people around the country. He still has faith in the system that it can correct itself and make policy for the people out there.

Butler commented that this rage is bipartisan – he asked if the time was right for ‘us’ in the Washington community to have a mutual interest to reform it to make it run more functionally, albeit if incrementally.

Hoagland reiterated that this election has heightened this issue, and the message is loud and clear and we seem to be at a tipping point.

Meyers observed that some of the anger is justified, and some if it represents some of the worst parts of our history. Political science research tells us that people dislike government because they find conflict unappealing – they don’t like watching debates and clashing values. The negative reaction is heightened when the Washington establishment doesn’t feel the need to move away from their immediate incentives. What is needed is an effort to move across the aisle and improve the process for the sake of making government function better. We need to think about a way to make the budget process to set out policy differences and resolve them in a more patriotic way.

Reynolds added that this election is more than about just ‘voter anger’ – it’s more complicated than that. Political actors respond to incentives – from their constituents – their behavior reflects that.

Hoagland commented that this anger with the establishment – which is now being told that the election is rigged - undercuts their ability to govern effectively.

**Question #3:** Dan Crippen, formerly of the CBO: observed that the core of the Budget Act is a suspension of various Senate rules (restricts filibuster, germaneness, Byrd rule); congressional reform can be a great thing – and we should look at single committees

Reynolds agreed with the commentary on the Senate – and we need to be mindful of who gains/loses power from reforms.

**Question #4:** Paul Posner, GMU: agreed with Reynolds regarding political feasibility; historically we’ve relied on bipartisan compromise – which we’ve seen in other countries with coalitions; the difference is that their incentives are different in parliamentary systems (no confidence in government); factions exploit it here and are incentivized to undermine the process; we need to understand the implications for our party system – what kind of Republican Party is going to emerge after the election? Are there enough moderates who want to compromise?

Reynolds replied that historically when we’ve seen intraparty divisions – we’ve decentralized power away from the Speaker. That might be the response after the election, or perhaps that won’t be an effective way to deal with the issue (we are unlikely to move away from a two-party system).

**Question #5:** unknown guest: appropriations process – where would appropriators fit into the portfolio budgeting idea?

Hoagland agreed, sighting clashes with appropriators in his work (over biennial budgeting). They think they are the only ones governing – but that’s not the way the process is supposed to work. We can strengthen the authorization process to give more oversight on the appropriation’s process. He praised the portfolio approach in the sense that it could strengthen the appropriation’s process, and also agreed with strengthening the Budget Committees (when it was first set up, the chairmen of the other committees were members).

Meyers challenged Hoagland’s comments – arguing that the appropriation’s process is fundamentally broken. It doesn’t cover a lot of the spending, and any revised process will need to have oversight of the agencies (which can be done through a combined authorization and appropriations process). Currently our system is nonsensical with how decentralized our scoring system is – we need more comprehensive reform to overcome this.