

# **MEMO #6**

## **REFORMING THE FEDERAL BUDGET PROCESS: Budgeting for National Goals**

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**T**he new President and Congress need a working budget process to help them put resources behind their policies and govern the Nation effectively. Budgeting, one of the core processes of government, is badly broken. But, in this case 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. Here we prescribe the kind of budget process that would help leaders translate promises into resource allocations aimed at achieving a desired future, anticipating a broad array of complex challenges amidst almost paralyzing uncertainty. We then suggest specific steps that new leaders could take to begin putting such a process in place.

### **The Goals of Federal Budgeting Reform**

Those who have worked in or studied the federal budget process have begun to develop fresh ideas to reform the federal budget process. The authors are part of one such group, the National Budgeting Roundtable [[budgetingroundtable.com](http://budgetingroundtable.com)], which has wrestled with the problem for over two years. Drawing on their work and that of other non-partisan and bipartisan groups of scholars and practitioners, we define the goal of such reforms as 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 to both growth-producing investments and long-term commitments;
- Supports stabilizing public 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. Still, it is urgent to begin. The new President and congressional leaders could begin by taking these major steps toward a budget process that meets the aims outlined above.

### **1. Budget for National Goals**

The current process for developing the budget is biased toward marginal, short-term changes and familiar policies. It is piecemeal, fragmented, and stove-piped. It 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.

The authors have described a 'portfolio budgeting' approach to selected major policy goals that we believe should be added to the current process (Redburn & Posner 2015). Each year, for a few major national policy objectives, the full portfolio of spending, tax provisions, and other policies addressed to each 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. This approach is designed to identify breakthrough gains in the productive use of resources. Budget savings could be reinvested in the same or other policy priorities that promise higher long-term returns.

### **2. Strengthen the Budget Committees**

The 1974 reform act that created 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.

### **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. Other countries have learned to budget within a multi-year framework that sets and enforces spending and revenue targets within which more detailed budget choices are to be made.

To stabilize its fiscal future and promote long-term economic growth, the federal government should budget within a multi-year budget framework with enforceable targets for budget savings consistent with long-term fiscal sustainability. Having negotiated a bipartisan agreement on broad fiscal goals, the multi-year framework would include annual targets for budget savings and investment that put the budget on a trajectory toward eventual sustainability.

#### **4. Budget for Tax Expenditures and Mandatory Programs**

The largest programs, including the major entitlements, and tax expenditures (provisions of the tax code that function much like spending programs) are not subject to the same scrutiny, regular review, or degree of control as are discretionary (annually appropriated) programs.

The process should be revised to put all parts of the budget on the table 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.

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 (2016). 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. Their proposed agenda includes questions about the scope of the budget – why some programs are ‘on budget’ and others ‘off budget’, why some federally sponsored entities are included and others are not. Their list also includes questions about how to define spending and revenue, including the treatment of tax expenditures and ‘offsetting collections.’ Finally, they would review ways of recording the economic impacts of such government actions as purchases of securities, trust funds, capital investments, and loans or guarantees.

### **Conclusion**

Of necessity, process reform steps such as these 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.

## References

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