

THE BROKEN BUDGET PROCESS: PERSPECTIVES FROM FORMER CBO DIRECTORS

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS FIRST SESSION

HEARING HELD IN WASHINGTON, DC, SEPTEMBER 21, 2011

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THE BROKEN BUDGET PROCESS: PERSPECTIVES FROM FORMER CBO DIRECTORS

WEDNESDAY, SEPTEMBER 21, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

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

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

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

The budget proposed by the president in February offered no plan to deal with what he has since acknowledged as the nation's growing physical challenges. Meanwhile, it has been 874 days. I will say that again. It has been 874 days since the Senate even bothered to try to pass a budget. Congress has struggled with this process for a long time. This year's breakdown in the federal budget process, however, could not have happened at a worse time. Right now, it is contributing to the crippling uncertainty about fiscal policy that is discouraging businesses from making the kind of long-term investments that create jobs. There are parts of the budget process that are irredeemably broken, but other parts still work well, even if they could use some improvement.

In the 1974 Budget Act, it called on Congress to review the entire federal budget to both ascertain the economic impacts of our budget decisions and to help us make informed choices about how to raise revenue and how to allocate spending. To accomplish this, the Act established the House and the Senate Budget Committees

and charged them with the responsibility to develop and enforce annual budget resolutions.

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

Today, we are going to be hearing from two former CBO directors. Actually, the first two former CBO directors. In addition to being former CBO directors, Alice Rivlin and Rudy Penner, are witnesses here today, have had long careers as budget experts in Washington, and we are fortunate to have the benefit of their wisdom today. Before I yield, I want to emphasize one point. There is a lot we can do to fix our broken budget process, but process reform alone cannot work unless members of Congress have the will to make it work. Reform or no reform it will take political courage and leadership to get our fiscal house in order. I am proud to have worked with members of this Committee to pass this year's budget on time and even those members who disagreed with our reforms contributed to that process for which I am grateful. To his credit Mr. Van Hollen offered a substitute budget during floor consideration of the budget resolution. That is how the process is supposed to work. Americans deserve a real debate about our fiscal future and the budget process is an appropriate form for that debate. Let's fix what is broken and build upon what is working and with that I would like to yield to the Ranking Member, Mr. Van Hollen.

[The prepared statement of Chairman Paul Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN,
COMMITTEE ON THE BUDGET

Welcome all, to this hearing.

The purpose of today's hearing is to highlight the need to reform our broken budget process.

This summer, we got a first-hand look at how bad things have gotten.

After a request from the President to increase the debt limit, Congress was seemingly faced with two impossible choices: Either hand the President a blank check to continue his unsustainable spending policies, or let America default.

Fortunately, Congress was able to chart a middle course that coupled immediate spending restraints with a process to cut at least a dollar's worth of spending for every dollar increase in the debt limit.

But it shouldn't have gotten to this point. Congress created a budget process that was intended to prevent this kind of ad hoc policymaking.

Clearly, that process isn't working.

The budget proposed by the President in February offered no plan to deal with what he has since acknowledged are the nation's growing fiscal challenges.

Meanwhile, it has been 874 days since the Senate even bothered to pass a budget. Congress has struggled with this process for a long time. This year's breakdown in the federal budget process, however, could not have happened at a worse time.

Right now, it is contributing to the crippling uncertainty about fiscal policy that is discouraging businesses from making the kinds of long-term investments that create jobs.

There are parts of the budget process that are irredeemably broken, but other parts still work well, even if they could use improvement.

The 1974 Budget Act called on Congress to review the entire federal budget to both ascertain the economic impacts of our budget decisions and to help us make informed choices about how to raise revenue and allocate spending.

To accomplish this, the Act established the House and Senate Budget Committees and charged them with the responsibility to develop and enforce annual budget resolutions.

In addition, it created CBO to give us non-partisan, objective budget estimates and economic projections.

CBO is far from perfect. But it is important to note that before CBO was created, Congress was reliant on the Executive Branch for budget projections and cost estimates of legislation.

I don't agree with everything CBO produces, but I do think CBO strives to provide us with non-partisan, independent analysis to help us do our jobs.

Today, we will be hearing from two former CBO directors—the first two, in fact.

In addition to being former CBO directors, both Alice Rivlin and Rudy Penner, our witnesses today, have had long careers as budget experts in Washington. We are fortunate to have the benefit of their wisdom today.

Before I yield, I want to emphasize one point: There's a lot we can do to fix our broken budget process, but process reform can't work unless members of Congress have the will to make it work.

Reform or no reform, it will take political courage and leadership to get our fiscal house in order.

I am proud to have worked with members of this committee to pass this year's House budget on time. And even those members who disagreed with our reforms contributed to that process, for which I am grateful.

To his credit, Mr. Van Hollen offered a substitute budget during floor consideration of the budget resolution.

Americans deserve a real debate over our fiscal future, and the budget process is an appropriate forum for that debate. Let's fix what's broken and build upon what's working.

With that, I yield to the Ranking Member, Mr. Van Hollen.

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

Our rules, our congressional rules, our congressional process are like flashing yellow lights like stop signs. When Congress chooses to ignore them they do not do any good and unlike stop signs that are enforced by an external police power, Congress of course, is the ultimate enforcer of its own rules. Which means when it decides to blow through the yellow flashing lights or the stop signs it can decide to do that, which brings me to my main point and the point the Chairman concluded on which is the real challenge we face is not a change in the rules. There may be some things we can do to modify and improve them. I do not disagree with that and I welcome the opportunity to explore this but our fundamental problem is not the budget process rules; it is the lack of political consensus and it is the lack of political will. We are now in an era of divided government. We have a Democratic president. We have a very close Democratic majority in the Senate. We have Republican control in

the House. In the era of divided government the only thing that stands between divided government that works for the country and dysfunctional government is the willingness to compromise. And I do not mean just find common ground because all of us have very different views on how to tackle some of these issues. So it is going to require a compromise in order to move some of these issues forward and I will just conclude with that because this is the Budget Committee; we spend a lot of time looking at the deficit.

We have within the last 18 months had three groups, three bipartisan groups that looked at ways to try and address our deficit problem over the long run. We had Rivlin-Domenici. We had Simpson-Bowles. We have the Gang of Six that does not have a piece of legislation but has a concept. All three of those situations represent the kind of framework that is put together when you have bipartisan compromise. Nobody liked every provision in those recommendations. I certainly did not, but the overall framework addressed the way forward in a bipartisan way. Again not finding common ground because not everybody agreed with every provision in those reports but tough compromises made to try and advance the good of the country.

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

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

[The prepared statement of Chris Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MINORITY MEMBER,
COMMITTEE ON THE BUDGET

Thank you, Mr. Chairman, for holding this hearing on the budget process. And I join my friend, the Chairman, in welcoming our distinguished witnesses here today, two veterans of the budget process.

I do think there are some measures, budget process measures, that can help improve the process. The Chairman mentioned the establishment of the Congressional Budget Office. I've introduced, along with many colleagues on this committee, a piece of legislation that would expedite Congressional consideration of spending cut proposals and other measures proposed by the President and by the executive branch, to give those an expedited review in certain areas of the budget.

I also believe that the PAYGO rule that has been in effect during different periods has played a useful, even though limited, role in trying to prevent the deficit from getting even worse. However I want now to turn to the Chairman's concluding point. Our rules, our Congressional rules on Congressional process, are like flashing yellow lights, and like stop signs. When Congress chooses to ignore them they don't do any good, and unlike stop signs that are enforced by an external police power, Congress of course, is the ultimate enforcer of its own rules. Which means when it decides to blow through the flashing yellow lights or the stop signs it can decide to do that.

That brings me to my main point that the Chairman concluded on, which is that the real challenge that we face is not a change in the rules, there may be some things that we can do to modify and improve, I don't disagree with that and I welcome the opportunity to explore this, but our fundamental is not the budget process rules, it's the lack of political consensus and it's the lack of political will. We're now in an era of divided government. We have a Democratic president, we have a very close Democratic majority in the Senate, and we have Republican control in the House. And in an era of divided government the only thing that stands between divided government that works for the country and dysfunctional government is the willingness to compromise. And I don't mean just finding common ground because some

of us have very different views on how to tackle some of these issues. So, it is going to require compromise in order to move some of these issues forward.

And I'll just conclude with that because this is the Budget Committee, we've spent a lot of time looking at the deficit. We have, in the last 18 months, had three groups, three bipartisan groups that looked at ways to try and address our deficit problem over the long run. We had Rivlin-Domenici, we had Simpson-Bowles, and we have the Gang of Six—who doesn't have legislation but has a concept. All three of those situations represent the kind of framework that's been put together when you have bipartisan compromise. Nobody liked every provision in those recommendations; I certainly didn't, but the overall framework addressed the way forward in a bipartisan way. Again, not finding common ground because not everybody agreed with every provision in every one of those reports, but tough compromises were made to try and advance the good of the country.

So, again I welcome the opportunity to explore ways to improve the budget process but as you said, Mr. Chairman, I think we all recognize at the end of the day, especially in the era of divided government, only principled compromise can help move us forward for the good of the country. Thank you.

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

STATEMENT OF ALICE M. RIVLIN

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

However, even if the Joint Select Committee succeeds the budget process has failed. Our much vaunted democracy should not have to abandon its normal decision processes and concentrate power in the hands of ad hoc group even if one of them is Mr. Van Hollen, to solve a budget problem. The regular budget process of which this Committee is an essential part should have functioned long before now to put in place both a near term budget and a sustainable long term plan.

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

Now budget making, as no one needs to tell you, is inherently hard. Even the budget of a small town or a small company is difficult to agree on because there are always more claims than resources. The budget of a huge country presents added dimensions of difficulty since the government's budget affects the economy and

is affected by it in ways that are hard to document and provide room for sharp disagreement.

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

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

The Budget Act of 1974, which created the Budget Committees and the Congressional Budget Office, which I am glad to hear good things spoken about because I am very proud of it as I know Rudy is too, it created the framework for the decisions. Before its enactment, as the Chairman noted, Congress had the power of the purse but no organized way of exercising it and was very dependent on the administration for analysis.

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

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

Second, much of the spending side of the budget, the mandatory programs was essentially unaffected by the budget process. In 1974, mandatory programs not counting interest were only 11 percent of total spending. In 2010, however, the mandatory portion was 55 percent of the total. Moreover these programs especially Medicare and Medicaid are the main drivers of projected spending over the next decade and beyond.

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

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

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

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

Third, simplify the structure and reduce the number of decision points. Reforming the budget process will be next to impossible unless the Congress is willing to revamp the whole committee structure with respect to activities that impact the budget. I still believe that authorizing and appropriating are no longer meaningful distinctions and having the major mandatory programs under the jurisdiction of the tax writing committees is not sensible. Too much work for them. A better structure would be to create six or eight program or spending committees, a revenue committee and a budget committee to put it all together.

Finally, recognize that our Constitution requires willingness to compromise as both the Chairman and the Ranking Member have eloquently said. The founding fathers bequeathed us a system of checks and balances that make it very hard to get decisions made unless the participants work tirelessly to make it work. It requires negotiation between the Executive and Legislative Branches, between the two Houses of Congress even when all are controlled by

the same party. I am a veteran of the first two years of the Clinton Administration. Believe me it is harder to negotiate with your own folks. It requires negotiation and compromise between the political parties especially but not exclusively when different parties are in control. No budget process reform will work well until participants realize that making this complex structure function requires a patient willingness to try to understand each other and to work together to make sustainable budgets. Thank you Mr. Chairman.

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

PREPARED STATEMENT OF ALICE M. RIVLIN,*
BROOKINGS INSTITUTION AND GEORGETOWN UNIVERSITY

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: There is no doubt that the budget process is broken. The clearest evidence is the fact that we are all counting on the Joint Select Committee (JSC)—with its extraordinary powers and unusual composition—to avoid total gridlock or a replay of the near-catastrophic debt ceiling brinkmanship. I am an optimist about the chances that the JSC, with the strong support of the president and the leadership in both houses and both parties, will be able to agree on actions that will stabilize the rising debt and set the federal budget on a sustainable path. However, even if the JSC succeeds, the budget process has failed. Our much-vaunted democracy should not have to abandon its normal decision processes and concentrate power in the hands of an ad hoc group to solve a budget problem. The regular budget process, of which this Committee is an essential part, should have functioned long before now to put in place both a near-term budget and a sustainable long term plan.

Congress has no choice: you have to fix the budget process. But a better budget process will not make budget decisions easy or create the will to compromise and solve problems, without which a diverse democracy cannot move forward. Process can either hamper decision-making or facilitate it, but only at the margins. The current congressional budget process certainly makes it harder to make fiscally responsible budget decisions, for reasons I will get to in a minute. But bad process is a symptom, not a cause of unwillingness to make the compromises necessary to solve hard problems. No process will work well unless the participants in the process want it to work.

Budget-making is inherently hard. Even the budget of a small town or a small company is difficult to agree on because there are always more claims than resources. The budget of a huge country presents an added dimension of difficulty, since the government's budget affects the economy and is affected by it in ways that are often hard to document and provide room for sharp disagreement. Moreover, in the United States the checks and balances built into the Constitution make budgeting especially complex, and require a multi-stage process that greatly compounds the difficulty of getting budget decisions made.

Countries with Westminster-type parliamentary systems do not consume as much time, energy, or rhetoric in making budgets as we do. The results may not be better, but the process is far more efficient. The prime minister's party or coalition writes the budget and the parliament, after a short debate, approves it. Voting down the budget means a new election, so it is not done lightly.

But our Constitution was not designed for efficiency. On the contrary, coming off a revolution against a king they perceived as dictatorial, the Founding Fathers designed a system of checks and balances that disperses power and slows the decision-making process, sometimes to the point of gridlock. Moreover, since the power centers (or sub-power centers, such as executive agencies or congressional committees) rarely want to relinquish their particular piece of decision-making authority as new actors and responsibilities are added, the process tends to accrete complexities over time until it becomes dysfunctional. The budget process is at that point. It needs complete overhaul to enable it to function effectively within the limits of our Constitution.

*Alice M. Rivlin is a Senior Fellow at the Brookings Institution and a Visiting Professor at Georgetown University. The views expressed in this statement are strictly her own and do not necessarily reflect those of staff members, officers, or trustees of the Brookings Institution or Georgetown University.

WHY THE PROCESS BROKE DOWN

The Budget and Impoundment Act of 1974, which created the Budget Committees, the Congressional Budget Office (CBO) and the current framework for budget decisions, was a much-needed reform. Before its enactment, Congress theoretically had the power of the purse under the Constitution, but no organized way of exercising it. The executive branch, whose power was much better centralized by the Office of Management and Budget for the benefit of the President, wielded disproportionate budgetary power. But weaknesses in the 1974 reforms contributed to the breakdown of the process we are witnessing today.

First, the process was unnecessarily complicated and hard to understand. The schedule for making budget decisions was lengthy and complex. (In fact, originally there were two budget resolutions.) Even slipping the fiscal year to October 1 did not allow time for all the complex steps to be completed on time. Moreover, the new process had been layered on top of an already redundant committee structure. I testified in 1971 that the distinction between authorizing and appropriating had blurred over the years and budget reform should involve abolishing the distinction altogether. My proposed committee structure had “program committees” with jurisdiction over spending areas (defense, health, etc.), a revenue committee and a budget committee in each house. You can imagine how well that went over!

Second, much of the spending side of the budget—the mandatory programs—was essentially unaffected by the budget process. In 1974 mandatory programs, not counting interest, were only 11 percent of total spending. In 2010, the mandatory portion was 55 percent of the total. Moreover, these programs, especially Medicare and Medicaid, are the main drivers of projected spending over the next decade and beyond.

Third, the time horizon for many decisions was too short. The budget impact of spending programs and tax changes may build up slowly and become increasingly expensive over time (or may be deliberately designed to do that). Over the years, the participants struggled with different ways of taking a longer view (five-year window, ten-year window), but never solved the problem. Moreover, the major retirement programs, which now drive the budget, can only be changed with substantial lead time and are not part of the regular budget process.

ESSENTIAL INGREDIENTS OF AN EFFECTIVE BUDGET PROCESS

Process reform is normally incremental, but the time for incremental reforms in the budget process is over. The Congress should blow it up and start over from first principles. Let me offer some general prescriptions.

- *Include all spending and revenue in the budget process*

Under the current process, a dwindling portion of the budget (discretionary spending) is subject to annual scrutiny and increasingly complex rules, while major mandatory programs and the tax code operate on automatic pilot. No wonder the process broke down and the JSC had to be created to bring revenues and mandatory spending into a comprehensive decision process. And no wonder the Congress has chosen to put increasing proportions of spending into the mandatory category and into the tax code.

I am not suggesting that the Medicare or Social Security laws or the tax code be reviewed in detail every year. In fact, changes in retirement programs and taxes should be made as infrequently as possible and with long lead times, so that people and businesses can plan their lives. But the Congress must bring the retirement programs and tax expenditures into a process of periodic review and decision, so that you can actually control the major drivers of the budget, the deficit and the debt. It should vote a comprehensive long-term budget, review actual spending and revenues in relation to the intended long-term budget, and have a process for deciding what to do if the numbers are veering significantly from the intended track.

- *Take a longer view*

Discretionary spending should be reviewed less frequently. Moving to biennial appropriations would help. It would give the Congress more time for oversight and the executive branch more time for planning and implementation. Mandatory spending and tax expenditures should also be reviewed, perhaps on a five or six year cycle.

- *Simplify the structure and reduce the number of decision points*

Reforming the budget process will be next to impossible unless the Congress is willing to revamp the whole committee structure with respect to activities that impact the budget. Authorizing and appropriating are no longer meaningful distinctions, and having the major mandatory programs under the jurisdiction of the tax-writing committees is not sensible. A better structure would be to create six to eight

program or spending committees, a revenue committee and a budget committee (to put it all together).

ABOVE ALL, RECOGNIZE THAT OUR CONSTITUTION
REQUIRES WILLINGNESS TO COMPROMISE

The Founding fathers bequeathed us a system of checks and balances that make it extremely difficult to get decisions made unless participants work tirelessly to make it work. It requires negotiation between the legislative and executive branches and between the two houses of Congress, even when all are controlled by the same party. It requires negotiation and compromise between the political parties, especially but not exclusively when different parties are in control of one house or one branch. No budget process reform will work well until participants realize that making this complex structure function requires a patient willingness to try to understand each other and to work together to make responsible, sustainable budgets.

Thank you, Mr. Chairman, and members of the Committee.

Chairman RYAN. Thank you Alice. Dr. Penner.

STATEMENT OF RUDOLPH G. PENNER

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

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

This suggests to me that it may be more productive to think about changes in the structures of spending programs and tax policies that would allow us to control deficits more easily. For example, my colleague Gene Steuerle and I have written on how automatic triggers could slow benefit growth to raise revenues when Social Security is forecasted to have financial problems. Such triggers have been used in many other countries. It is possible to structure a broad based low marginal rate tax that yields revenues growing more rapidly than GDP. But nothing is foolproof. The Congress put an automatic trigger for Medicare in the Prescription Drug Bill. It later suspended it before it took full effect.

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

Turning to issues more directly related to the existing budget process I will discuss three commonly proposed rules changes that

I think are bad, two that I would adopt, and one I am not so sure of.

I used to think it would be a very good idea to replace the concurrent budget resolution with a joint resolution that would be signed into law or vetoed by the president, thus getting agreement on the outlines of the budget early in the process. But given the difficulty that Congress has faced in recent years about passing any budget at all, I guess I now think it totally impractical to get agreement with the president in a timely fashion.

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

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

Two things that should be done, here I very much agree with Alice that the budget horizon should be lengthened to deal with the long run and the Congress should set an explicit target for stabilizing the debt GDP ratio and the date for doing it. The Committee for a Responsible Federal Budget has suggested techniques for enforcing such a target using a sequester as a last resort.

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

The last idea that I am not so sure about has often been suggested, it is the notion of creating a joint House and Senate budget committee. Congress can then start the debate with one resolution but I defer with those with legislative experience to assess whether this would really be a good idea, but I certainly think it should be given considerable thought. Thank you Mr. Chairman.

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

PREPARED STATEMENT OF RUDOLPH G. PENNER, INSTITUTE FELLOW,
THE URBAN INSTITUTE¹

It is tempting to believe that if only we could come up with some clever budget rules, fiscal prudence would follow. Unfortunately, it does not work that way. The desire for fiscal responsibility must come first. Then rules can be important in strengthening the efforts of those supporting fiscally responsible policies. They also can protect those who are fiscally responsible from the special interests that will inevitably oppose them.

¹The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders.

The problem in recent years has not been a lack of rules. It has instead been the failure of the Congress to follow rules that are already on the books. The Senate has not passed a normal budget in 2 years (The caps imposed by the Budget Control Act of 2011 have recently been deemed to constitute a budget.) and last year the House failed to pass a budget for the first time in the history of the modern budget process. It is hard to think up useful rules governing the development of a budget resolution when no budget resolution passes the entire Congress.

The Congress almost never passes appropriations on time. That makes it very difficult for the bureaucracy to make rational plans.

RULES VERSUS CHANGES IN THE STRUCTURE OF PROGRAMS

The difficulty in following rules and schedules may imply that it is more promising to think about changes in the structure of spending programs or in the tax structure that would make deficits easier to control. It is Social Security and health spending that now create our biggest budget challenges. The two areas constitute almost half of noninterest spending. Both areas are growing faster than tax revenues.

Part of the problem is that Social Security, Medicare and Medicaid, along with some less important health programs, are open-ended. That is to say, they are not subjected to a budget. The law defines an eligible population and the benefits to which they are entitled and then we pay for everyone who shows up. A lot more people are showing up these days as baby boomers retire in larger and larger numbers.

My colleague Eugene Steuerle and I have written about automatic triggers that might be used to make Social Security more secure financially.² Upon a finding by the actuary that the program is in trouble, the spending and/or tax structure could be altered automatically to put the program on a more sustainable course. For example, the full retirement age could be increased automatically, indexing could be changed to reduce benefit growth, or the tax base could be raised. Sweden has designed a system in which the generosity of the index applied to new and future retirees is automatically made less generous whenever the present value of future revenues falls short of the present value of future expenditures.

Steuerle and I also wrote favorably regarding the automatic Medicare trigger that was embedded in the Prescription Drug Act. Upon a finding that indicated that the system was in financial trouble, the president was to issue recommendations that would improve the program's financial outlook, and the Congress was supposed to consider the recommendations in an expedited manner. The actuary found that the system was in trouble; President Bush made some money saving recommendations; and then nothing happened. The Congress passed a new rule that relieved them of the burden of considering the recommendations. The experience shows that nothing is foolproof. The Congress can create laws and change laws at any time.

Medicare can be put on a budget through a premium support approach and Medicaid can be controlled through a block grant, as suggested in the budget you put forward Mr. Chairman and in the Domenici-Rivlin report.³ The amount of money that should be put behind these ideas can be debated, but once the debate is resolved Congress has a more direct way of controlling total expenditures.

On the revenue side, a revenue neutral tax reform that broadens the tax base and lowers marginal rates can be designed to provide a revenue stream that grows faster than GDP in the long run. Such a system was designed by a committee that I co-chaired for the National Academies of Science and Public Administration.⁴ Admittedly, the revenue growth was largely fueled by the elimination of the exclusion from taxable income of the cost of employer provided health insurance. The exclusion is currently a major drag on revenue growth because of rapidly growing health costs. However, we designed our system before health reform passed. Now one has to worry that the removal of the exclusion would drive many more people into subsidized exchanges.

²Rudolph G. Penner and C. Eugene Steuerle, "Stabilizing Future Fiscal Policy: It's Time to Pull the Trigger," an Urban Institute Research Report, August 2007.

³Debt Reduction Task Force 2010, "Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple Pro-Growth Tax System", Washington, DC, Bipartisan Policy Center.

⁴Committee on the Fiscal Future of the United States (National Academy of Public Administration and National Research Council of the National Academy of Sciences, 2010, "Choosing the Nation's Fiscal Future", Washington, DC, National Academies Press.

PROPOSALS FOR CHANGING THE BUDGET PROCESS

There are some proposals for changing the budget process that I oppose, some that should be adopted, and others that deserve more study.

A Joint Resolution—It has often been suggested that the Congress pass a Joint Budget Resolution that would replace the Concurrent Budget Resolution called for in present law. A Joint Resolution is a law that would be signed or vetoed by the president. A Concurrent Resolution is not a law and is not signed by the president. Proponents of this change argue that it would be useful for the president and the Congress to agree to a budget early thus avoiding time consuming debates later in the year. Because it would have the force of law, the budget resolution should be easier to enforce.

I must confess that I was for a Joint Resolution before I was against it. I now believe that it would be impractical to reach an agreement between the president and the two houses of Congress early in the year. As noted earlier the Congress has had problems reaching an agreement itself. Finding an agreement with the president would probably involve a protracted bargaining session that would take far too much time.

A few years ago, then Chairman Nussle and Representative Cardin put forward a proposal for a Joint Resolution that had a fallback provision. If the president and the Congress did not reach agreement within a specified time period, the Congress would then revert to a Concurrent Resolution. This would be a better approach than not having a fallback, but I suspect it would be necessary to revert to a Concurrent Resolution almost every year.

Biennial Budgeting—Many have suggested that the Congress prepare a budget only every two years, thus leaving more time for oversight of programs. I have never liked this idea. I see budgeting as an iterative process in which we are constantly groping for a better allocation of resources. It is an extremely complicated process that we never get quite right and it useful to return to the problem at least once a year. I would say that even if conditions remained constant, but they don't. There tend to be significant unpredicted changes in the economy each year and budget projections can vary dramatically. One might diminish the problem by relying more on supplementals, but supplementals tend to be hard to discipline. Besides, what if political conditions suddenly favored some budget consolidation, but it happened in an off year. One might miss an important opportunity.

A Balanced Budget Amendment—Forty nine states have laws or constitutional provisions that favor a balanced budget. They vary greatly from state to state. Some only require that balanced budgets be proposed and some only require that budget for current operations be balanced and allow borrowing for capital projects.

Such laws have greatly distorted state budgets. First, they have driven many state activities off budget. There are more than 30,000 independent agencies and off-budget accounts at the state and local level that are not subjected to a balanced budget requirement. Second, they promote the use of accounting gimmicks as a first response when states get into trouble. For both reasons state budget become very hard to understand.

It is true that governments eventually run out of gimmicks in a severe recession and balanced budget rules start to have a real restraining effect, but it is not a good time for restraint. Over the longer run the main restraint on states comes from the rating agencies whose rulings can have a significant impact on the interest rates on state debt. In my view, balanced budget rules only have a sporadic restraining effect that generally comes at just the wrong time.

A balanced budget amendment would reduce the ability of the Federal government to respond to recessions and other emergencies. If exceptions are put in the amendment, they will almost certainly be abused. It was not so long ago that the Congress declared the 2000 census to be an emergency, even though we knew that we had to have one since 1789.

Lengthening the Budget Time Horizon—The Committee for a Responsible Federal Budget has proposed a series of process changes that would take a longer term view of the budget.⁵ Most important the Congress would set a target at which it would stabilize the debt-GDP ratio and announce the year in which the target would be achieved. It sets out a number of enforcement mechanisms with an automatic sequester as a last resort.

Choosing a New Baseline—The current law baseline now used by the Congress in budget deliberations has become almost totally useless. The problem arises because of Congress' propensity to pass deficit increasing measures for short time periods. Consequently, all the Bush tax cuts are now scheduled to expire at the end of

⁵Committee for a Responsible Federal Budget, *Getting Back in the Black*, November 2010.

2012, including those for the middle class; it is assumed the alternative minimum tax will soon afflict millions more taxpayers; numerous other tax provisions that are routinely renewed every year are assumed to expire; and Medicare reimbursements will be cut to the bone. These unrealistic assumptions lead to unrealistically rosy deficit projections.

This is not an easy problem to fix, because there is no such thing as a perfect baseline. However, I believe that it would be more sensible to have a new baseline that assumed that all temporary tax measures are renewed. On the spending side of the baseline, it is now assumed that authorizations for programs, such as TANF, highways, etc., are automatically renewed when necessary. The most important problem with my approach is that it does not take account of instances where the Congress truly wants a tax or spending measure to be temporary, but this is rare. My proposed baseline has the major advantage that it is much better predictor of where policy and deficits are going than the current law baseline.

A Joint Budget Committee—It has often been suggested that the House and Senate combine to form a Joint Budget Committee. The same resolution would be put before each house of the Congress and even if the resolution was successfully amended, the end results should be easier to reconcile than if you start with two different resolutions from two separate committees.

I am not absolutely convinced that this proposal is a good idea. I would defer to those with actual legislative experience who are in a better position to judge, but I do think it worthy of consideration.

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

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

I would really like to have the Congress without a sequester or a sort of Damocles. Have an explicit vote on what you are going to do about this veering off track when it happens and in the case of Medicare if you do have something that is a defined contribution plan then at that moment you could say costs are going up and it seems to be faster than we anticipated and we have got to decide what we are going to do about that. Do we raise the cap, et cetera? But you need an explicit decision moment on the mandatory programs and these tax expenditures in which you review what you thought was going to happen, what has happened and what to do about it.

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

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

Dr. RIVLIN. Right. With respect to Medicare if you really did premium support you would not be veering off track.

Chairman RYAN. Right.

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

Chairman RYAN. Dr. Penner?

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

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

In the late 60s and early 70s the Congress increased benefits enormously and there was a feeling that I believed in at the time that the Congress could not discipline itself with regard to Social Security. So instead they put it on automatic pilot thinking that would save money in the long run. Now I am very dubious about that theory. I wish we were back in a system where the Congress had more discretion depending on what is happening to wages in the economy and all sorts of other things to alter these benefits. And you would want to design the program so they altered them in a good direction so they were not in a position of having to cut. Now with this automatic system it becomes sort of symmetrical. Sometimes you would be in a position where you should cut them and sometimes maybe increase them but the bottom line is that we have not done anything at all and we just let the automatic pilot fly on.

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

Dr. RIVLIN. Exactly. And I am not sure it is a very meaningful distinction. But if it is it is done by the same people.

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

Dr. RIVLIN. Yes. I thought of it just as there is a Defense Committee.

Chairman RYAN. Yeah.

Dr. RIVLIN. And it spends its time worrying about defense strategy and how much money we want to spend for defense and its relationship to the Budget Committee as you describe.

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

Dr. RIVLIN. It is not a popular idea.

Chairman RYAN. No I know it is not. Let me ask you about baselining. So Dr. Penner you talk about the base, let's put aside the assumptions within the baseline. You know doc fix and tax policy. I want to quote Governor Cuomo who called the baseline budgeting process in New York a sham and deceptive and a contributor to the dysfunctional budget process. Here is his quote.

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

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

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

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

Chairman RYAN. Yes, Doctor?

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

Chairman RYAN. A per capita adjustment in the baseline. I heard.

Dr. RIVLIN. Well not necessarily. I am saying that with respect to entitlement programs, programs that depend on the characteristic of the beneficiaries you really need to know how many beneficiaries there are and so you need to adjust for that.

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

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

Chairman RYAN. Right. Thank you. Mr. Van Hollen.

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

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

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

Lengthening the budget time horizon? I think all of us in this Committee realize that the time structure is designed in a way that you do not get very much credit for politically tough decisions because you only look in the 10 year window while a lot of changes

take place over a period of time, whether it is on the revenue side or cutting spending. So I think that is something we should look at.

Baseline, I am happy to engage in a conversation on baseline, too. But I think if you look at both your testimony you would acknowledge, and this is my point, that really the recommendations you are making for addressing this issue are really beyond the purview of budget process. You are really making decisions with respect to fundamental policy choices.

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

Dr. PENNER. That is right.

Mr. VAN HOLLEN. Okay, so the point here is that biennial budgeting, some of this little stuff we can work around the edges but the fundamental crunch comes with making the political choices. And I just throw that question, is that not the case?

Dr. RIVLIN. Absolutely.

Dr. PENNER. No disagreement here.

Dr. RIVLIN. If you are criticizing us for not making your job easy, you are right.

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

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

Mr. VAN HOLLEN. Well I think there are things you can do to focus more attention and discussion on as you said tax expenditures. The other thing is as someone who is on temporary leave from the Ways and Means Committee I am happy to vote now for

all your proposals with respect to my other colleagues on other committees.

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

My only point is we now look to the bipartisan groups that have grappled with this and what kind of compromises did they frame? Again not with respect to every particular piece of it, people will differ but in terms of the fundamental approach. There are three clear products that demonstrate and reflect what happens when people of good will and good faith get together and grapple with these questions. Would you agree with that, Dr. Rivlin?

Dr. RIVLIN. I would. I mean there are differences obviously but the basic arithmetic of the problem drives you to similar solutions.

Mr. VAN HOLLEN. Dr. Penner?

Dr. PENNER. Yes, the problem now is not a lack of options. We have literally dozens of them as you say from various committees. The problem is a matter of compromising among those options.

Mr. VAN HOLLEN. Thank you.

Chairman RYAN. It is Mrs. Black.

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

Dr. RIVLIN. I do not really know. I mean I would talk that through with Dr. Elmendorf but I assume they are trying as hard as they can to make it as clear as possible. If there are other things you need to understand, ask.

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

Mrs. BLACK. Let me go to another subject on the CBO versus the Joint Tax Committee or Joint Committee on Taxation. Responsibility for estimating the budgetary effect of legislation is divided between CBO and JCT with JCT responsible for providing estimates from most revenue measures while CBO is responsible for

all the legislative. From your experience at CBO what challenges do you think that this arrangement poses or are there challenges there?

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

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

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

Chairman RYAN. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you Mr. Chairman. I must say I have appreciated the food for thought that you are offering up. Just sort of take a moment to exhale amongst some of the activities around here. I am looking at some big picture items. I particularly appreciate your putting before us the potential of changing the dysfunctional congressional structure itself. I was taken by your proposal to sort of merge authorizing and appropriating. I think you were right 40 years ago and I think, certainly, you are correct today. It is interesting how authorizers increasingly are attempting to sidestep appropriators and with mixed success and how our friends in the Appropriations Committee routinely weigh into the policy-making. I am hopeful that there may be an opportunity for us at some point to step back and look at this because ultimately this is a notion of broader congressional dysfunction, the size of committees and the inability to actually get things done. You are suggesting, not only I think, fiscal restraint but an opportunity to exercise what policymakers should do which is actually policy make.

Dr. Penner, I appreciate your reference to not falling victim to gimmicks. I note the late Senator Hatfield recently passed away and one who stood tall against the so-called Balanced Budget Amendment, which is something sidestepping our responsibility. And I am particularly interested in the notion of our being on autopilot with the mandatory spending with tax expenditures.

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

zero in separately on the user fees that support some of the infrastructure that could maybe help get out of the budget conundrum and be able to lead towards better policymaking?

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

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

On the domestic side it is mostly grants to state and local governments, a grants from the Highway Trust Fund or whatever, matching grants. That makes it much more difficult to have them in the capital budget but the more important thing is immediately everybody who is conscious of not just the infrastructure deficit but the skills deficit and other deficits will say, "But wait a minute infrastructure is an investment but so is investment in the skills of the workforce." And you get an ever expanding definition of what is investment which leads me to believe it is not a terribly useful concept at the Federal level.

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

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

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

Chairman RYAN. Thank you. Mr. Stutzman.

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

Dr. RIVLIN. I am a Hoosier, too.

Mr. STUTZMAN. That is right; from Bloomington. And we have biennial budgeting there and our Governor Mitch Daniels, former OMB director, has done a fantastic job and we have a balanced budget in Indiana. I will say this, I think gimmicks can always

happen whether you have a balanced budget amendment, whether you have a biennial budget. It is up to decision makers to make wise decisions and it does not matter what parameters we put around ourselves, anybody can still go around those rules.

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

Dr. RIVLIN. I think the main benefit is that it saves everybody time. The Congress does not have to do this every year, it can do other things in the other year, and especially the Executive Branch which spends an enormous amount of time working on the budget every year and presenting it to Congress and appearing before these unnecessarily duplicative committees to defend the budget and chews up a lot of time when they ought to be running their programs. So I think that is the main benefit and there are always problems. The Indiana Legislature is notorious for holding the clock and running longer than they are allowed to and all those things. And that would maybe happen here, but the other thing is Rudy is right that conditions change and if you have a hurricane or something you have to deal with it, and you have to deal with that now. You have to do that, but I think the saving that you would get and the ability to have a longer planning horizon.

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

Mr. STUTZMAN. Go ahead.

Dr. PENNER. I am against them mainly because changing conditions. I think if you had a biennial system you would have enormous number of supplementals and supplementals are extremely difficult to discipline.

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

Dr. RIVLIN. I am against it. The difference between a state and the federal government is the State of Indiana basically does not have to worry about the impact of its budget on the national economy; the federal government does. And so it is not always desirable to have balance in the Federal budget. Now we should balance over the cycle and when you start thinking about writing a balanced

budget amendment then you start writing in lots of exceptions. Suppose a war starts in the middle of the year. Suppose we have a sharp recession and you get so many exceptions written into the law. My colleague Charlie Schultz said all of a sudden you are writing algebra into the Constitution and I think that is undesirable. That you should simply try to do the best you can to have a sensible fiscal policy and that means that you balance over the cycle and you have a sustainable budget going forward, but I would not put it in the Constitution.

Chairman RYAN. Thank you. Mr. Pascrell.

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

Chairman RYAN. Take note.

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

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

Mr. PASCRELL. Well that helped. I would also take a look at something folks on both sides of the aisle have talked about and distinguish between the mandatory part of the budget and discretionary parts of the budget. If you take a look at, and we have two very prominent panelists today, that perhaps looking at a longer term budget for the mandatory and a yearly budget in terms of discretionary. So what if we had a two-year budget? And I think it is utter nonsense. We can have a skeleton, we can have protocol, we can have this model of a 10-year budget, but you saw what happened the last time we did this and it did not work out. And we were moved from 2000 to 2008 and 2009, and you go back at the prognostications about what would be produced, what would not, and then what really happened. So there is a real danger here.

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

Chairman RYAN. We keep agreeing with each other. There is something happening here.

Mr. PASCRELL. It will get better or maybe not. So I would like to ask a question Ms. Rivlin. Let me give you an example of that on health care, mild subject for a Wednesday morning. I want to ask about the delivery system reforms that were included in the Health Care Reform Act. How do we save Medicare money? In February, before the Ways and Means Committee, I asked a question to the CMS actuaries, Rick Foster, I think his name was, and this is what he said to me: He testified that he did, indeed, believe that

the reforms in health care had the potential to create great savings in Medicare. We are talking about process, here. I like results. We are talking about process today and how we get to those results.

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

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

Mr. PASCRELL. But does it not reflect, really, the weakness of the scoring system of legislation, that we ask CBO to reflect upon? This is both sides of the aisle, I think, are involved in this. I really think that when you are talking about examining the process, by which we put the budget forward, that scoring legislation needs to be reviewed and perhaps changed, do you think?

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

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

Chairman RYAN. We are out of time, but the same debate occurs on the tax side of the ledger, which is do we get reality based scoring based on dynamic changes in personal behavior because of changes in the law? So, can we do things that create preventative medicine, disease management, which will ultimately save money? Well, they do not know how to quantify that at CBO right now. Maybe we will learn how to do that. Do we increase economic growth and therefore revenues of the federal government by lowering tax rates and broadening the tax base? We think so, based on evidence, but they do not quantify it that way right now. Perhaps, we ought to try having these models speculate on what they think the world might be under these policies, then we use a static analysis and track the measurement of those over time and then see which one proves to be more close to reality and then go with that. So, Dr. Price.

Mr. PRICE. Thank you, Mr. Chairman, and I want to thank the panelists for their service and for their testimony. And I do not want to get too sidetracked here, but I have to pick up on this health care issue because as a physician, I could tell you that I adamantly oppose the quote reforms that were put in place. And CBO was pretty doggone clear about where the savings were coming from, at least \$500 billion of it, \$150 billion, essentially, for decreasing the choices for seniors in the Medicare Advantage Program, and \$350 billion through the opportunity to have a 15 member panel of individuals here in Washington to deny care to seniors if they did not meet the bottom line. So, the CBO was pretty doggone clear about where that money was coming from and it is the denial of care for seniors.

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

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

Dr. RIVLIN. I think they are trying as hard as they can and they produce analyses, for example, of the impact of tax cuts, and there is some evidence, certainly, that reducing some kinds of taxes contributes to economic growth, but there is also evidence that a higher deficit is bad for economic growth, and if you are getting both, they sort of cancel each other out.

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

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

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

Mr. PRICE. So an automatic sequestering in any program?

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

Mr. PRICE. Dr. Rivlin? Any comments on the dynamism?

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

Mr. PRICE. Thank you. Thank you, Mr. Chairman.

Chairman RYAN. Mr. Lankford?

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

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

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

Mr. LANKFORD. I understand that. Optimistically out there, is there a benefit to having a rainy day fund, for a disaster mentality, something that is set aside and that is funded, or does that just mandate every year? You are going to always spend that because you will make up a disaster because you have got the money set aside?

Dr. RIVLIN. No, I think that disaster funding should be done on the basis of taking as careful a look as you can at the average cost

of disasters, and pre-funding it and if you run out of money then that is another problem. Many disasters, the average frequency, over several years, is pretty predictable.

Dr. PENNER. I agree with that. We should have some sort of allocation for emergencies of that sort.

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

Let me ask you as well, some of our committee structures, and some of your statements I really appreciate on how the committee structure itself seems to slow down oversight and managing budget, dealing with appropriations, authorizations, the tax, the budget, all of those things, as well as an oversight. If you want to have oversight over an agency, it is almost impossible to have real oversight over an agency, because the oversight is spread out over multiple different committees because our agencies are not aligned up with our committee structure. Whether that is by design, or whether that is by accident, it is working still the same. It is very difficult to do an oversight.

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

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

Mr. LANKFORD. Okay.

Dr. PENNER. I must confess, when I was CBO director, there was nothing I feared more than to get into an argument about committee jurisdiction. Certainly, there is a logical case. If you want a really radical view, the budget process was invented because we have this peculiar custom of making spending and tax decisions in separate committees. Before the Civil War, Ways and Means was Ways and Means. They did both spending and taxes at the same time. And most countries do that, most countries have a kind of super, let's call it a Budget Committee, that makes appropriation decisions and tax decisions all at the same time. And I think ultimately, that is where you should go, but there are, as Alice suggests, more modest ways of better aligning the committee structure with departments and programs.

Mr. LANKFORD. That is my other question. Is there a way to be able to get a year ahead in our planning process, going back to 1920 and before, is there a way to be able to get to a number? That when the president presents a number, the House, the Senate and the president have already agreed on what that top line number is and we are really arguing about the details within and how to shuffle that. So that the president does not submit one number, the Senate does another, the House does a number, and this drags all

the way out and creates tremendous uncertainty until the fiscal year and then we bump up against it.

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

Mr. LANKFORD. It is just trying to get that done.

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

Mr. LANKFORD. I would completely agree with that. I yield back.

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

Mr. MCCLINTOCK. Thank you, Mr. Chairman. I would like to just test out a theory that I have evolved over the last few years since I arrived here at the Congress, and that is that we have a parliamentary system that has evolved over centuries. And it has become very good at distilling many diverse viewpoints into a common direction for a nation. Each House reflecting different elements of decision making and independently arrives at a decision. The differences between those two Houses are then resolved through a conference process, which itself has become very good at resolving differences between the two Houses, when it is used properly, not to draft new legislation, but simply to identify the differences. If the House says \$5 billion and the Senate says \$10 billion, the only question is where between \$5 billion and \$10 billion do we end up? We do not go under \$5 billion, we do not go over \$10 billion. When it is used in that way, it seems to me the system works very well. The problem is it is not being used. We have not passed a budget in the Senate in nearly three years. The House failed to fulfill that responsibility last year. How much of this is failure of process and how much of it is a failure to follow process?

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

Mr. MCCLINTOCK. When it was followed.

Dr. RIVLIN. When it was followed, yes, absolutely.

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

Dr. RIVLIN. Well, I think that are many elements of the current process which make it hard to get done on time because of the complexity and the number of committees and so forth.

Mr. MCCLINTOCK. I did not say it was not hard; it is really hard work. But, when it is followed, it seems to produce reasonably good work products. But what I am watching is the system has completely disintegrated. I mean, the super committee, this constitutional abomination, which sidelines 523 representatives of the people in favor of a closed process that short circuits all of the independent mechanisms that were built into a bicameral, legislative process.

Dr. RIVLIN. I could not agree more. It is the failure of the Congress to follow its own rules to get the job done that has led us to this point.

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

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

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

Dr. PENNER. Well, I am not so sure of that.

Mr. MCCLINTOCK. The problem is we are not following it. Let me go on because my time is brief. The balanced budget amendment: Dr. Rivlin, you say you oppose it because it is a fool's errand to try to look hundreds of years in the future and anticipate the conditions that a future Congress might face. Was that essentially what you were saying with the comment about it requires us to build algebra into the Constitution?

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

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

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

Mr. MCCLINTOCK. Well, they require a certainty of action the higher that super majority has expended.

Dr. RIVLIN. Well yes, but you also see people bargaining, "I will join the super majority if you will build a bridge in my district." That is not what you want to encourage.

Chairman RYAN. Thank you, let me just follow with one final questions. Dr. Penner, I understand your views of biennial, and it is a fairly common criticism to the idea. Both of you talked about the need to pre-fund emergencies on sort of a rolling average basis. If Congress could come up with a suitable system to define and more or less pre-fund emergencies so that the supplemental process is as airtight as it can get, would that alleviate your concerns on

going towards a biennial system? If that is fixed are you in the Alice Rivlin camp, where then it has virtues to it?

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

Chairman RYAN. All right, thank you very much. Thank you for your indulgence and your time. This is something we have to wade into, because I think all of us agree the system is not working to the extent that it needs to. Congress has to have discipline first for any system to work, but if we could get a system that makes it as easy as possible for us to exercise discipline, that is what we want to achieve. Thank you very much for your wisdom. Hearing is adjourned.

[Whereupon, at 11:31 a.m., the Committee was adjourned.]

