

THE BROKEN BUDGET PROCESS: PERSPECTIVES FROM BUDGET EXPERTS

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

HEARING HELD IN WASHINGTON, DC, SEPTEMBER 22, 2011

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THURSDAY, SEPTEMBER 22, 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, Garrett, Campbell, Price, Stutzman, Lankford, Black, Ribble, Flores, Mulvaney, Huelskamp, Young, Amash, Schwartz, Doggett, Pascrell.

Chairman RYAN. The hearing will come to order. Welcome all to this hearing. The purpose of this hearing is to continue the work we started yesterday, highlighting the need to repair our broken budget process, and we have a great panel of witnesses with us here today to give us their insights and help guide us in our work.

During his time in congress, Senator Phil Gramm was a tireless advocate for budget process reforms aimed at reigning in out of control spending. Senator Gramm co-authored the balance budget in the Emergency Deficit Control Act of 1985, otherwise known as Gramm-Rudman-Hollings.

This law established, under Gramm-Rudman-Hollings, deficit limits and a sequester as a means for enforcing them. Over the years, Congress has used the sequester with varying degrees of success, and it is currently playing a role in the work being done by the Joint Selection Committee on deficit reduction. I look forward to hearing from Senator Gramm on this topic and on many other areas in which he can share his deep well of wisdom.

We also have former Chairman Jim Nussle with us here today; Jim, really nice to have you back. I have never seen you on that side. I am not used to seeing you on that side of the microphone when you were the OMB director, and that is the next point that I wanted to make. Jim served three straight terms leading this very committee as the chairman and then in President Bush's Cabinet as director of the Office of Management and Budget.

During his time in Congress, Chairman Nussle worked in a very bipartisan way to reform the budget process, particularly, The Nussle-Cardin Comprehensive Budget Process Reform Act of 1999, which many of us took part in. He can also share some valuable insights on many of the topics of interest to this committee.

Finally, we have Professor Philip Joyce of GW, author of the recent book, "The Congressional Budget Office: Honest Numbers, Power and Policymaking." Dr. Joyce will be able to offer a wide-

ranging expertise on what works and what does not work in the current budget process, and I also look forward to his testimony as well.

With that, I would like to yield to the gentle lady from the Philadelphia area, Pennsylvania, Ms. Schwartz.

[The prepared statement of Chairman 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 continue the work we started yesterday—highlighting the need to repair our broken budget process.

We have three witnesses here who can provide us with valuable insights that will help guide our work.

During his time in Congress, Senator Phil Gramm was a tireless advocate for budget-process reforms aimed at reining in out-of-control spending.

Senator Gramm co-authored the Balanced Budget and Emergency Deficit Control Act of 1985, otherwise known as Gramm-Rudman-Hollings.

This law established deficit limits and the sequester as a means of enforcing them. Over the years, Congress has used the sequester with varying degrees of success, and it is currently playing a role in the work being done by the Joint Select Committee on Deficit Reduction.

I look forward to hearing from Senator Gramm on this topic, and on many other areas in which he can share his wisdom.

We also have Chairman Jim Nussle here today—Welcome back, Jim!

Chairman Nussle served three straight terms leading this very committee, and he also served in the cabinet of President George W. Bush as the Director of the Office of Management and Budget.

During his time in Congress, Chairman Nussle worked in a bipartisan way to reform the budget process, particularly in the Nussle-Cardin Comprehensive Budget Process Reform Act of 1999, and he can share valuable insights on many topics of interest to this committee.

Finally, we have Professor Phillip Joyce of George Washington University, author of the recent book, *The Congressional Budget Office: Honest Numbers, Power, and Policy Making*.

Dr. Joyce will be able to offer a wide-ranging expertise on what works and what doesn't in the current budget process, and I look forward to his testimony.

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

Ms. SCHWARTZ. Good morning, it is good to see you senator, congressmen, good to see you. And Dr. Joyce, thank you very much for joining us. I do want to thank the Chairman for calling these hearings for raising ideas, thoughts on how we can improve the budget process; it is always useful.

I do want to say that ranking member, Chris Van Hollen, is unable to be here. As you know there is something now which we refer to as a super committee. This is occupying some of his time and there is a hearing at exactly the same time. So apologies from our ranking member that he could not be with us this morning, so he has asked me sit in his stead, which I am very pleased to do.

I do appreciate the Chairman's focus on the budget process as a way to move towards restoring fiscal balance in our government. We all acknowledge that the budget process is complex. I know that Mr. Nussle knows this well.

Just two quick things that I going to mention before I get started. When assuming the budget process many of us acknowledge that it neglects to adequately review different parts of the budget, particularly spending through our tax code. There has been some discussion about that and the current process does not account for some fundamental changes that are outside the federal budget control at all, such as in significant changes in demographics, the age

of the populations is one example, or increases in health care cost due to technology and advances. And, of course, our new federal responsibilities related to things such as homeland security or the growing costs of new veterans. Almost two million Americans have served overseas in Iraq and Afghanistan and they are adding to the number of veterans and, of course, the costs related to that.

So, I look at these hearings as a valuable step forward in better understanding the possible changes in the process. Questions will likely arise, and what I would ask you to address is will any changes lead to a better understanding of the budget and what we are doing to greater predictability, to greater accuracy, to improve transparency or simplification? Will it enable us to, on behalf of the American people, to make sure the budget does reflect our priorities and our policy goals?

We all acknowledge that the federal budget is on an unsustainable path under current policies where our deficit will continue to grow over the next decade and that the debt held by the public will rise as a percentage of the GDP. We are deeply concerned about these realities, and we agree that action needs to be taken.

But the question I will have for you, too, is will the budget process truly improve this situation? Is it a question of budget process? Or, in fact, is the question more about substance and disagreement on how to actually meet these goals? And they are two very different elements.

And of course we are very concerned about job creation and economic growth. Do you both agree that a change in the budget process help us in any way to meet those goals? The economy is fragile and we want to be sure that what we do in the short term does not hurt our fragile economic recovery or our effort to grow jobs in the long haul.

I do want to acknowledge that we have made some changes in the budget process in the last couple of years. One is we enacted Statutory PayGo; Pay-As-You-Go, not a term that use much outside the walls of Congress, but we want to be sure that any new spending or new revenue proposals were in fact, deficit neutral, and we did do that. We used Statutory PayGo. Of course, the rules change in this session so that only spending has to be paid for, tax expenditures do not. So that is the gap in making sure we do not add to the deficit, as well. That is something that you may want to address. So, that is just one example of what we have done.

So, let me close by saying the budget process, again, it is not, in my mind, an answer, to what is really a substantive debate that we have to have. The budget process is that; it is a process; it is a mechanism that we can use. It works when we have reached agreement that we know how to use it. It can be used, of course, to not help us either, but that is the process.

So, I just want to be clear that we all agree that we need to leaner and more focused government. It does require us to be clear of that efficiency in our government. I believe it is an important time in our nation's history, we have an opportunity to make sure that we actually tackle this deficit, grow the economy, expand opportunity and security for all Americans.

The key to this, again, it is not that the budget process itself; it is compromise, it is fundamental fairness, it is a recognition that the most important and immediate action we take to address the deficit has to put Americans back to work and set the federal government on a path towards fiscal balance. Agreement on this really requires us to find a way forward, to find that common ground, and to meet our obligations to Americans, grow the economy and invest for the future. Maybe you will mention some of those things as well. I look forward to your testimony. And I yield back.

[The prepared statement of Allyson Schwartz follows:]

PREPARED STATEMENT OF HON. ALLYSON Y. SCHWARTZ, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Thank you, Chairman Ryan, for calling these hearings to discuss ways to improve the budget process. I appreciate the Chairman's focus on this component in the effort to restore fiscal balance to our government. The budget process is complex. It neglects to incorporate adequate review of the different parts of the budget, such as spending through the tax code. The current process does not account for some fundamental changes outside the federal budget that can have a significant effect on the federal budget such as the aging of the population, substantial increases in health care costs, due to technology and advances, new federal responsibilities in areas such as homeland security and, the growing need and costs of veterans' health care. I view these hearings as a valuable step in moving toward better understanding of possible changes on the process. Questions that will arise will certainly include: will any changes to better understanding, greater predictability, greater accuracy, improved transparency/simplification and overall better enable us to act on behalf of the American people to ensure that the Budget reflect our nation's priorities and acknowledges our policy goals.

We all agree that the federal budget is on an unsustainable path. If we continue current policies, deficits will remain high throughout the decade, and the debt held by the public will rise as a percentage of GDP. We agree action needs to be taken. Will changes in the budget process improve this situation? Will changes better enable us to promote job creation and economic growth?

The economy is still fragile. With millions of people still out of work and families struggling to make ends meet, our lagging economy runs the risk of compounding our debt problem for future generations. Increased employment is the best and most effective way to reduce our deficit. To promote job creation, we must restore confidence in our government and create an environment so the private sector can grow.

Efforts to create jobs and improve our economy in the short-term must be coupled with a long-term plan to reduce the deficit. Budget process reform can be a useful tool in helping control growing deficits and I am pleased that the last two Congresses actually made progress by adopting two budget process reform items.

For example, we enacted Statutory Pay-As-You Go, which assured that new spending and revenue proposals were deficit neutral. Statutory Pay-As-You-Go was one of the most valuable tools during the 1990s in helping to achieve budget surpluses for four years in a row. We renewed Pay-Go last session; unfortunately, this law was watered down in the current Congress by a change that made the House Rule asymmetrical, prohibiting new spending without spending offsets but allowing for the consideration of tax cuts without offsets.

We also made changes to the House Rules during the 110th and 111th sessions of congress that helped to control spending through earmarks in annual appropriations bills. The elimination of the earmark rule remains in force today.

While the budgetary impact of these kinds of changes may be small, a process that is stream-lined, transparent, and uses the most conceptually sound approaches may lead to more informed budget decisions and promote increased trust in our government. Perhaps it is also time to review scorekeeping practices including accrual accounting for pensions and health benefits, risk-adjusted credit reform, program integrity, and baseline concepts.

As we consider reform proposals, we must remember that process reform is no substitute for making the hard choices. Budget agreements can drive budget process, but budget process cannot drive agreements. The three times budget process has been most effective are in 1990, 1993 and 1997.

Each time, the Congress and President reached an agreement on spending and tax levels and the Congress enacted budget rules to enforce the agreement. Looking

back at the 1990 Act, Former Congressional Budget Office Director Robert Reischauer concluded that “budget procedures are much better at enforcing deficit reduction agreements * * * than at forcing such agreements to be reached. * * *”

The American people have sent a message loud and clear: It is time for us to work together for the good of the country. We have to get our fiscal house in order. This means a leaner, more focused government. Congress must demand greater efficiency by cutting programs that no longer work, streamlining wherever we can, and investing in the right priorities for Americans.

We stand at an important moment in our nation’s history, and we have the opportunity to rebuild our economy in the short-term and make responsive, balanced decisions to change the current budget trajectory in the long-term. Congress has tough choices ahead as we meet these challenges. To rebuild the American dream of security and opportunity for all Americans, we must make the right choices now.

The key will not be process reform. It will be compromise, fundamental fairness, and recognition that the most important and immediate action we can take to address the deficit is to put America back to work, and set the federal government on a path towards fiscal balance. This will take agreement on how best to do this—agreement resolved not by changes in the budget process—which is the mechanism—but rather by finding common ground on the spending and revenues so can meet our obligations to the American people, grow the economy and invest for the future.

Chairman RYAN. Thank you. Chairman Nussle, we will start with you because you have the honor of having led this committee, and then we will go to Senator Gramm and then Dr. Joyce.

STATEMENTS OF JIM NUSSLE, FORMER CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET, PRESIDENT, COO GROWTH ENERGY; PHIL GRAMM, FORMER CHAIRMAN, U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, VICE CHAIRMAN OF INVESTMENT BANK, UBS AG; PHILIP JOYCE, PH.D., PROFESSOR OF MANAGEMENT, FINANCE AND LEADERSHIP, SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

STATEMENT OF JIM NUSSLE

Mr. NUSSLE. I have to admit Mr. Chairman that the vantage point here is much different than the one up there, so I think I like yours better but I am honored to be back and honored to be before you, not only as a friend, but as somebody that I encourage to join the budget committee, and it did not take much encouragement having started here as a staffer yourself. But I am honored to be before you and the rest of the members of the committee. I am sorry Chris is not here, but I know he has got big fish to fry. And I always thought this was a super committee by the way. I do not quite understand this whole new super committee stuff, but at any rate, this is a super committee as far as I am concerned. I am glad to be back here. I just want to acknowledge Tom Kahn and Austin Smythe and their terrific staff. They do a great job on your behalf and on behalf of the country. They are patriots, they are experts. Many of them are good friends of mine and I just want to say congratulations on the work that you do.

The subject of today’s hearing reminds me of something my dad always taught me. He had a sheet metal shop and he made cabinets out of sheet metal and everything from spot welding and rivets and everything else. He always used to give me grief whenever I complained about anything. He said, “You know, it is not the tools, it is the craftsman. It is not the tools you look at in the tool box to make the difference; it is the person using them.” My old

uncle Felix who work at my dad's shop who could make anything out of a hammer and I am not sure if that is true of today's craftsmen. It is the craftsman that seems to be a difference in all of this.

I suppose the same could be said of the fiscal toolbox that you have. Over the last 20 years that I had the opportunity and the honor to write budgets at both ends of Pennsylvania Avenue. I have to say that the tools have not changed that much; they are pretty much the same. We may call them different things; they may come up in different contexts, but by and large they have not changed all that much. They are pretty much the same tools that we have always used.

So as I look at that and I think about what could we do in today's context in order to change it? The first thing I would say is what is broken? The chairman mentioned that the budget process is broken. I would suggest to you, respectfully, that may not be the case. It may not be that the budget process is broken. It may not be, in other words, that tools are broken, but it may be the fact that the tools are not even being used. I was doing a quick scan of the roster of the budget committee members, and with all due respect, very few of you have seen the budget process even used, let alone work. The chairman has, certainly, and many of the more senior members, but for the freshman in particular you have never seen the budget. You have never seen modern budget process put into effect. You have passed one here in this committee. You passed one on the floor, but the entire budget process start to finish these days is rarely used.

And, I suppose you could say could we look for one or two things to improve that budget process and yes, I have been through that process as the chairmen mentioned together with then house member and member of this committee Ben Cardin. I, along with the sanction of our leadership, we tried to put together a reform to the budget process. We did so, by the way, in a context of a balanced budget. In fact, in 1999 when we were balanced and there was no urgency to change the process because it was broken as if we had to rush in like a fire department and put it out. We did it in a time when it was calm and there was some stability, and so I would be concerned to suggest to you to be careful rushing in and assuming that one or two fixes to the budget process may make this any less difficult because, in fact, it may not be the budget process at all.

So, I tried to think of some things that might work as I looked at this. I thought, and the same could be true of a driver pulling up to an intersection with a stop sign, rolling through that stop sign. We now see stop signs with the red lights blinking around them as a way to try to get people to stop. If the driver's disrespect the stop sign and just keep rolling through and do not obey the rules of the road. I mean, what can you really do to stop somebody, or stop a driver from rolling through a stop sign? The same could be said of Congress; you set the rules, you set the processes. If you choose to roll through the stop sign, and if you choose to change it on a whim, and you choose not to follow it or to, I would say, in some instances, disrespect that process, there is nobody that can do anything about it; there is no budget prison. I always wanted to find a budget prison, you know, and send a few people to it. And I looked at the bottom of the capitol; there is no budget prison if

you do not follow the rules. So I tried to think of some things that might work. So, I went back to what Ben and I came up with back in 1998 and 1999 and I looked at those, and I thought of some other things; so I came up with five.

The first is leadership. The budget process shows, and I believe it is less important in the political leadership provided. It is that simple; you either provide it or you do not. You either establish clear, fair and non-outcome determinant rules that you follow, and allow the Congress to work its will, or you do not. Please remember what I mean when I say “non-outcome determinant.” It is just like playing football, or playing baseball, or whatever it is. The rules are not there to determine the outcome of the game. The rules are there to make sure that both sides, both teams, if in fact were on different teams, can play the game, make the determination and get to an outcome. The process should determine the substance; the substance should not determine the process.

Second, before you fix the current process, try it. Before you fix the current budget process really try it, stick to it, make a commitment to follow the rules because they are not all bad. Many of them are very good, and if implemented, I think, many of them would work.

Third, I would suggest making the budget process real; making it a law. And, in fact, you do not need a change, as I understand it; I will defer to Paul Restuccia and the counsel's office, which we did at that time. My understanding is you do not need to make any change at all to go from a concurrent resolution on the budget to a joint resolution on the budget. It is a matter of just filing it as a joint resolution and making it a law requiring the president to sign the law as opposed to passing it only between both bodies [inaudible].

The reason why I think that is important is because so often nowadays the budget process breaks down, we think, toward the end of the year, toward the end of the fiscal year. When, in fact, if you really think of this as a blueprint, going back to the toolbox and making some analogy, if you do not have a design, if you do not have a blueprint upfront, you may not know until the end how broken it is. What I am suggesting by this is by making it a law, making sure that both the House and the Senate and the president have skin in the game, they have made an agreement up front. You have made a consideration as Allyson said, as Congresswoman Schwartz said, you decide what the compromises are, what the agreements and disagreements are up front, and you get it sealed into law. You establish the fences. You design the blueprint. Now, the plumbers and the carpenters and everybody can rush in and finish the work; but if you do not have that design up front, you may not know until the end that it is broken. And in fact, the 1974 Act was based on that very concept. There was a breakdown in the late 1960s, well, actually before that, by the late 1960s, early 1970s, they decided we not only have a design up front, but we need reconciliation at the end to kind of make sure it all fits together and followed that design.

And so that gets me into my fourth point, and that is use reconciliation. I call it weeding the garden, and it is just like the garden out back that you and your wife might have. If you go out

there every Saturday and pull the weeds that have popped up during that week, it is not too tough, and plants flourish and you get good tomatoes. But if you wait until the end of summer to weed the garden you might as well go in with a tiller and plow it under because you cannot possibly control it. Every time I tried to create a budget we put reconciliation instructions into the document, not because we were trying to determine one thing or another, but because we thought it would be important for the committees of jurisdiction to actually go in and make reforms on a step-by-step basis, pulling those weeds out as we went, as opposed to where we are now, which is a super committee having to go in and try and put everything back together.

Last but not least, let me suggest a proposal that the Commission on Fiscal Responsibility that the Pew Peterson Foundation put together and the Committee for a Responsible Federal Budget. A bunch of us has-beens, budget directors and chairmen and ranking members and all of us has-been budgeters got together bipartisan and argued through what could we do. The number one recommendation that we came up with that is missing in the budget process was a fiscal goal. What was horizon that you are trying to accomplish? Just going year by year, we all know in business, in family, and in our common sense, that you will not reach that final goal, A) if you do not have one, and B) if you cannot measure along the way to know if you are heading toward that fiscal goal. And we determined that a good fiscal goal would be setting a certain debt to GDP ratio; we picked 60 percent. Pick whatever number you want, but we also put in some triggers and some targets along the way so we knew if we were on target, and if we were not on target we had some automatic triggers that took effect that said, "Okay, Congress cannot get it done, this is what automatically happens." It is not that dissimilar to what you decided in the super committee process with sequestration. So, those are my five I put in the website, and some of the information to direct you to it, but, leadership is number one; try the current process is number two; number three, make it real; number four, use reconciliation to help weed the garden; and number five, set some good goals and targets as part of this process so you know that you are actually heading toward a goal as opposed to this year by year kind of waiting for the next election more than really waiting for the next fiscal year as part of this process.

So I commend that to you Mr. Chairman and friends and members and I do it with sincerity that if somebody knows that from a substantive standpoint how we got here; there is a lot of blame to go around. Having sat on both that side as a chairman and this side as an OMB director, I accept my portion of that, and I think all of us accept the responsibility including those beyond this committee who did not, to do something about it. So I commend that to you in that spirit, and I hope that you can use it to improve the process in whatever way that you see fit. Thank you.

[The prepared statement of Jim Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, PRESIDENT, COO GROWTH ENERGY;
FORMER CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET

Chairman Ryan, Ranking Member Van Hollen and Members of the Committee thank you for the privilege of appearing before you today. It's great to be back be-

fore the House Budget Committee at the witness table but, your vantage point is better. I commend you and the entire professional staff here at the committee including Tom Kahn and Austin Smythe; true experts, patriots and friends.

In my testimony here today I hope to make the following points:

1. The budget process chosen is less important than the political leadership provided.
2. Before you search for a new budget process to fix the current process, actually give the current process a try.
3. Make the budget process real by considering making the budget a law and binding on Congress and the President.
4. "Weed the garden" of public policy every year by using the budget reconciliation process while keeping everything on the table.
5. Determine long and short-term fiscal sustainability goals within the Budget Resolution to assure a path to fiscal responsibility.

THE BUDGET REFORM "TOOL BOX"

The subject of this hearing reminds me of the tool box on my Dad's old workbench. I've looked inside that toolbox over the years and today I still recognize the same tools in his handyman arsenal from when I was a kid. Some are worn, some a little rusty, some show the markings of use, but they are largely the same tools he's always had and always used. My Dad would tell me that "it's not the tools, but the craftsman" that make the difference in the outcome.

I suppose the same could be said of our fiscal toolbox. I've observed, participated, testified and chaired these important hearings over my now 20 years in federal budget matters and I've used or recommended using just about all the various budget process tools in the fiscal tool box as I wrote federal budgets from both ends of Pennsylvania Avenue. The "tools" themselves remain largely unchanged.

And, as the fiscal challenges continue to become more severe, it might seem obvious to some that the budget process is what is broken and making this effort so challenging. I suggest that would be incorrect. That is not to suggest that a process change here or there might be an improvement or that a completely different process would be the perfect solution.

I recall how Senator Ben Cardin (then house budget committee member) and I met together back in 1999 with budget staffs for months writing our budget reform plan with the sanction of our leadership, tinkering with ideas from the very bold to the very minor. We held hearings just like this and examined every possible alternative tool.

Congress ended up now passing our budget reform plan by a slim margin made up of appropriators who didn't want a budget process to "fence them in" and other members from authorizing committees who were concerned about shining the light on their growing entitlement sustainability issues within their jurisdiction. That day our plan failed on the floor of the House, we had a balanced budget. Our reform wouldn't have worked any better without leadership.

Here again, I would provide my Dad's advice, I suggest that there may not be any "new tool" but rather what's needed is the skilled "craftsperson" and leader to put them to good use.

One might easily argue that the process used to create the budget is broken. But, I could easily argue that the budget process isn't broken at all; today the budget process is not even being used or and at best is simply being ignored.

I wish our nations fiscal challenges could be repaired by a process adjustment. And, if a "new and improved" budget process is treated with the same disrespect as the current process, good luck having a rebirth of success.

If an intersection of streets with a big bright red sign that says STOP doesn't cause drivers to STOP, (they just keep rolling right through) what can you do? Make the sign bigger, redder, affix flashing lights all around it. It still requires the respect of the driver to adhere to the "rules of the road".

Over the years Congress and the President have been simply rolling through the "stop signs" and not adhering to the rules of the road in seemingly small ways. But now that disrespect and lack of leadership has resulted in the very lack of a budget whatsoever. And all sorts of fiscal accidents are waiting to happen as a result.

So what can be done? I would make the following recommendations:

1. My first is leadership. The budget process chosen is less important than the political leadership provided. You all either provide it or you don't. You either establish clear, fair, and a non-outcome determinate budget process rules that you follow and that allow the Congress to work its will and determine the nation's priorities or you don't.

2. Before you search for new budget procedures to “fix” the current process, actually give the current process a try. Prove that Congress and the President can follow the current process and rules before you decide that a new process or rule will somehow do the trick. Most of you have yet to see the current process work because most haven’t even seen it fully attempt or implemented!

3. Make the budget process real by considering making the budget a law and binding on Congress and the President. A Joint Resolution approach for the budget rather than a Concurrent Resolution can establish clarity, buy-in and commitment up front in the budget process calendar determining quickly whether there are issues and challenges making agreement difficult or impossible rather than waiting until the year end for the train wreck to be realized. Plus a law makes it real, binding, enforceable and controlling in an era where everything seems out of control and unsustainable. It forces the President to participate which I believe would improve the process and shines the light on inaction to assist in preventing one body from simply ignoring the realities.

4. “Weed the garden” of public policy every year by using the budget reconciliation process while keeping everything on the table. Just like a garden, if you pull the weeds of waste, fraud, abuse, ineffectiveness, and duplicative ness in the entitlements that now make up two-thirds of the budget, you make it easier to accomplish rather than letting those weeds take over. When I was Chair we placed reconciliation in every budget in an attempt to accomplish that very reasonable and gradual reform. And put everything on the table. We all have our areas where we have strong beliefs but that should not preclude the search for constant improvement.

5. Fifth and finally, determine long and short-term fiscal sustainability goals within the budget to assure a path to fiscal responsibility.

At our Committee for a Responsible Federal Budget Summer conference, Chairman Bernanke said “A straightforward way to define fiscal sustainability is as a situation in which the ratio of federal debt to national income is stable or moving down over the longer term.”

Just as there are many policy tools to reduce spending there are choices for how to achieve, measure and maintain fiscal sustainability. I offer the choices arrived at after thoughtful deliberation and calculation from The Bipartisan Committee for a Responsible Federal Budget and the Pew-Peterson Commission on Budget Reform where I am a co-chair and honored to participate.

The Commission determined three broad recommendations of targets, triggers and transparency, beginning with the establishment of a fiscal goal and then adopting budget limits that would be enforced through broad automatic spending cuts and even tax increases if policy makers fail to make the necessary legislative changes to meet that goal.

Our Commission recommended that Congress and the President: Adopt medium-term, long-term and annual limits on the amount the government can borrow as a share of national income. The targets are intended to commit the government in advance to a path of borrowing consistent with economic stability; debt to GDP target of 60% recommended to begin and reduced over time.

Links to the Pew Peterson Commission report “Red Ink Rising”:

http://budgetreform.org/sites/default/files/Red_Ink_Rising_hyperlinked.pdf

and report “Getting Black in the Black”:

<http://budgetreform.org/document/peterson-pew-commission-recommends-major-revisions-federal-budget-process>

CONCLUSION

Having written, negotiating and passing budgets at both ends of Pennsylvania Avenue, I well understand how difficult the challenges are that lay ahead for you as our nation’s leaders. The budget tools you have at your disposal are largely similar to tools we have used or contemplated using in the past. However, some tools are simply being neglected and the process ignored. I believe the most important commodity at this juncture is leadership. Leadership or “craftsmanship”; is desperately needed to skillfully use the tools in the fiscal tool box, in these complicated and difficult circumstances, educating and challenging the American people, and finally placing the United States finally on a sustainable fiscal path.

Thank you again for the opportunity to testify and I look forward to your questions.

Chairman RYAN. Thank you so much Jim. Senator Gramm.

STATEMENT OF PHIL GRAMM

Mr. GRAMM. Mr. Chairman, first of all it is a great privilege to be here. I had the opportunity for two terms in the House to serve on this committee. I would like to begin by saying that I think the action of this committee and this Congress is the exemplar of what good government is about. In my adult lifetime, nobody has done more to move us toward fiscal responsibility, and no one has acted more courageously than this committee under your leadership, Mr. Chairman. I think it is an indication of what can be done with dull tools with strong leadership. I think we are often mistaken when we design government to count on strong leadership, and that is basically what I would like to talk about.

First of all, if you are going to talk about the budget process, you need to understand that the Congressional Budget and Impoundment Control Act of 1974 was never written to control spending. It was written in order to stop Richard Nixon from impounding spending that had been adopted by Congress. It was written to shift the control of the budget from the executive branch to the legislative branch. And even though the objective of the budget was to increase spending, the senior members of Congress were very concerned about this: the creation of this committee, and as a result they structured the committee in such a way as to make it weak. They made membership temporary, they wrote the bill in such a way as to limit the ability to use it effectively, and that is the budget process we started with.

Now, over time, that budget process has been strengthened, and why does it matter? I mean, I could not disagree more with Jim about the tools issue. I find that working around my place I generally have the wrong tool. I find that I am a lot better craftsman when I have the right tool.

And let me try to set the budget process in that perspective; it is a process I think I know. I was the co-author of the Reagan budget in the House and that was the first time we used reconciliation to any significant extent. I was the co-author of Gramm-Rudman and that was the first time we ever set binding targets and enforced them with automatic spending cuts, which we call sequesters.

But the budget process is never going to be a four-sided fort, where you can pull up the draw-bridge and go back to sleep. The budget process, at its best, is simply a stone wall to your back in a gun fight. It is very relevant, however, because it changes the battle field. It changes the contour of the battlefield and it tilts it toward at its best. It tilts it toward responsibility and accountability.

Now there were two things that made me interested in the budget. The first occurred when I had been here about a week, and I was sitting at my desk and I had my inbox, and it just kept getting higher and higher and higher and I kept saying to myself, "My God, did I give up a perfectly good life at a perfectly good job to suffer the tyranny of the inbox?" You have all experienced it. I hated days here when I was looking at that inbox.

So anyway, I got up and just wandered over to the floor of the House and by sheer happenstance Jim Wright was speaking in favor of raising the debt ceiling. And his basic pitch was your fam-

ily has rung up these bills, and what gentleman is not going to pay his bills. So it suddenly struck me that that was true but that was just the beginning of the story. So, I held up my hand and got recognized and basically made the point that it is true; everything the majority leader said was true, but families do not just pay their bills. They then get out an envelope and pencil and sit down at the kitchen table. They figure out where they got off track, as the Congressman Hensarling says, they get out your credit card and butcher knife and cut up the credit card. And I said I do not think we ought to raise the debt ceiling and not try to address the underlying problem. Well, I then wondered off. Well, the debt ceiling failed, which was remarkable in those days.

And so anyway, the debt ceiling came up again in two weeks to offer an amendment to try to tie the debt-ceiling to the deficit. I think I got about 160 votes and it failed, but that was the beginning of my recognition of this problem.

The second was watching the appropriations process. I figured out that with amendments offered on the floor that the average amendment was costing somewhere between 50 and \$90 million. There were 100 million taxpayers so that each taxpayer was paying between .50 and .90 cents, which was not enough to fool with, certainly not enough to fund writing a letter to say, "Hey, it is my money."

But the beneficiaries were getting substantial amounts of money so that on every vote the beneficiaries were looking over their left shoulder holding members of Congress accountable. Nobody was looking over their right shoulder. And I found in watching the debate that it was not sufficient, nobody cared whether the amendment was worth what it cost. You could only defeat a spending amendment if you could make a very coherent and convincing argument that it was a bad thing. So we were consuming the taxpayer's money up to the point where its value was zero, often it was negative, but we could not make a strong enough argument. Those two experiences convinced me that the process had to change and that led to what became the Reagan budget and the use of reconciliation and Gramm-Rudman.

Let me say I think your Budget Control Act was a substantial improvement over Gramm-Rudman and I think the principle you set down that if you are going to raise the debt-ceiling you ought to have reduce the deficit over a 10-year period by a comparable amount. It is a good principle and I think it should never be violated again.

Now, if today's question is "What can we do to make this process better?" I want to share with you a big idea. It is an old idea; it is not my idea, obviously. If it is a big idea, it clearly is not my idea, but interestingly enough it was Jimmy Carter's idea. I want to give you an updated version of it in terms of my thinking. The idea that Jimmy Carter brought to Washington was zero based budgeting. The idea was that every appropriated program should periodically be comprehensively reviewed and modernized and Congress should be required to reauthorize it or it would die.

Now, Carter came in 1977 and I did not come until 1999. So by the time I got here, poor Carter was so beaten down, and this idea

was hated by Congress immediately, but I tried to get President Carter to come forward again with the idea but it never happened.

Here is what I want to propose: I want to propose that beginning with the election of the new president, could be the same person, but the beginning of the new presidency in 2013, that the administration be required in its second year to evaluate and submit reauthorization legislation for every discretionary program in the American government. Now they may decide not to resubmit certain programs. The authorizing committees could decide on dramatically changing programs. The authorizing committees will now have lead in their pencil and they would be in a position where each program has to be reauthorized or at the end of the year it cannot be appropriated. We have programs that serve no purpose, and in some cases have really outlived their beneficiaries but inertia just keeps them in place. This is a very powerful idea.

I would go further. I would also, once every 10 years, require the reauthorization of all unearned entitlements. These are entitlements where people get benefits that they have not, at least in part, paid for. And each decade they would work exactly the same way. AFDC, food stamps, many other programs would have to be resubmitted, they would have to be reauthorized, they would be comprehensively reviewed, they would be voted on by Congress that did not write the bill to begin with, looking at it from the perspective of the world they are living in and the constraints they face. And if they reauthorized it, if they changed it, it would be changed, if they did not reauthorize it would not be funded.

Now, I would go whole hog myself and that is I would require that earned entitlements, entitlements where you either provide service, or you pay at least in part for it, that would be veterans' benefits, Social Security and Medicare, I would require that every 10 years you require the administration to have a comprehensive review and a propose the reauthorization program.

I would require that Congress comprehensively review the program. I would not sunset unearned entitlements but I would give the review process a privileged motion under expedited rules so that the reauthorization could not be filibustered, and where it would be subject to rules that would allow the process to work.

I would even go further. For every provision of the tax code that was not a rate I would sunset it every 10 years and require that it be reauthorized. If it did not reauthorize it would be one we authorized it would go away.

I think I would treat rates like earned entitlements. I would be a little bit afraid to require the reauthorization of tax rates because if you did not get the job done you would be out of business. Now, some people might view that as a good thing. When I was a young man I would have made a joke that it might be a good thing but now I am not as ignorant as I once was.

But in any case this is the kind of thing that we really need to do. Reagan used to talk about nothing is immortal on earth except the programs of the federal government. And as all of you know it is sinful looking at our tax code.

Finally, let me just say we are already changing entitlements, now somebody is going to jumop up and down and say "You mean every 10 years you are really going to have a process to look at

Medicare and Social Security?” Well, look we have amended Medicare 13 times with major changes since 1965, so every three and a half years we are rewriting Medicare. Why not do it in a systematic way where we can look at what has happened actuarially. What has happened in terms of our ability to pay for the program and the potential miracle that we might have learned something?

In terms of Social Security, it has been amended substantially 17 times. Every 4.4 years we have changed Social Security in some very meaningful way. Why not have an orderly process to look at it every decade? I have to believe that would be a good idea. I also believe that we need to convert to all of these programs to actuarial accounting. I mean we talk about programs that have a positive cash flow, that have huge accrual accounting deficits. We have a complete misconception that the public has about the ability of a trust fund to pay Social Security benefits when the trust fund is a bunch of IOUs in a metal file cabinet in West Virginia where it is the debt of the government to itself.

And we require accrual accounting of every private business in America. Why do we do it? Because we are trying to protect individuals by giving them information, but yet government does not apply accrual accounting to itself. Makes no sense.

Finally, let me say this special interest groups would hate these proposals that I have made. They would fear them because it means that you would really, honest-to-God, going to look at these programs to see if they are achieving what you want them to achieve. I would say that it is worth the effort to do it. I think it is important to remember that America does not have any special dispensation that guarantees that we are always going to be the greatest, freest and richest country in the world. We are going to be as great and as free as we make ourselves. And we are going to be as poor and un-free as we allow ourselves to become.

One of the reasons that this is an important committee is because this is the only committee of Congress where you really talk about the role of government. How big should the government be? How should it be funded? What do we expect our government to do? Those are critically important decisions because they really determine who we are. If you have France’s government, your people are going to become Frenchmen. If you have America’s traditional government, they are going to be Americans. So these are very important decisions and I commend them to you and I just urge you to choose wisely.

[The prepared statement of Phil Gramm follows:]

PREPARED STATEMENT OF HON. PHIL GRAMM,* VICE CHAIRMAN,
UBS INVESTMENT BANK; FORMER U.S. SENATOR FROM THE STATE OF TEXAS

Mr. Chairman, I am honored to testify today before the House Budget Committee, a committee that I was privileged to serve on when I was in the House of Representatives. In Washington, D.C., where the buck is frequently passed and dodging is the norm, the House Budget Committee in this Congress has provided extraordinary leadership in addressing the Nation’s fiscal crisis. In my adult life, of all the efforts undertaken to address government spending and debt, the budget you passed in 2011 is the most significant and the most courageous.

Any review of the Congressional budget process must begin with the recognition that the Congressional Budget and Impoundment Control Act of 1974 was never de-

*The opinions expressed in this testimony are solely my own.

signed to control spending. Its primary objective was to stop the Presidential impoundment of spending, and shift the control of spending from the Executive branch to Congress. But even the most senior members of Congress were fearful of its potential power and worked to insure that both the Budget Act and the Budget Committee were weak.

As co-author of the Reagan Budget, which employed the first major use of the reconciliation process, and as the co-author of the Gramm-Rudman law, which set the first binding deficit reduction targets and enforced them by automatic spending cuts called sequesters, I can clearly and unequivocally say that there is no budget law that is a four-sided fort where we can pull up the drawbridge and go back to sleep. The best that any budget mechanism can provide is to help force action and tilt the process toward encouraging hard choices and compromise. At its best, the budget process can become a good stone wall to your back in a gunfight.

I believe the Budget Control Act recently enacted into law sets out a good process for handling the debt limit increase. It corrects many deficiencies in the Gramm-Rudman law and the Budget Enforcement Act. The principle that any increase in the debt ceiling should be fully offset by a permanent reduction in the deficit of an equal or greater amount is sound and should always be the guiding principle in the future.

If the question today is how we strengthen the congressional budget process, I want to recommend for your consideration a permanent reform structure for ALL government spending. One of the best ideas ever on the budget came from former President Jimmy Carter, and that was zero-based budgeting. His idea was simple and logical: all discretionary spending should be periodically re-authorized by Congress. I would recommend that beginning in January of 2013 we require whoever is President to submit re-authorizations of all discretionary programs at the beginning of the second year of their Administration. This would mean that every program would be reviewed and reauthorized or it would sunset and not be eligible for funding. There should be no exceptions to this rule.

In addition, every 10 years I would sunset all entitlement programs which are unearned, i.e. not based at least in part on contributions made by the beneficiary, starting in 2014. For those entitlement programs which are based in part on beneficiary contributions, I would require a comprehensive review every 10 years with an expedited and privileged consideration of the reform process. Entitlement programs are now changed on a haphazard basis, with the Medicare law having undergone 13 major changes since its inception in 1965—that's once every 3.5 years—while Social Security has been subject to 17 major changes over 75 years, a rate of once every 4.4 years. By sun-setting unearned entitlements and by requiring a comprehensive review with expedited and privileged procedures for reforming earned entitlements, we could begin a systematic review and modernization based on demographics, the financial status of the government and the state of economic knowledge.

All federal entitlement programs should be maintained on the books using accrual accounts. We continue to talk of programs in terms of cash-basis "surpluses," which are in fact running massive deficits under accrual-accounting. The government demands accrual accounting in the private sector to protect individuals but remarkably we do not apply the same laws to government itself. I believe Senator Lieberman introduced such a bill a few years ago, and it would be a good reform. Further, we should require States to use the same accounting methods for their pension programs and health care retirement benefits. Only then can we ensure transparency and accountability in the process.

While special interest groups will fear and oppose systematic review of all federal spending programs, it is clear that the nation and its people will benefit. America has no special dispensation that guarantees we will always be the greatest, richest, and freest people in the world. America can be as strong as we make it or as weak as we allow it to become. When Thomas Jefferson said that the price of liberty is eternal vigilance, he was not talking about Indians coming over the mountain or the British coming across the ocean. He was talking about vigilance against the encroachment of our freedoms by our own government. It is this committee that sets the limits on government and that duty makes the Budget Committee—and your actions -significant. Behind all the numbers and the budget scoring and projections, you are determining what kind of America we want to live in. Please choose wisely.

Chairman RYAN. Dr. Joyce, I understand in my opening I said you are from George Washington University, however, my understanding is you recently left George Washington and you are now at the University of Maryland, correct?

Mr. JOYCE. That is correct and my dean thanks you for reading my qualifications.

Chairman RYAN. Dr Joyce.

STATEMENT OF PHILIP JOYCE

Mr. JOYCE. Thank you Chairman Ryan, Representative Schwartz, members of the Budget Committee. I am pleased to be here today to share my views on the federal budget process. I have a relatively long written statement which I would like put into the record and I am mindful of the fact that when you say an academic is going to offer wide-ranging views it may just be an invitation to be long-winded.

Chairman RYAN. Without objection it will be in the record, so you can summarize your comments.

Mr. JOYCE. I will summarize. What I am going to tell you is based on my 20 years of both participating in and studying the budget process. I think it is an understatement to say that the budget process does not appear to working very well. I would argue, however, that the main problem is not that the budget process itself is broken, and in fact I agree with Mr. Nussle that the main issue is that tools that are available have not been recently used to devise solutions to the fiscal mess we are in.

So my main message to you, and I will amplify on this but not too much, is that you should avoid the temptation of assuming that fiscal rules are going to solve our budgetary problems. The goal is to deal with the larger fiscal imbalance that faces us. I think that the most important thing to do is to make effective use of the tools that you already have.

I think it is useful from my vantage point of somebody who studies the budget process and has participated in it to sort of review what our historical experience may offer in this regard, so I am going to try to call out some lessons from the last 25 years; it is really the last 25 years that we have attempted to use the budget process to try to get some control over the deficit.

In 1974, of course, we had the Congressional Budget and Impoundment Control Act. The fact that we have the Budget Committee and a budget resolution at all stems from a desire by the Congress to deal with the whole budget and to deal with the budget on a multi-year basis. Prior to that point, the budget was dealt with only on a piecemeal basis, the budget was really very much year at the time; so I think that was a giant step forward when it was used, and sometimes it used and sometimes it is not.

The main vehicle to do multi-year budgeting has historically been, as both of the previous speakers said, the reconciliation process. I think, in fact, the reconciliation process is the success story of the federal budget process.

But I agree with Senator Gramm that there was nothing about the original 1974 budget process that was really designed to get control over spending or the deficit. And in fact in 1985, when the Gramm-Rudman-Hollings Law was passed, that represented the first real attempt to use the budget process to reduce the deficit. I think there is a credible argument that this law had some effect on spending and deficits; however, it did not come close to meeting its overall goals. In fact the fiscal year 1993 budget, which was one

that was supposed to be balanced under Gramm-Rudman-Hollings had a deficit of \$255 billion. I only mention this to say that historically this is why after the late 1980s it sort of led us to a place where we looked for another approach to try to get a handle on the deficit. And that ultimately culminated in what was called the Budget Agreement of 1990; this is where the president and a few members of the president's staff and key members of Congress went to Andrews Air Force Base and they sort of hammered out an agreement to reduce the deficit. Part of that agreement did involve the budget process. There was a new procedure called the Budget Enforcement Act, and the Budget Enforcement Act is where we first saw discretionary spending caps similar to the ones that are now the Budget Control Act and the pay-as-you-go process which was for mandatory spending and revenues.

The BEA approach differed from Gramm-Rudman in two main respects: first, it focused on the policy actions first and then used the budget process to attempt to enforce compliance with those actions. That is, to try to keep the Congress from undoing the decisions that had previously been made.

Second, it created separate enforcement regimes, as opposed to an overall sequestration covering discretionary spending on the one hand, and mandatory spending and taxes on the other hand. This BEA type process was repeated in 1993 and 1997 with the passage of yet new reconciliation bills. The reconciliation process again was central to deficit reduction.

The BEA fell apart in the early 2000s. What killed the BEA? Surpluses killed the BEA, because at the point at which you had discretionary spending caps, you had a pay-as-you-go process, but you also had surpluses and it was sort of asking the political system to walk and chew gum at the same time. It was sort of hard to maintain that discipline.

The 1997 Act, in fact, represented the last time, prior to this year, that the congressional budget process was used to try to enact a multi-year deficit reduction deal. Reconciliation was used plenty of times in the 2000s, but when it was used in the 2000s it tended to be used to add to deficits rather than subtract from them. This year, though, there was a movement in the Budget Control Act toward multiyear deficit reduction because of the discretionary spending caps; so all of that is history.

What does that history tell us about any lessons, about the relationship of the budget process to deficit reduction?

I would like to highlight four lessons. The first lesson is setting targets without simultaneously reaching consensus on policy actions to reach those targets is likely to be an empty promise. The major failing of the Gramm-Rudman law was that it did not really require anything of people who voted for it, other than to promise to do something in the future. When the future came, they did not do it.

This is also a problem with constitutional amendments requiring annual balanced budgets; they are not self-enforcing; something needs to happen after them in order to make them come true. If they are going to be targets then they should be accompanied by at least a substantial down payment on the policy actions that are

necessary in order to meet them if those targets are going to be credible.

Second, and related to this, the budget process is better, I would say much better at enforcing compliance with agreements that have already been made than making those agreements happen. All of the successful efforts at deficit reduction in the last quarter century had one basic thing in common, the president and the Congress agreed on a future path for the budget and a set of policy actions and then the process was used to try to enforce compliance with those actions. That is the BEA approach, I think it largely worked, until the consensus around reducing the debt fell apart, which it did in the late 1990s, early 2000s.

Third lesson, any enforcement regime must be comprehensive and must encourage participants to make policies in order to avoid the consequences. Sequestration is something that should be designed so that it is not actually used. That is, it should encourage people to do things, what we will call the old-fashioned way, which is to actually increase revenues, cut spending in order to meet targets. The problem is that if many parts of the budget are excluded from enforcement, as was true with Gramm-Rudman-Hollings and as is true with the Budget Control Act, then the ability of the enforcement process to promote policy agreement is more limited. Put simply, people will calculate whether they think they are better off letting the automatic cuts take effect than they would be actually reaching policy agreement. I would therefore encourage that any enforcement regime not only include all spending, but also include automatic revenue increases, not because I think automatic revenue increases are a good idea, but because people might actually want to enact policy actions in order to avoid having them go into effect.

Fourth, the budget process should hold policy makers accountable for things they can control. I think this was one of the important characteristics of the BEA is that it held appropriators responsible for those actions that dealt with appropriated spending, that is appropriated spending exceeded the caps it was appropriated spending that got cut. If it was authorizing spending that was the problem, then the pay-as-you-go process would kick in to try to put a sequestration on mandatory spending.

So what do I think, in addition to enforcement, which I think is important, if you have any set of budget changes that are put into effect I think they need to be enforced, what are the most fruitful areas of potential reform? I would advise you, in addition to enforcement, to concentrate on those that give the Congress and the president appropriate information on the fiscal impact of the budget choices that you make. There are actually a few examples of this from the past, one of them is the 1990 Federal Credit Reform Act, if you want to talk about approvals, that was sort of the first movement to try to bring accrual concept into the budget for loan guarantees and direct loans. Prior to that point, direct loans were treated as if they were grants, loan guarantees were treated as if they were free.

The 1995 Unfunded Mandates Reform Act was an attempt to try to bring information into the process to try to keep things from happening that appeared to have no cost, when in fact they did

have a cost, they just did not necessarily have a cost to the federal government.

The various score-keeping rules, which are arcane and will put you to sleep, but they were put together in 1990, codified in 1997, I think they reduced the overall level of what we call technically budget chicanery. They have encouraged recognition of cost at a point where I think they can be controlled. Issues like this which are not sexy and are really about budget concepts and budgetary accounting seem much more fruitful to focus on than larger fiscal rules or many institutional reforms and there are lots of other issues out there that could fit this category of providing additional information, such as for example the expansion of accrual concepts to other areas, deposit insurance, pension insurance, flood insurance, et cetera and also budgeting for disasters and emergencies, which is not just this year that this has been an issue, this has been an issue probably for the last 25 or 30 years, the fact that we systematically underfund emergencies in the regular process and then when there are emergencies we have to add money to the budget.

So in closing, the budget process can be good, in my view, at two things. The first is to force policy makers to confront the real cost of their actions and provide information that is necessary for them to make budget decisions. The second is to enforce compliance with budget decisions that have already been made. Unfortunately, it is not very good at forcing the political system to deal with fiscal problems if it does not have the political will to do so. So again, much of the current budget process infrastructure that is needed to deal with your current budget problems exists today. I would join Mr. Nussle in saying that I think the most important thing to do is to make use of those processes and those rules that you already have. I think that is going to have much better payoff than establishing fiscal rules without establishing the policy changes that are necessary to comply with those rules. So thanks again for inviting me.

[The prepared statement of Philip Joyce follows:]

PREPARED STATEMENT OF PHILIP G. JOYCE, PROFESSOR OF MANAGEMENT, FINANCE, AND LEADERSHIP, MARYLAND SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Chairman Ryan, Ranking Member Van Hollen, and members of the Budget Committee, thank you for inviting me to share my views on the federal budget process. The views I will express today are informed by 20 years of both participating in—and studying—the budget process. Based on this observation, I would agree with many who would say that the budget process certainly does not appear to have done a very good job of helping us to solve the current budget problems that we face. I would argue, however, that the main problem is not that the budget process is broken—it is that the tools that are available have not—at least recently—been used to devise solutions to the problems that we face.

I would like to start by observing that I think taking a long look at the budget process and (particularly) budget concepts can have a positive effect. It is, however, a big job—one that is fraught with difficulty. This difficulty takes at least two forms. The first is that there are entrenched interests who like the budget process just the way it is because it enables them to achieve their desired policy ends. The second is that, because there are so many directions that you could go, the Congress might spend its time on tempting reform targets that will not really have much payoff. I don't think there is much that can be done about the first problem, and in any event I don't mean to suggest that you duck difficult reforms that may work because they would be opposed by entrenched interests. But I do advise you to steer you away from reform ideas that we have already tried and we know not to work. In

particular, I hope that you avoid the temptation of assuming that fiscal rules will solve our macrobudgetary problems. In fact, my main message is that most of the tools that you need to solve the budget problems faced by the country are already in your toolbox. If the goal is to deal with the larger fiscal imbalance that faces us, the most important thing to do is to make use of them, not search for more tools.

WHAT IS OUR EXPERIENCE WITH FISCAL RULES SINCE 1974?

First, I think it is useful to remind ourselves of where we have been. Since 1974 we have attempted a number of approaches to deal with the budget, and later the budget deficit. These efforts have yielded some lessons that I think are useful to consider in the context of budget reforms that the committee might consider this year.

The Congressional Budget and Impoundment Control Act of 1974, which established the budget resolution and this committee, was designed to address at least two major flaws in the process as it existed at that time. First, the budget was adopted on a piecemeal basis. That is, there was no point at which the Congress focused on the whole budget. Rather, many separate bills—covering tax legislation, mandatory spending, and discretionary appropriations—were considered. In total, these made up the “budget”, but the totals were more or less the accidental result of these many separate legislative actions. Second, the budget was only a one-year-at-a-time phenomenon, with little attention paid to the medium-or-long term budgetary or economic effects of policy.

The Budget Act of 1974 attempted to address these shortcomings by establishing a budget resolution, which would represent a comprehensive statement by the Congress of its priorities, and would cover multiple years. The notion here was that the Congress would first decide on a path for aggregate fiscal policy, and then would impose limits that its committees would be required to adhere that would be consistent with these aggregate limits. Institutionally, the establishment and enforcement of the budget resolution would be under the jurisdiction of the House and Senate Budget Committees. They would be supported in this by the Congressional Budget Office (CBO), which would both establish a multi-year budget baseline (starting point) for budget deliberations, and would track the economic and fiscal effects of legislation over multiple years, in part to ensure that the strictures established by the budget resolution were adhered to.

This was all well and good, except that there was nothing about the budget process created in 1974 that necessarily forced it to confront the large deficits that began to surface by the mid-1980s. The Balanced Budget and Emergency Deficit Control Act of 1985 (later revised in 1987), also known as Gramm-Rudman-Hollings (GRH), attempted to put the budget on a glide path to balance by setting fixed deficit targets, over multiple years. The bill was passed as an amendment to a bill to increase the government’s debt limit, partially to give some cover to those who voted for the debt increase. Adherence to these targets was enforced through sequestration. If estimated deficits (as enacted in the budget resolution) would exceed the GRH targets, across-the-board spending cuts were enacted. The sequestration process excluded a significant number of programs, however, including Social Security and most of Medicare.

The Gramm-Rudman-Hollings legislation was a watershed event, because it explicitly focused the budget process, for the first time, on attempting to get a handle on out of control budget deficits. The law set annual targets for budget deficits, with an ultimate goal of a balanced budget within five years. While there is a credible argument that GRH had some effect on spending and deficits, it did not come close to meeting its overall goals. In fact, the fiscal year 1993 budget, which was to be balanced under the revised 1987 targets, had a deficit of \$255 billion. The failure of GRH to meet its objectives stemmed primarily from its focus on estimated, rather than actual, deficits. Policymakers tended to meet the projected deficit targets through systematically optimistic forecasts, particularly of economic growth. These optimistic forecasts were embraced by both the President and Congress, and by both Republicans and Democrats. Further, the sequestration process lacked credibility, in part because it exempted large portions of the budget on the spending side, and in part because it included only spending changes, and not automatic tax increases.

The failure of GRH to reduce deficits to manageable levels contributed to the search for a different approach, which ultimately culminated in the Omnibus Budget Reconciliation Act of 1990. This act combined spending cuts and tax increases to reduce 1991-1995 deficits by an estimated \$500 billion. It also included a new procedure, called the Budget Enforcement Act (BEA), which combined statutory caps on discretionary programs with a new pay-as-you-go (PAYGO) system designed to prevent new actions from undoing the effect of the deficit-reducing actions enacted in

1990. Under PAYGO, if mandatory spending was increased or taxes decreased, this needed to be accompanied by action to reduce mandatory spending or increase taxes in order to make the overall effect “deficit neutral”. Both the caps and PAYGO were enforced on a multi-year basis.

The BEA approach differed from GRH in two main respects. First, it focused on the policy actions first, and THEN enforcing those actions—attempting to prevent the Congress from undoing the actions already agreed to. Thus, the option of avoiding the deficit-reducing policy actions by assuming that the problem had been solved was not available. Second, rather than one sequestration, there were two, focused on the distinction between discretionary and mandatory spending (and taxes), under the assumption that policymakers should be held accountable for things that they could control. For example, a failure to meet the discretionary caps would lead to a sequestration of discretionary spending rather than all spending.

The BEA approach survived the 1990s. New five-year reconciliation bills were passed in 1993, and again in 1997. These new bills tended to be passed before the prior multi-year agreement expired, in an effort to make changes necessary to respond to changing budget or political realities. The BEA process itself was extended until 2002, but the onset of budget surpluses in fiscal year 1998 ultimately led to its downfall. Congress and the President resorted to loopholes starting in the late 1990s, such as declaring funding for the conduct of the 2000 census to be an emergency. (This seemed to many to stretch the emergency designation more than a little, since the requirement for the decennial census is in the U.S. constitution.)

The 1997 Act represented the final time until 2011 that the Congressional budget process was used to enact a multi-year deficit reduction deal. While there were subsequent uses of reconciliation during the 2000s, all of them had the effect of adding to deficits rather than reducing them. These included the 2001 and 2003 Bush tax cuts, and the 2003 Medicare prescription drug bill. While a statutory PAYGO law was enacted in 2010, it includes a number of sequestration exemptions that limit its usefulness. In 2011, there was some movement toward multi-year deficit reduction through the enactment of the discretionary spending caps included in the Budget Control Act.

In the end, there are a number of lessons about the relationship of the budget process to deficit reduction that emerges from the experience of GRH, the BEA, and the post-BEA era.

1. Setting targets without simultaneously reaching consensus on policy actions to reach those targets may be an empty promise. The major failing of GRH was that it did not require anything of its drafters, other than a promise to do something later. This is also a major failing of constitutional amendments requiring annual balanced budgets. If there are going to be targets, they should be accompanied by (at least a substantial down payment on) the policy actions that are required to meet them.

2. Even if we are going to set future targets, promises to reduce projected deficits, with no attention to actual deficits, invites unrealistic projections. Meeting projected targets is not that hard. Under GRH, doing something later ended up often meaning cooking the numbers to appear to meet the goals, rather than actually meeting them.

3. Enforcement must be comprehensive, and must encourage participants to reach agreement. A major shortcoming of the GRH process was that some participants (particularly those who opposed tax increases or cuts in major entitlement programs) believed that they were better off with sequestration than they would have been actually agreeing to a deal. If many policies are excluded from enforcement, then the ability of the enforcement process to promote a deal is more limited. I would therefore encourage that any enforcement regime not only include all spending, but automatic revenue increases.

4. The budget process is better at enforcing compliance with agreements than to make those agreements happen. Any process is limited in its ability to actually make something happen, if the participants do not have the incentive to act. All of the successful efforts at deficit reduction in the last three decades have one basic thing in common. The President and the Congress agreed on a future path for the budget and on a set of policy actions, and then the process was used to enforce compliance with those actions.

5. The budget process must recognize the particular responsibility that the federal government has to respond to economic downturns and other emergencies. It is important that the federal budget process remain flexible. Thus, when the deficit rises because of the deterioration of the economy, it is important that this not require spending cuts and tax increases, at precisely the time that they would be most difficult, and economically and politically harmful, to enact. If it had been imperative that the government reduce its deficit during the recent recession, it would have

made state and local governments and individual citizens much more vulnerable to the effects of the economic downturn. While there have been tendencies in the past for emergency designations to be abused, it is important to maintain the ability of the process to respond to unforeseen circumstances.

6. Enforcement mechanisms should hold policymakers accountable for things that they can control. The BEA, by focusing on enforcing actions that had already been taken, and by holding Congressional committees responsible for actions under their control (appropriators for discretionary spending, and authorizing committees for PAYGO actions) was more successful in maintaining budget discipline, at least until deficits were replaced by surpluses, at which point the consensus that had developed around deficit reduction had fallen apart.

THE PROBLEM WITH OVERALL FISCAL RULES

There is no real disagreement about the larger budget problems that we face. They have been well documented. The numerous commissions, in addition to several directors of CBO, Comptrollers General, and even some (but not all) Presidents and many members of Congress have delivered the consistent message that we eventually have to confront the fiscal challenges that we face.

I am VERY skeptical, however, about how useful budget process reforms can be in making us confront those challenges. Thus, I would advise against spending a lot of time and energy trying to come up with rules that force people to act more responsibly later. It is better to spend time and energy searching for a set of policies that will reduce projected deficits and debt, and then use the budget process to enforce adherence to the fiscal path implied by those policy changes.

It is in this context that I think the balanced budget amendment to the constitution is ill-advised. Certainly there are many arguments against a balanced budget amendment, including that it often is not sufficiently flexible to allow the federal government to respond in times of economic and other emergencies, and that it is problematic to put spending limits into such an amendment. I would mainly stress two flaws in the balanced budget amendment.

The first is that it is a distraction from the problem that we face right now. It would take perhaps seven years to figure out whether the state legislatures would ratify it (they would not, in my view, since many would figure out that it is not in their interest for the federal government to balance its budget on an annual basis). Moreover, it is not self-enforcing. It would take legislation to enact the changes in laws necessary to increase revenues and reduce spending, and further to enforce compliance with the amendment. If we could enact those policy and budget enforcement changes, we would not need the amendment. If we were to pass the amendment, we would still need to do those two things.

Secondly, it relies on erroneous ideas about debt in our society. It turns out that it is not only the federal government that does not balance its budget. Families have mortgages; they have car payments; they have student loans. State and local governments balance their operating budgets, but they borrow to build highways, or dormitories, or prisons. Equally, businesses carry debt. Borrowing is a fundamental part of the financial model for families, governments, and corporations. Used correctly it can be very productive and result in measurable gains. The problem is not that the U.S. government has debt: it is rather that the fiscal imbalance is too large, and is too heavily weighted towards debt that does not make us better off in the long-run. These would both be good things for the Congress to address. Neither of them is addressed by a requirement that the government balance its budget on an annual basis.

If the goal is reducing the current level of debt in the medium-term and enacting budgets that maintain budget discipline in the longer term, it is my view that the Congress already has the major tools that it needs. The budget resolution itself is designed to set targets for multiple years, and those targets can (and should) reflect the desire to reduce deficits to a manageable level of GDP. Moreover, it is the reconciliation process that has been most successful, if success is defined as assisting the country to deal with deficits on a multiple-year basis. Particularly during the decade of the 1990s (with separate reconciliation bills passed in 1990, 1993, and 1997) reconciliation was used to enact policies that reduced the deficit over multiple years. Certainly reconciliation can have the opposite effect on the deficit, as we saw during the 2000s. That does not have to do with the structure of reconciliation, but the political consensus around the actions that it is used to make.

In the end, this demonstrates one of the limitations of reconciliation, and indeed the whole budget process. It can act as a vehicle to enact policies, but it cannot force a particular set of policies to be enacted, or a particular economic or fiscal path to be followed. Thus, in the 1990s, it was used to promote fiscally responsible policies,

because there was a political consensus around that fiscal direction. In the 2000s, there was a consensus around lower taxes and more spending, and the process was used to promote these outcomes. Thus the process does not demonstrably encourage fiscal responsibility, but can make that responsibility easier to achieve if there is a consensus to follow such a path. I certainly think that if the Supercommittee is successful in coming up with policies to reduce future deficits, that accompanying that with BEA-like enforcement mechanisms that attempt to prevent future Presidents and Congresses from undoing those policy actions will be essential. Even there, however, history demonstrates that if a future President and future Congress want to get around those rules, they will find a way to do so.

WHAT ABOUT OTHER REFORM IDEAS?

There are, of course, lots of other things that you could focus on that are not directly related to the short terms deficit problems facing the country. There are, as is true in most years, seemingly as many of these ideas as there are members of Congress to propose them. While I will not attempt to look at all of these proposed reforms, there are four current proposals that this committee may be asked to consider that I have thought about—biennial budgeting, a joint budget resolution, sunset review, and expedited rescission. I will share at least some summary thoughts on these.

Biennial Budgeting—One frequently mentioned proposal is to change from an annual to a biennial budget. Since Congress has such difficulty acting on a budget, why not simplify the problem by requiring action only every other year? Most biennial budgeting proposals would have the president submit his budget biennially and would also feature biennial budget resolutions and appropriations. Perhaps the high-water mark for biennial budgeting came in 1993, when both the Joint Committee on the Organization of Congress and Vice President Gore's National Performance Review recommended that the federal government adopt a biennial timetable for the process. Proponents of biennial budgeting argue that the current annual process features repetitive votes on many fiscal issues that eat up valuable committee and floor time. Second, in a related issue, supporters note that time spent on budgeting cannot be spent on other activities, particularly detailed oversight of federal programs.

While enthusiasm for a biennial budget is understandable, given the distaste with the continual nature of the budget process, this reform probably would not have much effect on either the time spent on budgeting or on the level of oversight exercised by Congress. On the first issue, the federal government has a rather checkered history of budget forecasting. Producing a budget every two years would increase the probability that budgets would be based on erroneous information, and would therefore need to be redone. The biennial process may degenerate into an annual process, given the uncertainties associated with budgeting for a \$4 trillion enterprise. Further, an increase in oversight under biennial budgeting would occur only if the current lack of oversight results from a lack of time. Even if members of Congress had more time to do oversight, they would not be likely to do more of it simply because they do not have any incentives to spend precious time understanding more about how federal programs work in great detail.

Joint Budget Resolutions—Unlike the present requirement for a concurrent budget resolution, a joint resolution would require the President's signature, and thus would be a law and binding on subsequent Congresses. With a joint budget resolution, the President would be given the authority to veto the budget resolution as passed by Congress. Requiring that the budget resolution be a law in order to take effect would give it more weight than it bears as just a set of rules the Congress creates for its own use. Further, if a joint budget resolution worked as advertised, it would improve the timeliness of the process by facilitating agreement earlier in the Congressional session.

While I think that promoting earlier agreement is a laudable goal, it seems unlikely that a joint resolution would make earlier agreement between the President and Congress more likely to occur. In years in which the President and the Congress are inclined to agree with each other on the outlines of the budget, requiring the President's formal approval is not likely to change much. Therefore, during periods of unified government (that would represent 14 of the 37 years between 1975 and 2011), a joint budget resolution would have been unlikely to influence timeliness of the budget process. The President and the Congress already have incentives to agree on the broad outlines of policy in those years. Alternately, if the President and the Congress do not agree on even the broad outlines of policy (as seems likely during periods of divided government—the other 23 years since 1975), requirement for a joint budget resolution could stop the budget process dead in its tracks, to an

even greater degree than exists today. To the extent policy and priority conflicts define Presidential-Congressional relations, a joint budget resolution would simply front-load those conflicts, increasing chances that the budget resolution would be delayed or that there would be no budget resolution at all.

Sunset Provisions—Sunset review proposals put government programs on a set timetable for review and possible abolition. In a sense, many federal programs and agencies are already subject to sunset review, since they have to be periodically reauthorized. The reauthorization process, however, frequently does not focus comprehensively on whether programs work or not. In fact, examples of programs that are abolished because they do not work are few and far between. States have often used sunset review, with mixed results. If sunset review was to be used at the federal level, it would be most effective if it was accompanied by systematic efforts to assess the performance of the programs under review. This type of performance measurement is anticipated under the Government Performance and Results Act Modernization Act of 2010, which attempts to build on the last 20 years of progress in establishing performance measures for federal programs. If sunset review becomes just another forum for political disagreements that are not supported by evidence on either side, it is hard to imagine how it would be an improvement.

The last three administrations have attempted, with some success, to increase the supply of, and demand for, performance data that can be used for resource allocation and management. It is worth at least considering how we could move beyond a simple discussion of how much it COSTS to pursue particular policy alternatives to more explicitly considering the effects of these policies. In my view, the federal budget is pretty good at this point at telling us how much things cost, but pretty bad at telling us what the benefits are. This is, unfortunately, symptomatic of a larger problem afflicting the federal budget, which is that not nearly enough consideration is given to whether policies or programs work (as opposed to, say, in whose Congressional district the money gets spent). This seems a glaring omission in a \$4 trillion budget.

Expedited Rescission—Proposals to give a line item veto to the President have abounded since Ulysses S. Grant first proposed such a veto in the 1870s. In 1995, the Congress passed, and the President signed, the Line Item Veto Act, which was a legislative equivalent of a line item veto that was ultimately declared unconstitutional by the Supreme Court in 1997. Subsequently, Presidents Bush and Obama each proposed that he be granted a reduced form of line-item veto authority through what is referred to as “expedited rescission.” Under this proposal, a president would be guaranteed a vote on rescission proposals that he proposed, and individual items would be subjected to an “up-or-down” vote on the Senate or House floor. The presumption is that these items would be subject to greater scrutiny, making it harder for the more egregious pork barrel projects to survive. In the 111th Congress, the expedited rescission approach is probably best exemplified by S. 102, sponsored by Senators Carper and McCain. There is nothing, in my view, particularly wrong with expedited rescission proposals. There is no particular reason that a President should not be able to obtain a vote on his proposed rescissions. I do think that, if proposals to ensure votes on Presidential proposals to reduce earmarks are going to be enacted, they should find a way to include targeted tax benefits as well as spending, as the Line Item Veto Act of 1995 did.

There are other proposals that have gotten less attention that I think represent useful areas of focus for the Congress. In particular, I think that reforms that force the Congress and the President to recognize the cost of individual policy choices will promote greater attention to policies that have costly future budgetary effects. That is, that if policymakers have to recognize the cost of their actions, it may encourage them to behave otherwise. There are a few examples of this:

- The Federal Credit Reform Act discouraged the notions that loan guarantees are costless and direct loans are like grants;
- The 1995 unfunded mandate legislation has discouraged the imposition of costly new mandates by forcing the Congress to at least consider their cost. Very few mandates have been enacted since this law took effect.
- The various scorekeeping rules agreed to after 1990 and codified in 1997 have reduced the level of budget chicanery. The lease-purchase rule, for example, has been used to explicitly recognize long-term acquisition costs (a good example of this was the Boeing tanker charade from the mid-2000s, which was eventually seen for the costly federal commitment that it was).

Issues like this (which are really about budget concepts and budgetary accounting) seem much more fruitful to focus on than larger fiscal rules, or even institutional reforms. There are lots of these issues that could be the focus of your discussion, but such as list would clearly include:

- What to do with the transactions of the GSEs now that we have, in practice, removed the word “sponsored” from their title.
 - Whether there are other places where accrual concepts, such as used for credit programs, would send more appropriate signals to policymakers than the current cash treatment (such as deposit insurance, pension guarantees, flood insurance, or natural disaster policies).
 - Whether changes should be made in the way that we budget for natural disasters and other “emergencies” (the tendency has been to underfund them in the regular appropriations process because we won’t be able to help ourselves later).
- This is by no means a comprehensive list of possible reforms. There are certainly other examples that others might be able to identify. The important point is that these micro-level incentives are liable to have far greater payoff than larger fiscal rules that try to get us to balance the budget, or reduce entitlements, or achieve world peace, or any number of other lofty goals we might consider.

CONCLUSION

The budget process is important. It allocates more than 20 percent of the goods and services produced in the U.S. economy. It can be good, in my view, at two things. The first is to force policymakers to confront the real costs of their actions, and to provide information that is necessary for them to make budget decisions. The second is to enforce compliance with budget decisions that have already been made. Unfortunately, however, it is not very good at forcing the political system to deal with fiscal problems, if it lacks the political will to do so.

Much of the budget process infrastructure that is needed to deal with our current budget problems already exists today. The President, through his budget, can propose a comprehensive plan. The Congress, through the budget resolution and reconciliation, can enact legislation that will, on a multi-year basis, reduce the current debt and promote fiscally responsible actions in the future. I would urge the Congress to focus on developing the consensus, passing legislation to reduce the deficit, and enacting budget reforms that focus on micro-level budgetary incentives and budget enforcement procedures. This will have much greater payoff than getting sidetracked by establishing fiscal rules without enacting the necessary policy changes to meet those targets.

Thank you for the opportunity to share these views. I look forward to answering whatever questions you may have.

Chairman RYAN. Thank you very much. This actually is a very sexy and exciting hearing. That is how sick and twisted I am.

There is lot to get into. The last reconciliation I was involved in as a staffer that was really meaningful was in 1997. That was a pretty big deal. Democrat president, Republican Congress, and then the gentleman to your right did DRA, which was real savings in the process. The process has broken down as reconciliation, particularly, has been used to do things other than what it was originally intended, expanding government programs, like student loans and others. That was sort of a contortion of the process and I think that the tax side and I think that was your point there.

First the process is as good as the people who use it and whether we have courage in leadership and conviction to actually fix these problems is what matters more than anything. So the question that we ask ourselves is the process making it harder for us to show leadership and discipline, or easier? If men were angels, quoting James Madison, we would not need all of these controls. Well the problem is that we are not and so we need to find the right system to make it as easy as possible for discipline and leadership to flourish and continue so we can tackle these enormous challenges that are really threatening our system unlike any challenge we have had in the past.

So there are a lot of concepts that have grown over time and reached consensus and I do not know where everyone stands on these things, but I am pretty much sure I know where Jim stands on these things because he and I have had so many conversations.

Emergencies, Jim Nussle, you created the idea of budgeting for emergencies when you have caps and discipline, it strikes me as a good way of having a pressure valve so that the enforcement system does not break down because you have already prefunded emergencies, and predefined emergencies to stop the gimmicks from getting out of control.

Senator Gramm and Dr. Joyce, do you agree that a proper emergency spending regime and the definition of prefunding, rolling average or whatever, is very important to our preserving the integrity of the rest of the system.

Mr. GRAMM. Well let me say on the emergency system I think setting aside money that has to be replenished by taking away from some other place is a good approach. When families have emergencies, it does not give them a license to simply go out and spend. They have to make hard choices, they have to decide that they are not going on vacation; they are not going to buy a new refrigerator. I do not understand this debate about the fact that we have had emergencies so we do not have to pay to deal with them. That is an alien concept.

I want to go back to your process about reform and leadership because this is an area where I have strong feelings. Leadership and courage are things you cannot count on. Process really matters. The Constitution of the United States is process. Is there anybody here who thinks that it does not matter that we have the Constitution of the United States? So God grant that we should always have plenty of smart, courageous leaders, but I think process is very important and the outcome of so many debates depends on the process. So I would make it as strong as I could make it to make it possible for people to show leadership and exhibit courage but I would not underestimate the importance of process.

Chairman RYAN. Let me tack on two points for the rest of you: joint resolution and biennial. What are your thoughts on those in addition to the emergency?

Mr. JOYCE. I will try to be brief on each one of those. On emergencies, I think that the issue is, as you know, that emergencies have been systematically underfunded in the regular appropriations process and there is no reason in my mind why you could not put something in place that says you are going to fund disaster relief spending at sort of its average level over the last X number of years, because that way you would not have a sort of systematic bias towards having supplementals for emergencies almost every year. I think we had at least one supplemental appropriation, not all for emergencies or disasters, but every year in at least the last 30 years. Some of the those years would not have needed to have one if we had budgeted at a more reasonable level for disaster systems.

On the joint budget resolution, I am very sensitive to the argument that says it would be better if we could reach agreement earlier and so it would be better if the president was involved and we could reach agreement earlier. My hesitation about it is that if you do not reach agreement, and I think if you add the president into the mix, where you already have difficulty reaching agreement between the Senate and the House you may just increase the chances that you will not have a budget resolution at all. I think there is

already enough impediments apparently to getting a budget resolution through since there has not been a budget resolution in six of the last fourteen fiscal years. So my concern would be that you would frontload the conflict, in addition to frontloading the possible agreement.

On biennial budgeting, I have a longer sort of discussion about biennial budgeting and joint budget resolution in my testimony. But on biennial budgeting, the two big payoffs that people argue for biennial budgeting, are first that you are going to spend less time on budgeting and second that you will be able spend more time on oversight. I think both of those claims are overblown and I think the reason they are overblown is because what it implies is that in the non-budget year, you will just take a year off from budgeting. I think there are a lot of things working against the possibility of being able to take a year off, not the least of which is that there is just too much unpredictability out there. So what you are likely to have is a budget year and then a second year where you have some omnibus on the supplemental. That is what I think.

Mr. NUSSLE. I would agree. I would not want it to be a panacea, that somehow that would fix a one year broken process and then a two year broken process; I mean they are basically the same thing. So it is a matter of expectations.

Can I just point out too, all of those recommendations that I made, and I tried to be careful about this, because I am the last one who tried and failed miserably in trying to pass budget process reform. All of the things that I suggested, Mr. Chairman, are things that you can do now by fiat. You could make it a joint resolution rather than a concurrent, as I understand it. You can use reconciliation now, as I understand it. You can put in fiscal goals right now and mark to those goals. You can actually even make it a two year biennial budget process. I mean you do it now, arguably, you could say you just ignore the second year. Well you are ignoring it now. You could arguably do all of those things right now without any change to the 1974 Act as I understand it.

So I guess part of what I am suggesting, and while I do not disagree with the good Senator, but I think it is a marriage of both process and leadership, I am not suggesting the process does not matter, but all I would suggest to you is the process without leadership is impossible and obviously without a process any leader would have a difficult time going through it.

Right now, the way I see it is we have a pretty good process; it could be improved on the edges. I think right now, as he said, this committee demonstrated that leadership and has in the past, and has not in the past. I could not get some things done that I wanted to get done. I think it is bold and it is a marriage of that leadership and process.

Chairman RYAN. Ms. Schwartz.

Ms. SCHWARTZ. Thank you Mr. Chairman and thank you for your testimony. It seems to me that while there were some different ideas that each of you shared, but there quite a bit of bipartisan agreement here on the fact that our budget process is not broken. As Mr. Nussle just said, as I think Senator Gramm and Dr. Joyce all said, process does not address political will and I think that it

was made even clearer that without real agreement between the president and Congress we can choose to ignore our own decisions. So you need that agreement on substantive issues on how we are going to tackle the deficit and that is really key to how we then use the process to implement those decisions. You are all nodding, so I think that was really quite stark and I just have to agree with you.

So, my questions for you are, some of the decisions and issues that you raised I think would be helpful for us to reach some agreement on and have to be in the discussions. We have seen bipartisan commissions, now one after the other. You each have been in some of these discussions if not on the commissions about what does have to be on the table so that we can reach agreement on them and that we are not then avoiding big pieces that we are pretending either for ourselves, or to the American people that they do not matter.

So here are my really straightforward questions. Senator Gramm you actually said everything has to be on the table. We have to look at every discretionary program and you have even suggested as to what works and what does not and how can we improve them.

When you are talking about, and I think this is a yes or no answer, but when you are talking about discretionary programs that ought to be reviewed, or efficiency effectiveness, or changes it might need, we have only heard the other side of that: non-defense discretionary. Would you include defense in that?

Mr. GRAMM. Sure I would.

Ms. SCHWARTZ. That is what I was assuming you meant, because I assumed you could be more efficient and more effective and more accountable and more transparent as well.

Mr. GRAMM. Listen, anybody who does not realize that we waste tremendous amounts of money in defense is unaware of what is happening in American government. I had the great privilege of serving on the Armed Services Committee in the Senate for six years. I was on Defense Appropriations for four years. And anytime a decision making unit is spending somebody else's money there is going to be tremendous waste.

Ms. SCHWARTZ. We have work to do on that. Thank you. The other point that was also made was the issue of just spending, or are tax provisions also a cost to our budget. I will ask Mr. Nussle this question. I served on Ways and Means and I do believe that using the tax code to incentivize certain behaviors, some early industries that need some help, R&D, and saving for retirement, there are tax provisions I actually think are important to principles that many of us do believe in and will help incentivize certain behaviors and performance. But there are some tax provisions for special interests that I think many of us, in a bipartisan way, agree that are no longer effective and are just a cost to government. Would you say that they ought to be honest about what our cost to our budget is and how we bring down the deficit? And should they not be on the table as well?

Mr. NUSSLE. Everything should be on the table. The way I look at it is trust the votes. Trust the votes. Let me illustrate it with a story. My very first day as chairman of this committee I gave this

rousing opening argument as my maiden speech as the Chairman. I was pretty passionate about it. I do not know if you were here Paul or not, but I was pretty passionate about it. I got this note slipped to me; it was slid over from I think three chairs down, from Jimmy McDermott who slipped this note to me and I opened it and it said "Smile. You have got the votes." What he was saying was that you are going to win; you are the chairman. You are going to win. You have got more people on your side than any other side; You are going to win.

Mr. GRAMM. I do not think that is a guarantee.

Mr. NUSSLE. It is not a guarantee, but here is the guarantee: trust in our democracy, we trust the votes and you have the votes, you ought to be able to make your case and everything ought to be on the table and this committee should not ignore taxes any more than it should ignore Social Security, which is unfortunately not on the table.

Ms. SCHWARTZ. Whether we do all of that in the next few weeks or not is obviously a question, but we have work to do to get there. I think Dr. Joyce you added good information as well in how we might tackle this going forward. So thank you so much for being so straightforward and being here about our need to look at everything, both on the spending and revenue side. Thank you.

Chairman RYAN. Thanks. Mr. Garrett.

Mr. GARRETT. Thank you to the entire panel. Jim Nussle, when you talk about budget prison, what immediately came to my mind was the late night 1:00 a.m. markups in the committee. That felt like budget prison to me. Going to your comments, to your very first point, the budget process you chose is less important than the political leadership. Take that apart and I tend to agree with you, but what came to my mind as soon as you said that was the debate that was historically made between John Locke and I think it was William Penn where what John Locke said: "It is not the character of the man that is important but rather the laws that I have in order to get an efficient government" whereas William Penn said just the opposite: "Give me good character men, and I care not what type of laws I have, we will have a good government." I think that is the same here today, regardless of which party, as long as you have the right leadership in place you are able to do what you need.

Mr. GRAMM. Can I respond to that?

Mr. GARRETT. Sure.

Mr. GRAMM. Laws make men, systems generate character. Americans are proud and independent because of our system. People in other countries are dependent because of their system. I would never underestimate the power of government and laws to affect the character of the people and I think our country is living proof that it makes a difference. So there are sort of two sides to the argument, obviously I am hard over on the side that process and the rules and the rule of law make a big difference and one of the reasons I do not want socialism in America is I do not want the people that it generates. The guy who runs a bulldozer on my ranch is the equal of any man. He knows bulldozing better than I know economics and he is proud and he is independent. He was a Marine. He was produced by our system is the point that I am making. He did

not just appear. The system of responsibility, of rule of law, accountability made him who he is.

Mr. GARRETT. I would never want to disagree with you. I think that also with what it Washington or Adams who said that "This country was made for a moral and religious people and it is totally inadequate for any other kind." So I think that the underpinning of our founders understood that in order to have the government that we want to have, whether by the rule of law that it required a moral people, a moral and religious people in order to sustain itself.

On the issue of spending, then, Jefferson is quoted as saying with regard to budget process reform that if he continued on in that respect, alluding to the fact that morality is necessary for the people of the day to say that: "There are those who wish spend more based on the funding of our prosperity, but that is just another name for stealing from our futurity," meaning stealing from the future generations. Perhaps we saw that in the vote last night, for those who wish to steal from future generations by the spending that we do today and actually we see that on many votes when we wish to put the burden on future generations because we are not willing to make the hard decisions, as Chairman Nussle did when I was here, trying to say how do we basically live within our means.

Let me tack on to that the question of practical effect. Within the budget process here there are a number of programs here, some of which I deal a lot with: the GSEs, Fannie Mae, Freddie Mac, the TARP program that we have spent money on, the Federal Reserve as far as the remission of funds that come back, as far as their interest payments back on to the federal government. What else is there? The DIF, with regard to the FDIC as well, all of which have some degree, better or worse, with regard to transparency and reflectiveness on the federal budget. Can any or all of you comment with regard to the adequacy of the budget process as far as the revenue aspect goes and also, maybe more importantly, the liability portion that right now has not adequately addressed through our budget process.

Mr. NUSSLE. Dr. Phil made this comment, earlier. We agree because this is part of my budget reform as well, with Senator Cardin and that is using accrual accounting. So yes, aside from whether or not the program should have been authorized in the first place, but once it is, this goes to Congresswoman Schwartz's comment, everything should be on the table, nothing should be off the table, and it should be depicted honestly, transparently, and accurately when it is on the table. And giving that information, not only to you the representatives of the people, but also to the people themselves, which that transparency has to be able provide as well and is vitally important for you to not only to have a full picture of the decisions but then to put that into the final decision of a budget or a fiscal blueprint.

Mr. JOYCE. I would just add to that the most important thing to me is that when you make a decision that is going to cost lots of money in the future, that it does not appear as if it does not cost anything. I think that really is the lesson, if you want to look back at what happened prior to 1990 when Credit Reform was passed,

and after 1990 I think there is a lesson there, which is that loan guarantees were treated as if they did not cost any money even though you might be making a decision now that would lead to lots of defaults down the road.

Mr. NUSSLE. Can I just mention one other comment, and again, this is not to be disagreeable, I think it is just a matter of your perspective. I know where Phil Gramm stands on these issues, having known him personally, professionally, and politically and I not only respect it but I tend to agree with him on a lot of those issues, but I also know my good friend Bill who also has a perspective and it is different than mine. The difference, though is that I want the process to respect both of our positions and allow the vote to occur and hopefully I am going to be able beat him and he hopes he can beat me but regardless it is a process that allows that decision to occur and the votes fall where they may and the decision made on the future of our country. I do not think that process should close him out or close me out or predetermine the outcome of that decision and I would caution against any rules that tilt the balance of the playing field. As much as I would love for that balance to be tilted in my direction and my philosophy, that is not how the rules and the laws our founders were designed. It was designed in fundamental fairness for the American people to make decisions about their future.

Mr. GRAMM. Well now wait a minute. First of all, is accrual accounting unfair? Does accrual accounting tilt the playing field? Is the debate different if people know what something really costs? You bet your life it is. Would Medicare have passed in its current form had people not systematically underestimated the cost of it by almost a factor of 100. Requiring accrual accounting has a profound effect on a debate because it then requires you to debate what something really costs. Now if requiring real costs predetermines the outcome of the debate, then I just have a different concept. My view is that you need a process where people are choosing based on what things really cost and on what their real effects are going to be. I think whether or not you want budgets binding, is that a predetermining factor? Again, I think there are some people who do not want budgets binding; there are people who do. My view is if you are going to have a budget it ought to be binding, if it is not going to be then do not have it.

Chairman RYAN. I do not know whether those are necessarily mutually exclusive positions.

Mr. GRAMM. I know, I just simply was trying to be emphatic.

Chairman RYAN. Going from John Locke to William Penn to Dr. Phil. Now we are going to go to Bill Pascrell.

Mr. PASCRELL. I would say, Mr. Chairman, I would usually accept my recommendations, but I think that yesterday's panel and today's panel, you deserve a lot of credit because we probably should have had these two panels six months ago, just a thought. Because I think it is pretty basic to have three distinguished gentlemen and I do not blow smoke, as you know. I really mean it. But I have to take exception, since you guys brought the subject up of emergencies, you each had a different slice of it and then my brother from Sussex County talked about that we do not want to pretend, we do not want to have all of these things on the backs of

future generations, but an emergency is an emergency, the word is very definitive in any language that you use. And if we are going to go back and say let's not pretend what programs really cost, who the heck figured out in 2001 and 2003, who really played out Senator, with all due respect, what these programs would cost American taxpayers, because it cost us like this, if you can picture the graph, and then in 2019 and 2020, this is what it is going to cost us because that is what you will have ballooned to. So we can get so caught up in process and not look at results and I think we all want to address that and I cannot agree more with my good friend Mr. Nussle, we all should be heard, we all should be listening.

I listen very, very carefully to what Tea Party members say and I may not agree with much of what they say but I do agree with some things, believe it or not. Let's not predict what we are going to think before people even open their mouths. So we do not, my friend from Sussex County, steal from future generations.

Individuals and family-centered income are very different than the government's. When you have a problem within your family, and perhaps you did not budget for it, you cannot predict that it is going to happen, but when a flood happens or a tornado happens, you are talking about a universal situation and you begin to peel away at the onion, and you see what existed beforehand. You see people who had something and you see people who had nothing. We were so caught up in the Katrina thing, think of how do you budget for Katrina ahead of time? But we as Americans did not worry about whether it was a blue state or a green state or a brown state; we responded in kind perhaps poorly at that time but we did the best with the resources that we had.

These families today are suffering; Irene and Lee came pounding down the trail: 12 states, 52 congressional districts, billions and billions of dollars. We do not even know the cost of this because health problems and environmental problems are going to grow in magnitude. I think it is more important to respond to our citizens than it is to worry about what it is going to cost down the road. I believe in accountability. You must account for every dime that we pay, certainly we did not do that in the wars. We are just figuring out what the heck the thing cost, and will cost. Talk about growing gaps, talking about figuring out what a program's going to cost down the road, well it cost us this now, and figuring out how it contributes to the deficit, which we are all responsible and guilty for, no party is privy to virtue on this issue. No party is privy to virtue.

So to make a political point is to demean the very meaning of emergency spending. People are out of their homes. Thousands have been evacuated, in my district 5,000 people were evacuated out of their homes. Some of them are not going to be able to go back into their homes because they are not ready for them or they are gone. The environmental health problems are dramatic. Businesses: people have been shut down since this storm, and laid off. They are not able to do business. If I do not have an obligation or a responsibility, first as a human being, then as a member of Congress, we are all wet. So we can put up whatever processes we want. I do not think your perception of it though is very different from mine.

Let's set aside the political differences and nuances. I think you want for America what I want for America, I really mean that, or else I would not say it, as you know. These people are hurting. Accountability and contacted that these are emergencies, and Mr. Chairman, you want to talk about emergencies, we will set aside, it is certainly timely, is it not?

Chairman RYAN. Thank you, Mr. Pascrell. Mr. Campbell.

Mr. PASCRELL. You are quite welcome.

Mr. CAMPBELL. Thank you Mr. Chairman, I actually have a question. I have tried to look at this and I may have this wrong but I believe in the last 20 years that only once has a concurrent resolution been passed by both Houses and all 12 appropriations bills passed in regular order prior to the beginning of the fiscal year. I believe that has only happened once. If that is the case, my question for you is, if we talked a lot about the concurrent resolution part, but then there is also supposed to be appropriations built within that resolution, 12 of them, and all of those appropriations are supposed to be authorized and I am not even going to get into how many appropriations are not authorized because the authorizing committee did not get to it.

Can you give me your views on that and of the process? If you only get it right once in 20 years does that mean that needs to be changed too and that is a problem, or is it not a problem that we do CRs and omnibuses as well as the authorizations, what are your views on that because it looks like we have a process that cannot ever actually be done and when it is done it takes up months on the floor, et cetera, which is why some people talk about my biennial budget. Dr. Joyce, you seem ready to jump.

Mr. JOYCE. Well that is always true, I guess. I would make one point. I would observe that the fiscal year used to start with the federal government on July 1, and in the 1974 Budget Act one of the things they did was move the fiscal year start from July 1 to October 1. Why did they do that? It is because the Congress could not get everything done by July 1. So they added three months, and still we have the same problem. So it may be once in the last 20 years, I think it is four times in the last 34 years or something like that, that all the appropriations bills have been passed and signed into law.

Mr. CAMPBELL. And by the way that is in a lot of cases where there was no divided governments.

Mr. JOYCE. Correct. So what this has led me to believe is that the beginning of the fiscal year is not a real deadline. What is a real deadline? A real deadline turns out to be when the Congress does not want to be here anymore. I mean there are those people that say that the real problem was caused when air conditioning was invented. So the issue is that you have to have something that is actually viewed as a real consequence for failing to get this done and the beginning of the fiscal year does not turn out to be that so long as there are systematic continuing resolutions that pass without consequence.

Mr. NUSSLE. There is no surprise that the super committee deadline coincide with Thanksgiving and Christmas. So I think going to your point, that is exactly right: number one. Number two, in a perfect world I would suggest, and it will not be a perfect world,

but in a perfect world if you, for instance, used a joint resolution, a joint resolution would need to be created first, that would give the marching orders to the authorizing committees and the appropriation committees to do their work based on the fences created by the budget resolution, that joint resolution, and that given those instructions and given the finality of such a decision enacted in law and made real where you know where the fences are, at least in the 302A, even if the 302Bs get knocked around here and there, at least if that 302A number, then the committees know when they are inside the boundaries and outside the boundaries and can act accordingly.

Part of the challenge during those years, as you know, is that the committees were never given final instructions. I mean as much as we like to trash the Appropriations Committee here at the Budget Committee from time to time, it is pretty hard to do your work when you do not know what number is. It is pretty hard to say to a member of that committee, "No, you cannot have that amendment, because we would be over our allocation", if in fact you do not know what that number is, or if it is a moving target, from time to time.

So I think that is why I believe having that decision forced up front to provide the fences for the rest of the decision, going to Senator Gramm's point, having those rules and having those constructs for the rest of that process, I think would make it easier for legislators, members to make those decisions and get their work done on time.

Mr. GRAMM. Let me just say that I think a joint resolution would be great if you could get it because then the president's signed on to the process. The problem is going to be very hard to get under many circumstances and there is always the trade-off. It may very well be that you want a process that allows you to do it either way, if you cannot get the joint resolution then you have the concurrent resolution. My guess is under current circumstances there is no way you could get to a joint resolution on the budget, and so, you are better off with a concurrent resolution than you are with nothing.

Mr. NUSSLE. And that is exactly how the provision that I wrote works.

Chairman RYAN. Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman. This has been informative for me. I have been here a whopping nine months and I will tell you that I wish Mr. Nussle that you were correct, that it is just a leadership problem. We have, maybe not in the process so much of a problem, as we have a history of problems.

Dr. Joyce, the last time this country actually paid off its national debt was when Andrew Jackson was president. I am concerned about debt. If debt in this country looked like it did from 1787 to 1946 it would not be that big of a problem, but debt does not look like it did for the first 150 years or so. Right now our growth in debt is on a curve that is nearly vertical. And if we continue along these lines it will, in fact, I believe be catastrophic. We cannot continue. Would you agree with that?

Mr. JOYCE. Yes.

Mr. RIBBLE. At that the current rate of growth?

Mr. JOYCE. Yes.

Mr. RIBBLE. What do you think is actually sustainable for an economy our size?

Mr. JOYCE. Well, I actually agree. I think there is a remarkable amount of concurrence between these different groups like the one that Mr. Nussle talked about, these sort of bipartisan groups or private groups that look at this problem, and they all seem to be settled around this 60 percent of GDP number in terms of what is sustainable. As you know, on the current path we would get to 80, 90, 100 percent of GDP.

Mr. RIBBLE. We are about there now, would you not say?

Mr. JOYCE. We are projected to get there if we follow current policies.

Mr. RIBBLE. What is GDP?

Mr. JOYCE. What is GDP? Well, GDP is about \$15 trillion.

Mr. RIBBLE. What is our national debt right now?

Mr. JOYCE. Well, it depends on whether you look at what is called the gross debt.

Mr. RIBBLE. I want to look at all debt. I do not want to play the shell games. We are at \$14.7 trillion and 100 percent GDP.

Mr. JOYCE. Well, you can pick whichever number you want to look at. The point is that stabilizing that at a smaller number and 60 percent seems to be what these various groups are coalescing around.

Mr. RIBBLE. About a year ago I would have agreed with most of your testimony; today I disagree with some of it. I want to talk a little bit about the balanced budget amendment. You mentioned in your testimony if we could enact those policy and budget enforcement changes we would not need the amendment. I totally agree, but we cannot. It is obvious we cannot.

As I have watch this whole thing unfold this year, we are still projecting trillions and trillions and trillions of dollars of debt, with additional billions and billions of dollars of interest payment. At some point there will have to be a future tax on future generations. With all debt, somebody is going to pay this bill.

Then, you go on to say, secondly, it relies on erroneous ideas about debt in our society. To a certain degree I agree, however, as a former business owner I will tell you when my company drew debt, or when I did it on a personal level it is always with the intention that at some point I am going to have to pay it off, and in fact, the lender recognizes that there is a trust, a credit agreement, a credo that we made with each other to pay it off. Right now, the credo is we will just pay the interests and continue to borrow, and there is a significance difference between the two, do you not agree?

Mr. JOYCE. What I would say is, that there is nothing inherently wrong with debt. What the problem is that if you have a debt that is too large, the debt load is too large, and that is what we just talked about, the fact that we are getting to a level of debt that is unsustainable, I think that is the problem, and if your debt is not productive debt. That is that you would say, I think, you would agree with me that there is a difference between borrowing money for your mortgage where at the end of the process you are going to have a house and borrowing money to put it on your credit card

because you want to take a nice vacation. So, I think we have to think in terms of there are different kinds of debt, and my point here was that there is nothing inherently wrong with debt, and in fact, if you say, for example, that states balance their budgets, well the truth is the states balance their operating budgets; states have a lot of capital. So the federal government's accounting is not the same. But, that is separable from whether the debt is too large or whether the debt is going to pay for things that may not be productive.

Mr. RIBBLE. I would also extend to you the idea that debt in business, debt in private sector is significantly different because at the end of the day you are writing the check with your own money, debt in government you are writing a check with some else's money and it is much easier to do that. You can pretend and hide behind the importance and value of it at some point.

You mentioned also that if used correctly it can be very productive and result in measurable gains. Do you believe the debt in this country is being used correctly right now?

Mr. JOYCE. I would say some is and some is not.

Mr. RIBBLE. Therein, sir, I would contend you realized the problem. Thank you again, all of you, for being here. It has been very informative. Mr. Chairman, I yield back.

Chairman RYAN. Thank you, Mr. Flores.

Mr. FLORES. I would like to thank the panel for joining us today, it has been beneficial. I think both elements are important: process and leadership. And I think the process needs to trump in the case the leadership does not show up at the table. And I have seen that happen in the history of this Congress.

I would like to change the topic a little bit and talk about truth and budgeting. Truth so we get to the right results, and, I think Senator Gramm started down this pathway when he started talking accrual accounting. I guess the way I add it, the national debt, we have about \$15 trillion of just direct debt; whether or not we count debt held by the public is irrelevant to me. We have got about 10 to \$11 trillion of unfunded liability, Social Security about 60 to 70 of unfunded liabilities in Medicare, and another 10 or so of Medicaid and everything else. So if you add it all up it is 100, which to me is six times GDP that is a problem for me.

So, I believe whole heartedly we need to go with accrual accounting. Well, let's say we are in the next building and can see exactly what we are talking about, but more importantly, the American people can see what is happening to their children and their grandchildren's future.

The second element about truth in budgeting or truth in the financial playing field is the way we score. I think we, as the Congress, provide input into a process, like this is what we want to do with a piece of legislation, but what we get out of the scoring is bad information, and therefore we make decisions that do not reflect real world realities. A couple of examples: We assume that we can raise taxes to high levels and still grow GDP at four percent real rates. That puppy does not hunt in any world.

The second one is that, CBO scored Medicare cuts for about a third, and says we are still going to have the health care infrastructure providers that we are going to have and also that we are

going to have high school seniors that still want to go into health care even though their pay is going to essentially set by the federal government. We all know in the real world that does not happen.

So, my question is this: How do you get to a point where you can use real world scoring on these things, like on taxes and also on the expenditure side? If you guys had a magic wand, how would you wave it so that they fix the scoring so that when we are trying to make a decision we make decisions with real information?

Mr. GRAMM. I think that it would be a good policy to establish a simple law that says that accounting standards that are applicable to the private sector should all apply equally to government. I think you would want to do that both in the federal government and in the state governments so that people in state governments, for example, would know what their pension liabilities are, what their health care liabilities are. The problem is the way we score things now. We have debates without having relevant information as to what we are talking about. Socrates said, "A man is only as good as his facts." And if you do not have the facts, you are not going to make good decisions no matter how brilliant you are, no matter how much leadership you have, no matter how good the process is, if you do not know what something costs, it is hard to make a decision about how much you want of it, because you are missing one of the key ingredients.

Mr. FLORES. Right. I am trying to dig in the weeds a little bit more and say, "Okay we know we have today does not work, do you blow up CBO and start over. Or do you go to outside firms to get some corroborating evidence.

What I am trying to get to is what is the way to get the right answer so that when we are looking at the cost of health care reform, we get the real cost instead of this goofy stuff we get?

Mr. NUSSLE. Senator Gramm just said when I was younger I was ignorant. I do not remember how you said it. I, ignorantly, said at one point in time in my career that CBO sucks, and I have been apologizing for that for some time because these are good people who do a good job and try their hardest to get the numbers right. And they are constrained by certain conventions, on one hand, and just human nature and probability on the other.

We have looked at the possibility of using more dynamic scoring. The challenge with dynamic scoring is you are using the same people, and you could go outside the process, but you are using people, using economic factors here and there, and trying to make it all add up and they do the best they can. It is an inexact science predicting the weather next month, and that is what you are doing. You know it is going to be a little colder around here, you know, generally, what the trends have been, but do you know exactly what that number is going to do?

Mr. FLORES. We are not even in the same continent.

Mr. NUSSLE. You actually are. You actually are. I would challenge you on that. They do a better job than the guestimates, and they generally have done a better job than some of the dynamic score-keeping. That has been part of the challenge of moving to something called dynamic scoring is that we have not found anything that was any more accurate than the current way. That was the challenge.

Mr. FLORES. Let me give you exact example.

Chairman RYAN. That is time. Sorry Bill, but people have a schedule to keep and time to keep. And I always tell people when we think about dynamic scoring we are talking about tax policy; that is the Joint Committee on Taxation; that is not CBO.

Spending scoring is a little different and easier with respect to reality bases scoring, probably not on actuarial stuff on health care, but taxes is Joint Taxes. All CBO does is take their data.

With that, since we do have time limits here, I want to thank the three of you for taking time out of your busy lives and busy days to join us. This has been very enlightening, very helpful and it will help us do a better job of trying to improve upon the process, so we can be better stewards with tax payers dollars. Thank you. And this hearing is adjourned.

[Whereupon, at 11:43 a.m., the Committee was adjourned.]

