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Testimony of

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On

Congress's Role in Federal Financial Management:

Is it Efficient, Accountable, and Transparent in the Way it Appropriates Funds?

Before the

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Management, Government Information, and International Security**

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**TESTIMONY OF MAYA MACGUINEAS ON
CONGRESS'S ROLE IN FEDERAL FINANCIAL MANAGEMENT:
IS IT EFFICIENT, ACCOUNTABLE, AND TRANSPARENT IN THE WAY IT APPROPRIATES FUNDS?**

Good morning, Mr. Chairman and Members of the Subcommittee. I have been asked to comment on Congress's role in federal financial management. Thank you for the opportunity to testify. It is a privilege to appear before the Subcommittee on this important topic.

I am the President of the Committee for a Responsible Federal Budget. Our Co-Chairs are Bill Frenzel and Leon Panetta and the Board consists of many past Directors of the Office of Management and Budget, the Congressional Budget Office, and past Chairs of the Federal Reserve Board and the House and Senate Budget Committees. Our focus is the federal budget and related process issues. I am also the Program Director for the Fiscal Policy Program at the New America Foundation, a non-partisan think tank here in DC.

Let me begin by saying that even the best budget process cannot serve as a replacement for responsible budget decisions and proper oversight.

If politicians continue to cut taxes and increase spending, we will continue to run budget deficits—no matter what the rules.

If politicians continue to both build programs into the budget and tax code without scrutinizing the effectiveness of those programs and are unwilling to end programs that are not effective, we will continue to have a budget that is less efficient than it should be—no matter what the rules.

And if politicians continue to make and expand promises for intergenerational programs such as Social Security and Medicare with no plan for how to pay for them, we will continue to face large, unfunded liabilities as well as inflexible budgets that are ill equipped to deal with changing circumstances and emergencies—no matter what the rules.

Ultimately, the most important components of responsible budgeting are the people involved in the process and the decisions they make. No matter what rules we create, what hurdles we develop, or what restrictions we build-in, Congress can always bypass

them if they are not consistent with the policy goals to which Congress is committed. We need only to look to the recent tax cut where some of the revenue loss from the tax cuts was offset by another tax cut, to see that if Congress is determined to bypass limitations, it will find a way to.

But while process cannot do the heavy lifting required to create responsible budgets, sensible and balanced rules do play an important role in improving how the government allocates its resources. The Committee for a Responsible Federal Budget, in a collaboration with experts inside and outside of government, developed a list of budget process reform recommendations that we believe will be helpful in this pursuit. In particular, we believe these reforms will improve the efficiency, transparency, accountability, and outcomes of the budgeting process. These recommendations include:

Joint Budget Resolution – Currently, legislators labor under multiple budgets and multiple baselines. This greatly confuses the budget process and makes competing choices and their related trade-offs more difficult to evaluate. Under a Joint Budget Resolution, Congress and the President would agree on the broad fiscal goals that would guide budget decisions in a given year. Bringing the President into budgetary negotiations earlier in the process would help avoid the showdowns that can occur at the end of the process if Congress and the President are working on different tracks with different priorities. Additionally, the switch to a Joint Budget Resolution would create a higher level of accountability and better define when limits have been breached; thereby making it more difficult to “bust the budget.”

Expenditure Limits – The budget resolution should include enforceable nominal dollar limits for both discretionary and direct spending. In the past, statutory limits have proven to be one of the most effective approaches to instilling discipline into the budget process. However, limits must be set at a reasonable level. As we saw in the 1990s, reasonable caps can be extremely effective; unreasonable ones are routinely ignored, contributing to the breakdown of the process. As direct spending continues to grow as a share of the budget, it is important to consider different ways to control this area of the budget.

Pay-As-You-Go – The PAYGO principle, which requires that revenue reductions and direct spending increases be offset so as not to increase the deficit, remains a crucial budgeting principle that should be reinstated in full force. PAYGO will not improve the fiscal imbalances we currently face, but it will prevent them from getting worse. The Committee believes that it is necessary to apply PAYGO to both sides of the budget—spending and taxes. Otherwise, there will always be strong incentives to run spending programs through the tax code in order to avoid the requirement of offsetting the costs.

The prescription drug program would have had to have been paid for rather than debt-financed and revenues lost from the tax cuts would have been offset, had real PAYGO been in place over the past few years. It is worth pointing out that for those who would like to control the growth of government spending, offsetting tax cuts with spending reductions should be seen as a desirable policy, not a problematic one.

Biennial Budgeting – The budget process does not leave nearly enough time for oversight. Congress spends a significant amount of energy trying to meet specific deadlines—which are often missed—and spends too much time during the annual appropriations process repeating work it did the previous year. One potential improvement would be to move budgets, appropriations, and tax cycles to a two-year budget cycle. This would free up more time for program review, strategic planning, oversight, evaluation, and reform. That said, there are legitimate concerns about two-year budgeting regimes. It is quite likely that we would see a dramatic increase in the number of supplemental appropriations bills—something that is already problematic. We believe that strict restrictions should be developed to control supplemental spending. As is the case today, supplementals should only be used in the case of emergencies, not as a means to increase spending in general budget areas—the incentives for mischief could be larger with two-year cycles.

Automatic Continuing Resolution – All too often Congress fails to reach agreement on its regular appropriations bills. We recommend an automatic continuing resolution at or below the level of spending caps contained in Budget Resolution to be used as a stopgap funding measure. Automatic continuing resolutions should be restrictive to create an incentive for Congress and the President to agree on regular appropriations bills rather than falling back on the continuing resolution.

Strict Definitions for Emergencies – The need for changes to our use of supplementals is illustrated by the emergency supplemental that was just passed in the Senate. Emergency supplementals should not be used to pay for normal government operations. In the past few years, many defense-related activities that should have been financed through the normal appropriations process have been funded through emergency supplementals. More and more, non-defense related spending has also been creeping into these bills. As the Chairman of this Subcommittee has highlighted, one merely has to look through the recent supplemental for many egregious examples. “Emergencies” should be carefully and narrowly defined, and there must be strong rules governing related expenditures. Otherwise emergency funds will continue to be employed as a way to add additional spending not contained in the budget. As my Co-Chairman Bill Frenzel has pointed out, supplementals have become a money machine. Once it became

accepted practice to use supplementals as a money machine for regular defense spending it was only a matter of time before advocates of domestic spending started to look to the money machine for their programs as well.

Rainy Day Funds – The impact that a disaster such as Katrina can have on the federal budget is a reminder that the government should be planning and budgeting for such emergencies. While we never know when and in what form the next natural disaster will occur, we know that they do occur with unfortunate regularity. The Committee strongly supports the use of “Rainy Day Funds.” Such funds would require that Congress set aside reserve funds reflecting average costs of past years’ disasters to prepare for unforeseen, disaster-related costs. As noted above, what constitutes an emergency would have to be carefully and narrowly defined. While in all likelihood the costs of Katrina would have exceeded the amount in a Rainy Day Fund, the presence of the fund would have left the federal government in a better starting fiscal position to cover these costs. Also, when emergency costs exceed the level in emergency funds, Congress should exercise greater restraint in the rest of the budget to help offset unanticipated costs.

Proper Distinguishing Between Spending and Revenues – We are currently unable to accurately measure the true size of government. We label spending programs as “tax cuts,” tax receipts as “fees,” and revenues as “negative outlays.” This level of complexity greatly decreases the transparency of the budget and the slippery definitions make it virtually impossible to accurately describe the size of government relative to the economy. The true size of government is probably greatly understated. This would never be tolerated for a private company, nor should it be for the federal government. To improve this misleading approach to accounting, there should be strict limits on any receipts scored as negative outlays. Activities that have all the characteristics of spending programs should not be scored as tax expenditures.

Enhanced Rescission – The Committee supports enhanced rescission. The President should be able to identify and suggest the elimination of wasteful or low-priority spending programs while Congress should be given the chance to weigh in before funds are withheld or canceled.

Tracking Long-Term Spending Promises - There should be a greater use of accrual accounting in the federal budget. The federal government is different than private companies when it comes to accounting and certainly, accrual accounting should not replace cash accounting. Accrual accounting is, however, very useful for tracking long-term insurance programs and would greatly enhance our ability to understand the full picture of the government’s financial position. Information about the unfunded promises

in Social Security and Medicare should be highlighted in budget related documents. The point of order established by the Senate against legislation that would increase long-term spending by more than \$5 billion is useful. It is worth considering whether this should also be applied to long-term revenue reductions.

Triggers – Though we do not have an institutional position on when they should be used, many members of the Committee for a Responsible Federal Budget believe that we should increase the use of “triggers” in the budget. The Medicare Modernization Act contains a trigger that is set off when general revenue financing of the program is projected to become too high. Other triggers could be set when spending, deficits, unfunded promises, the debt, or revenues, exceed (or in the case of revenues, fall short of) a pre-set level, leading to either recommendations for how to remedy the problems or defaults, such as freezes on indexing of government programs and taxes.

Budget Reform Commission – If the budget process is not broken, it is getting awfully close. Few budget rules are in place and those that are there are routinely bypassed, deadlines are missed as often as they are met, gimmicks that undermine the integrity of the process are used with frightening regularity, and we do not do a good job of picking and choosing among competing priorities—which of course is one of the main functions of a budget. Thus, it appears that a fundamental rethinking of how we budget in this country is in order. We are working with rules that are decades old and were created when the budget, economy, and policy challenges were dramatically quite different than they are today. The rules and concepts have been amended in an ad-hoc manner resulting in a highly complex process. While there are clearly changes worth making to the existing process, just as important would be to consider more fundamental reforms. Major changes are always difficult in a partisan and politicized environment. Accordingly, we believe Congress should appoint a BRAC-style Commission to grapple with fundamental budget reform. Members of Congress, former Members of Congress, and technical experts should be included and Congress should be required to have an up-or-down vote on the recommendations. Given how much the world and the budget has changed since the last time comprehensive reforms were made, taking a step back from our current process would certainly be useful.

I wish my note of closure were not so gloomy—but this is the reality of our fiscal picture. Budget surpluses have been replaced with structural budget deficits. The debt is growing at an alarming pace. The baby-boomers’ retirement is only two short years away and yet there is no indication that Congress will implement a Social Security reform plan, let alone make greatly needed changes to Medicare and our healthcare system. Politicians

seem to have no appetite for reconciling their desire to spend with their desire to cut taxes.

While Congress may not be interested in adhering to the principles of basic math, these principles cannot be ignored. We at the Committee worry that the price we pay for a lack of leadership on these issues will be quite high—particularly for younger workers and future generations.

No amount of process reforms will replace the need to grapple with and address these challenges. Process is no substitute for courageous choices. However, once Congress and the Administration come together to confront the hard choices they must make, changes to the budget process can provide procedures to keep the budget on track as well as useful enforcement mechanisms. There is real room for improvement in both the areas of policy and process with regard to the budget. Thank you for holding this hearing today and I look forward to answering any questions you might have.