



Statement of

Rudolph G. Penner

Institute Fellow, Urban Institute

before the

Committee on the Budget

United States House of Representatives

On

Biennial Budgeting

Wednesday, November 18, 2015

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

Biennial Budgeting

Rudolph G. Penner*

The Urban Institute

Mr. Chairman, Mr. Van Hollen, and other members of the committee, thank you for the opportunity to testify on biennial budgeting. The term has, at least, two meanings. In one, Congress would only pass a budget resolution every other year, but appropriations would be considered every year, as they are now. In the other variant, both the budget resolution and appropriations would be considered every other year. Most of my remarks will focus on the latter variant.

I believe that biennial budgeting would create several problems. Things change significantly from year to year and that makes it important to examine budget decisions annually. Changes would not be a problem if they could be forecast, but although budget forecasts are made by very able, hardworking people, they frequently go astray, sometimes badly astray. Indeed, all forecasters err often, whether the forecaster is trying to predict the weather, earthquakes, or the outcome of elections.

A number of years ago I examined the accuracy of Congressional Budget Office (CBO) revenue forecasts.¹ I did not mean to criticize CBO. The results would have been similar for any forecasting group. Perhaps unfortunately for CBO, it is very transparent about its forecasting errors and that makes its errors easy to study.

The most important CBO revenue forecast is usually put together in January² for the fiscal year that begins the following October 1. It serves as a basis for debating and then formulating the budget resolution. The average absolute forecasting error for the period 1984 to 2005 was 0.8 percent of GDP. That equals approximately \$140 billion at the level of fiscal 2015 GDP. The error amounts to almost one third of the actual 2015 deficit and somewhat more than 4 percent of 2015 revenues. I believe that errors that large imply that the Congress should not wait two years before considering a new budget resolution. And, of course, I am talking about an average error. Frequently mistakes are very much larger. The largest error made in the period involved the January 2001 forecast for fiscal 2002. It equaled 3.2 percent of GDP or about \$570 billion at current levels of GDP. Admittedly, my research is out of date, but I doubt that the average error has improved in recent years. Forecasters faced extreme challenges and made big mistakes during the Great Recession.

Forecasts of how individual programs will evolve can also be horribly misguided. The need for a particular program can go up or down unexpectedly; there can be cost overruns, or less frequently, unanticipated savings; and the costs of materials and personnel are always difficult to predict. If appropriations were done only every two years, it is likely that there would be a demand for numerous supplementals during the off year and supplementals are more difficult to discipline than regular appropriations.

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

¹ Rudolph G. Penner, "Federal Revenue Forecasts," published in *Government Budget Forecasting: Theory and Practice*, edited by Jinping Sun and Thomas D. Lynch, Boca Raton, FL, Taylor and Francis Group, 2008.

² The January forecast is sometimes altered slightly before the official baseline is finalized in March or April.

There is, of course, a place for multiyear appropriations, but they should be the exception rather than the rule. Such appropriations are required for large multiyear projects, such as building an aircraft carrier or for large infrastructure projects.

Many favor biennial budgeting because it is supposed to free up more time for the oversight of programs. I have my doubts. The Budget and Impoundment Control Act of 1974 moved the beginning of the fiscal year from July 1 to October 1 in order to give Appropriations Committees more time to complete their tasks between the release of the president's budget and the beginning of the fiscal year. On-time performance has deteriorated markedly since that reform was implemented.³ I fear that if we went to biennial budgeting, the appropriations process could take two years to complete two-year appropriations.

Moreover, it was my personal experience working at CBO and in the executive branch that the most intense scrutiny of programs where I had some responsibility came in the annual appropriation process. Moving to a two-year budget might reduce rather than intensify that kind of oversight.

There is another problem with biennial budgeting. Budgeting is one of the most complicated tasks performed by humans. If time were unlimited, each government activity should be traded off against every other government activity and against different levels of taxation and the deficit. But that would imply examining many millions of tradeoffs. Even if we could forecast perfectly, that would be a herculean task, and obviously, time is not unlimited.

The best we can do each year is to focus on a small portion of the entire universe of possible issues. That turns budgeting into an iterative process. Perfection is never attained, but each step represents an opportunity to improve the allocation of resources. That is why we should take a step every year instead of every two years.

It is also true that the political chances for improving our unsustainable fiscal situation vary up and down over the years. It would be a great tragedy if one of the best chances occurred in an off year of a two-year budget cycle.

³ Since 2010, no regular appropriations bills have been enacted before October 1.