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The Budget Process: A Maze Perverted by Trickery

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ABSTRACT

The congressional budget process has been so perverted that it no longer imposes much discipline on fiscal decision-making, comments Rudolph Penner, a former director of the Congressional Budget Office. Penner explains how the situation arose and what to do about it.

The findings and conclusions contained within are those of the author and do not necessarily reflect positions or policies of the Tax Policy Center or its funders.

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When President Obama unveils a fiscal 2012 budget in February, one can only hope that lawmakers act more quickly than they have in the past. The major legislative accomplishments of the lame-duck session of Congress — including extending the Bush-era tax cuts — should have and could have been consummated months ago. Why are so many issues left to the last minute?

Congress spends far too much of its limited time fussing over "temporary" policies that that are routinely extended, including an estimated 100 temporary tax provisions and the negotiation of huge cuts in Medicare physician reimbursements. So why do lawmakers pass so many measures temporarily? One reason is that it is a way of compromising when there are vast ideological differences over tax and spending policies. A temporary tax cut for the rich looks better to liberals than one that is permanent and it looks better to conservatives than no cut at all.

But there are other, more practical reasons. Those of us who have championed the congressional budget process since its beginning in 1975 have to admit that its rules, however well intended, have been so perverted that they no longer impose much discipline on fiscal decision-making. They have become too easy for lawmakers to evade.

When the budget process was first designed, one of its most valuable provisions required Congress to project the costs of legislation over the time horizon covered by the congressional budget — initially five years, now usually ten — thus making the longer-run effect on the deficit totally transparent. But if a provision is passed to cover only one year, it usually has no substantial costs beyond that, and none have to be recorded, even though everyone knows that the provision will almost certainly be renewed. Consequently, the true longer-run cost of the provision is hidden from the public.

The problem has been exacerbated by the pay-as-you-go rule. First enacted in 1990, pay-go initially required that increases in entitlement spending and tax cuts be offset by other tax increases or entitlement cuts in the first year and over the budget horizon. The rule is much changed and weaker now. But, when it does apply, it creates an incentive to make policies temporary. That's because it's much easier to pay for a one-year tax cut or spending increase than a permanent one. Future Congresses will then be saddled with devising ways to cover the cost of the extensions.

The Bush tax cuts, enacted in 2001 and 2003, were both approved temporarily to skirt budget rules. Now that the lame-duck Congress has extended the cuts — again temporarily — we must ask whether we would have been better off making them permanent in the first place. The debate over tax policy might then have been more sophisticated, rather than an argument over whether to extend them to the very richest Americans, which they were.

Some would say that all tax and spending policies should be temporary or "sunset" so that policies are reviewed more frequently. But when sunrises follow sunsets as frequently as day follows night, the procedure is a waste of time.

If all policies were scored as though they are permanent, that would be more realistic. But it has a downside. It would be misleading on those very rare occasions when Congress really intends a policy to be temporary for good reasons. Hopefully, the recent payroll tax cut, enacted as a one-year stimulus, really will be temporary.

There is no perfect way of fixing the budget process. Much of its history has involved applying one bandage after another in futile attempts to outlaw outrageous budget gimmicks. The process was created in the first place because Congress had no formal way to total its spending and revenue decisions relative to deficit goals.

The budget committees were created to formulate a budget resolution that added everything up and set goals. It would have been more straightforward to merge the appropriations and revenue-raising committees — Ways and Means in the House and Finance in the Senate — so almost all spending and revenue decisions occur in the same place.

That's the way many countries handle it. But who in Washington doesn't know that any attempt to realign committee responsibilities faces enormous challenges — especially committees as powerful as Appropriations and Ways and Means?

The only practical solution is to improve the process we have. It should be thoroughly scrubbed, and every provision added since the original 1974 legislation should be critically examined. We have to ask whether amendments have improved the process sufficiently to be worth the added complexity. There may be more budget gimmickry with a simpler process, but the press would have a better chance of embarrassing those who promote it.

Penner is a fellow at the Urban Institute. He was director of the Congressional Budget Office from 1983 to 1987.