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# SENATE BUDGET COMMITTEE MID-SESSION HEARINGS FISCAL YEAR 2016

# HEARINGS

BEFORE THE

# COMMITTEE ON THE BUDGET
# UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

**May 19, 2015-OVERSIGHT OF THE CONGRESSIONAL BUDGET OFFICE**

**June 17, 2015-THE COMING CRISIS: CBO'S ANALYSIS OF THE FEDERAL GOVERNMENT'S DEEPENING FISCAL CHALLENGES**

**October 21, 2015-REFORMING THE FEDERAL BUDGET PROCESS: THE NEED FOR ACTION**

**November 4, 2015-REFORMING THE FEDERAL BUDGET PROCESS: A BIENNAL APPROACH TO BETTER BUDGETING**

**December 9, 2015-MOVING TO A STRONGER ECONOMY WITH A REGULATORY BUDGET**

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# OVERSIGHT OF THE CONGRESSIONAL BUDGET OFFICE

**TUESDAY, MAY 19, 2015**

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
*Washington, D.C.*

The Committee met, pursuant to notice, at 10:34 a.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Sessions, Toomey, Perdue, Sanders, Whitehouse, Warner, and Kaine.

Staff Present: Eric Ueland, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

## OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Since it is after the hour of 10:30, I am going to go ahead and gavel this in, and Senator Sanders can speak after me when he gets here. So I will call the meeting to order.

Good morning, colleagues, and welcome to this oversight hearing of the Congressional Budget Office. If what I said sounds strange to everyone, it should. No Chair of the Senate Budget Committee has welcomed colleagues to an oversight hearing on CBO since 1982. I have been complaining about other committees not doing their oversight. I thought we probably ought to do ours as well.

Even so, the Congressional Budget Act of 1974 clearly gives us the authority to hold such hearings. Section 102(a) of the act amends the Standing Rules of the Senate to give the Budget Committee the "duty to review on a continuing basis the conduct by the Congressional Budget Office of its functions and duties." A similar duty is given to the House Budget Committee in Section 101.

Our research indicates the Committee executed this responsibility for several years after CBO's founding in 1975. Specifically, the Committee held oversight hearings in 1975, 1976, 1977, and then in 1982. These hearings examined the agency's operations, staff, travel, models, outside contacts, and other aspects of the CBO's work.

I doubt that the authors of the Budget Act had in mind "every 33 years" when they gave the Committee the power to review CBO on a continuing basis. So today we are resetting our oversight relationship with the CBO. Let me assure the new Director and his staff that we will henceforth hold hearings on a continuing basis with the goal of helping CBO be an even better organization than it is today.

Congressional oversight of an office like CBO should always aim at clarifying the office's mission and improving its operation. The growth and development of any organization often challenges it to maintain a consistent mission and frequently degrades efficient operations. Nonprofit and for-profit boards of directors probably focus more on the challenges posed by growth and development than on any other topic. Indeed, successful companies often have a harder time with mission and operations than the less successful ones. Staying focused on what we do really well while expanding in size and influence is tricky, and it is helpful to have a group like this Committee to advise and broadly guide the organization as it develops.

What does this guidance mean, however? Guidance means helping CBO stay focused on its core mission, suggesting and overseeing the implementation of basic management processes in the office's execution of its primary duties. Let me briefly elaborate on each of these oversight elements.

Each CBO Director from Alice Rivlin to you, Dr. Hall, conceives and executes changes to CBO in many important ways. We know from the early CBO oversight hearings that

Dr. Rivlin spoke with the Committee on CBO's mission, and subsequent Directors have informally engaged Committee members on that topic frequently.

That said, it is crucial that CBO keep firmly in mind its mission. The Budget Act clearly lays out that mission in Section 202 where you can read, "It shall be the primary duty and function of the office to provide to the Committees on the Budget of both Houses information which will assist such committees in the discharge of all matters within their jurisdictions."

Throughout this important section, that refers as well to the other House and Senate committees. You often read about CBO's role in assisting and supporting the committees and members in the execution of their duties, and it is always helpful to remember that CBO exists solely for this purpose.

Second, the Budget Committee's oversight duties clearly extend to assuring the rest of Congress that this vital organization is operating with excellent management practices in place. There is no partisan divide when it comes to ensuring that CBO be the best analytical organization possible in Washington. Thus, the Committee should be focused on such fundamental management policies as the existence and growth of its disclosure and transparency, the role of its advisory panels, the implementation of its conflict of interest policy, its personnel retention and succession planning policies, and the office's continuity of operation practice. The Committee does not create these policies and practices, but it is our duty to make sure they exist, are robust and effectively implemented.

The Committee also is interested in helping the office resolve barriers that others might create to its effectiveness, as well as challenges that any broad, new legislation would present. As well, the Committee should take an interest and provide guidance to the CBO as its duties change and evolve. The budget resolution Congress recently adopted has several new requirements for CBO, and I was pleased how well we worked with you and your team, Dr. Hall, in conceiving and drafting those provisions. I look forward to continuing our conversations with you about how best to carry out these new responsibilities.

Finally, the Committee's basic duty is to provide appropriate oversight of the operations of CBO. I think CBO management and the Committee could develop a set of metrics and reports that would allow the Committee to be assured that the resources are utilized effectively, that CBO has the tools it needs to do the work at a high level of effectiveness, and that appropriate investments are made in CBO personnel.

I look forward to working with CBO management in the development of these metrics and reports. I believe I speak for all of my colleagues when I say that we want a great Congressional Budget Office. We want its focus to be sharpened and its effectiveness increased. Pursuing these goals for an organization that already owns a high reputation should assure everyone who cherishes CBO that this Committee has its best interests in mind and that, going forward, CBO builds on its solid foundation from its first 40 years with oversight from the Senate Budget Committee.

When Senator Sanders arrives, we will—right now what we will do is go to Dr. Hall's testimony, and then if Senator Sanders is here, he can do his statement. Then we will go into the questions.

Our witness today is Dr. Keith Hall, the recently appointed Director of the Congressional Budget Office. It is my understanding that this is Dr. Hall's first testimony given as CBO Director. On behalf of my colleagues in the Senate, let me welcome you to a place at the table that will soon become all too familiar.

Prior to his appointment as CBO Director on April 1st, Dr. Hall served as the Chief Economist and Director of the Office of Economics at the U.S. International Trade Commission. Hall has over 20 years of Federal service with the Department of the Treasury, the International Trade Commission, the Department of Commerce, the Executive Office of the President, and the Bureau of Labor Statistics. In 2007, President George W. Bush nominated Dr. Hall to be the 13th Commissioner of the Bureau of Labor Statistics. Before becoming Bureau of Labor Statistics Commissioner, he served as the Chief Economist for the White House Council of Economic Advisers, where he analyzed a broad range of fiscal, regulatory, and macroeconomic policies, and directed a team that monitored the state of the economy and developed economic forecasts.

Dr. Hall has held numerous academic posts. He received his Bachelor of Arts degree in Economics from the University of Virginia and his Master's and Ph.D. in Economics from Purdue University.

For the information of colleagues, Dr. Hall will take 7 minutes for his opening statement, and then—since Senator Sanders is here, even after that introduction, we will go ahead with Senator Sanders' statement.

## OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you, Mr. Chairman, and my apologies for being late. And, Dr. Hall, welcome. Thanks for being here.

Mr. Chairman, thanks for holding this important hearing. Though you and I certainly have our disagreements about policy and about the budget, we can most certainly agree that it is absolutely essential for the CBO to provide us with independent, nonpartisan, and unbiased scores or projections to inform the decisions that we make, and that has been the history of the CBO, and we look forward to Dr. Hall continuing in that tradition.

Mr. Chairman, we are here this morning to conduct oversight over the Congressional Budget Office, and that means making sure CBO sticks to its core mission of providing us with objective information about how legislation will impact the deficit in an unbiased manner.

In my view, it is essential that the information that CBO provides Congress is as accurate as possible and as nonpartisan as possible.

Director Hall, I recognize that you have been on the job for a very short time, but I am sure you already realize how important CBO's nonpartisan reputation is for maintaining its ability to help us do our job. We need objective information regardless of one's political views.

CBO, like all agencies, depends on its people for its success. The agency's ability to attract and maintain talented individuals is critical to what it does. It is also important to us since we and our staffs make countless requests of CBO each year. You know that you are running one of the most important agencies in this Congress.

Like the rest of the Government, CBO has had to do more with less under sequestration. The cuts required to make the Budget Control Act caps have meant that CBO has shed employees and seen a shrinking budget. For fiscal year 2016, CBO's funding request to Congress would provide a budget that is only slightly higher than the agency's funding level was in fiscal year 2010. However, even if that funding level were provided, CBO would still have 5 percent fewer employees than it did in 2010. Relative to GDP, CBO's budget has fallen by nearly half since its high point in 1977. And yet the fiscal year 2016 budget resolution conference report includes several additional requirements for CBO, including analysis on macroeconomic effects or dynamic scoring, so-called fair value estimates, and new requirements for longer-term estimates.

Director Hall, I would like to be clear that several of these new requirements I believe are nothing more than a back-handed way to make it easier to cut taxes for those who have benefitted greatly over the past several years and to make it harder to assist those who have not. In other words, I am not a great fan of so-called dynamic scoring.

Of course, these requirements are brand new, and we will have to wait and see what CBO produces as a result. I sincerely hope that in complying with these new requirements, you will maintain CBO's standard for unbiased analysis. I know that the staff of CBO will do its very best to meet these requirements in a timely fashion. However, I question the wisdom of piling on these responsibilities with what seems to be little thought to the agency's ability to absorb this new workload while carrying out its ongoing responsibility.

So the bottom line is you have less money; you have been asked to do more. There are some of us who want to make sure you continue to do your work in the traditional nonpartisan, objective way, and with that, we wish you the best of luck in your new task.

Chairman ENZI. Thank you, Senator Sanders.

Since I have done the introduction, we will go to Dr. Hall.

**STATEMENT OF KEITH HALL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE**

Mr. HALL. Great. Thank you. Chairman Enzi, Ranking Member Sanders, and members of the Committee, I appreciate the opportunity to come before you today to discuss the work of the Congressional Budget Office. We are pleased to discuss our accomplishments, which we believe are substantial, but we also welcome the feedback that you can provide about ways in which we can do our job better.

In my short time at CBO, it has become very clear to me that the agency is blessed with a staff that is knowledgeable, highly skilled, very hardworking, and dedicated to providing the best possible objective and impartial analysis to Congress. And CBO has consistently been rated one of the best places to work in the Federal Government. But we are not perfect, of course. No economists, analysts, or forecasters are. So we welcome thoughtful assessment of our work and of ways to improve it.

The Congressional Budget Act of 1974 created this Committee, the House Budget Committee, and the Congressional Budget Office. CBO's work follows processes specified in that law or developed by the agency in concert with the Budget Committees and the congressional leadership. The agency's chief responsibility is to help the Budget Committees with the matters under their jurisdiction. Also under law, it supports other congressional committees, particularly the Appropriations, Ways and Means, and Finance Committees.

At CBO, we are committed to providing information that is objective, insightful, timely, and clearly presented and explained. In keeping with CBO's mandate to provide analysis that is objective and impartial, the agency makes no policy recommendations. Instead, it strives to present fully and fairly the likely consequences of alternative proposals being considered by Congress.

For fiscal year 2016, CBO has requested an appropriation of $47.3 million, an increase of $1.6 million from last year. About one-quarter of the requested increase would fund three new positions, bring the agency's staffing to 238. These new positions would be devoted to analyzing the economic effects of Federal tax and spending policies, including conducting dynamic analysis of certain legislation as specified in the budget resolution, and analyzing health care issues.

Focusing for a moment on those two topics, we have devoted significant effort to developing analytical tools that enable us to assess the macroeconomic effects of fiscal policies. Recent reports incorporating such analyses include several on the macroeconomic effects of alternative budgetary paths, including those specified in the recently passed congressional budget resolution. We expect to devote considerable attention to further developing our capacity to conduct dynamic analysis in the coming year and have already shifted some resources towards that end.

Interest in legislative proposals related to health care—on the part of the committees of jurisdiction, the congressional leadership, and the Budget Committees—remains very high. We continue to analyze proposals to modify the Affordable Care Act and the forthcoming Supreme Court decision regarding that act that could require significant changes to baseline projections and could lead to significant legislative activity.

We are in the process of analyzing various aspects of the health care system and enhancing our analytical capability to assess the effects of future legislation on that system and on the Federal budget.

On a broader scale, in carrying out our mission of serving the Congress during 2015 and 2016, we will focus on meeting three goals.

The first is to continue to provide Congress with budget and economic information that is objective, insightful, and timely. In the coming year, we expect to provide a wide variety of estimates and other analysis to Congress. They include: about 20 reports representing an assessment of budgetary developments during the current fiscal year, the outlook for the budget and the economy, analyses of the President's budget, long-term budget projections, and options for reducing budget deficits.

We will also produce more than 500 formal cost estimates, mostly for bills reported by committees. In addition to formal cost estimates, we will have about ten times as many preliminary, informal cost estimates, mostly to aid committees in the drafting of legislation.

We will produce about 120 scorekeeping tabulations for appropriations acts, and we will produce roughly 85 analytical reports and other publications generally required by law or prepared in response to requests from the Chairman and Ranking Members of committees.

All of our estimates and reports are reviewed internally for objectivity, analytical soundness, and clarity. That rigorous process involves multiple people at different levels in the organization. In addition, we will consult with numerous outside experts who represent a variety of perspectives.

A continuing challenge is how to respond in a balanced way to requests from both the majority and minority of multiple committees in both the Senate and the House. We regularly consult with the committees and the congressional leadership to ensure that we are focused on the work that is of the highest priority to Congress.

Our second goal is to continue to present and explain the methodology and results of analyses clearly. We make our work widely available to Congress and the public by releasing publicly all formal cost estimates and analytic reports. The input from outside experts and extensive external review will remain an important component of our transparency. Also, we will continue to have our documents and related information provide explanations that go well beyond just the presentation of results.

In addition, CBO analysts will regularly explain details underlying the agency's estimates and other analyses to interested Hill staff. They will present their work at professional conferences to promote discussion among experts in the field.

The transparency of our work is very important, and enhancing it is one of my prime objectives. We will look forward to the Budget Committees and other congressional users of our analysis to provide us feedback on the appropriate type and level of explanation of our methodology to be the most effective in supporting our work.

Our third goal is to continue to improve our internal management. At CBO, we will continue to face considerable competitive pressures in attracting and retaining highly educated and skilled employees that we need. More than two- thirds of the staff consists of economists and budget analysts. Talented people with those backgrounds are highly sought by other agencies, private analytic organizations, universities, and private companies. The gap between compensation that we provide and the compensation that people with such backgrounds can receive elsewhere is increasing. For example, in the past 17 years, the average inflation-adjusted annual salary paid to professors of economics has risen by 47 percent while the highest inflation-adjusted annual salary paid at CBO has fallen by 7 percent. With current limits in salaries that CBO can pay, hiring and retaining strong performers will be difficult in the long term.

In closing, I would like to emphasize how much we at CBO have relied on the oversight of the Budget Committees and their help in explaining and communicating to others in Congress about our role in the complex Federal budget process. We rely on your constructive feedback and guidance on important legislative developments and congressional priorities. We are grateful for the support and guidance you have provided throughout the 40 years of CBO's existence and look forward to continuing that constructive relationship for many years to come.

Thank you.

[The prepared statement of Mr. Hall follows:]

Congressional Budget Office

# Testimony

# The Work of the Congressional Budget Office

**Keith Hall**
**Director**

**Before the**
**Committee on the Budget**
**United States Senate**

**May 19, 2015**

*This document is embargoed until it is delivered at 10:30 a.m. (EDT) on Tuesday, May 19, 2015. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.*

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, I appreciate the opportunity to come before you today to discuss the work of the Congressional Budget Office. I would like to begin by thanking the Members of the committee and their staff for the support they have provided to CBO over many years, enabling the agency to provide timely, carefully thought-out nonpartisan budgetary and economic analysis to the Congress as it addresses the critical issues facing the nation. The Congressional budget process is complex, and CBO obviously plays a significant role in it. Over the years, CBO has relied on the budget committees to explain and communicate to others in the Congress what its role in that process is, to provide constructive feedback on how the agency can best serve the Congress, and to provide guidance on what legislative developments are occurring and what the Congress's priorities are. We are grateful for the support and guidance that the budget committees have provided throughout the 40 years of CBO's existence.

The Congressional Budget Act of 1974 instituted a formal process through which the Congress could develop, coordinate, and enforce its own budgetary priorities and created legislative institutions to implement the new Congressional budget process: the House and Senate Budget Committees to oversee execution of the budget process and the Congressional Budget Office to provide the budget committees and the Congress with objective, impartial information about budgetary and economic issues. CBO's work follows processes specified in that law or developed by the agency in concert with the budget committees and the Congressional leadership. The agency's chief responsibility under that law is to help the budget committees with the matters under their jurisdiction. It also supports other Congressional committees—particularly the Appropriations, Ways and Means, and Finance Committees, as required by the Budget Act—and the Congressional leadership.

To fulfill its mission to serve the Congress, CBO does the following:

- Prepares reports on the outlook for the economy;
- Analyzes trends and recent developments related to federal spending and revenues and constructs budget projections for the next 10 years and the longer term;
- Estimates the effects of the President's budgetary proposals and numerous alternative policy choices on the budget and the economy;
- Estimates the cost of legislative proposals—which involves providing formal cost estimates for all bills reported by committees of the House and Senate, many more informal cost estimates while legislation is being developed, estimates of the cost of all appropriation bills, and estimates of the cost of numerous amendments as legislation is considered by the House and Senate;
- Estimates the cost of intergovernmental and private-sector mandates in reported bills;
- Conducts policy studies of governmental activities, policy choices facing lawmakers, and other developments that have significant budgetary and economic impacts—which involves analyzing Social Security, Medicare, Medicaid, other benefit programs, national security issues, energy policy, environmental issues, tax policy, labor markets, education policy, housing policy, government credit programs, infrastructure, immigration policy, and many other topics; and
- Provides testimonies on a broad range of budget and economic issues.

In 2014, for example, CBO produced several hundred formal cost estimates and mandate statements, thousands of informal estimates, more than 100 "scorekeeping" tabulations for appropriation acts, and multiple budget projections and economic forecasts. In addition, the agency released several dozen analytic reports and working papers. (For some details, see the appendix.)

For fiscal year 2016, CBO has requested an appropriation of $47.3 million, an increase of $1.6 million, or 3.4 percent, from the $45.7 million provided to the agency for 2015. In the coming year, CBO will continue to be guided by its core values, seek to devote additional resources to macroeconomic analysis and health care issues, and focus on meeting three broad goals: continuing to provide the Congress with budget and economic information that is objective, insightful, and timely; presenting and explaining the methodology and results of CBO's analyses clearly; and improving CBO's internal management.

## CBO Will Continue to Be Guided by Core Values

In a 1976 memorandum, CBO's founding director, Dr. Alice Rivlin, enunciated some of the agency's core values:

> As we begin the first full year with the new Congressional budget procedures in place, I want to emphasize once again that CBO must be, and must be perceived to be, an objective, non-partisan, professional organization in the service of the Congress. . . . Our work and our publications must always be balanced, thorough and free of any partisan tinge. . . . Our task is to provide information which will help the whole Congress in reaching its decisions.

The agency is committed to providing information that is:

- Objective—representing not the personal opinions of CBO staff but the consensus and diversity of views of experts from around the country;
- Insightful—applying the best new evidence and innovative ideas as well as the lessons of experience;
- Timely—responding as quickly as possible to the needs of the Congress; and
- Clearly presented and explained—so that policymakers and analysts understand the basis for the agency's findings and have the opportunity to question the analysis and methods used.

In keeping with CBO's mandate to provide analysis that is objective and impartial, the agency makes no policy recommendations. Instead, it strives to present fully and fairly the likely consequences of alternative proposals being considered by the Congress so that lawmakers can make informed policy choices.

All of CBO's estimates and reports are reviewed internally for objectivity, analytical soundness, and clarity. That rigorous process involves multiple people at different levels in the organization. In addition, CBO consults with numerous outside experts who represent a variety of perspectives. The experts include professors, analysts at think tanks, representatives of industry groups, other private-sector experts, and people working for federal agencies and for state and local governments. CBO's analytic reports are reviewed by outside experts who specialize in the issue at hand and who have diverse views about the topic being analyzed and methods of analysis. In some cases, those experts are members of CBO's Panel of Economic Advisers or Panel of Health Advisers. Although such experts provide considerable assistance, CBO is solely responsible for its work.

CBO makes its work widely available to the Congress and the public by releasing publicly all of its formal cost estimates and analytic reports. It delivers its work to interested Members of Congress and their staff, including, in particular, the sponsor of legislation or requester of a report, the Chairman and Ranking Member of the committees of jurisdiction, and the budget committees. Soon after delivery to those key interested parties, the agency posts the work on its website. In addition, an email service, Twitter announcements, and RSS feeds notify subscribers when the agency publishes work. CBO continually strives to make its work more accessible on its website and on its social media platforms. For example, the agency has made a number of enhancements to the website, such as creating a special collection for major recurring reports and producing an online version of its budget options volume.

In some circumstances, though, the needs of the Congress lead CBO to keep the results of an analysis confidential. Such analyses include informal cost estimates and other types of information produced to assist in the development of legislation. Those informal communications are preliminary because they do not undergo the same review required for formal estimates. They are often prepared when committees are evaluating alternative proposals to accomplish their goals, have not made any specific proposals public, and need the flexibility to modify their proposals before they become public, sometimes in response to CBO's preliminary estimates. In fact, CBO's analysts often provide informal, preliminary estimates to committee staff for a broad range of legislative options, making possible the consideration of different approaches before a specific legislative path is decided upon. In such situations, CBO recognizes that the confidentiality of its work is critical to committees' deliberations, so it keeps its informal estimates confidential as long as the proposals are not made public. (Such confidentiality generally does not apply to proposals that differ only in minor details from ones that are in the public domain.) However, once such a proposal becomes public—as introduced legislation or through public discussion of its major elements—

CBO makes its estimate for that proposal available to any interested party in the Congress.

## CBO Aims to Devote More Resources to Macroeconomic Analysis and Health Care Issues

About one-quarter of the requested increase in CBO's budget, roughly $440,000, would fund three new full-time-equivalent positions (FTEs): The agency aims to boost its staffing from the 235 FTEs contemplated in the 2015 appropriation to 238 for 2016. The additional FTEs would be devoted to analyzing the economic effects of federal tax and spending policies, including conducting "dynamic analysis" of certain legislation as specified in the budget resolution, and analyzing health care issues.

### Give Special Emphasis to Dynamic Analysis

In May 2015, the Congress adopted a concurrent resolution on the budget for fiscal year 2016 requiring CBO, to the greatest extent practicable, to incorporate macroeconomic effects into its cost estimates for major legislation approved by Congressional committees. Because macroeconomic analyses require complex modeling and a significant amount of time, they can be produced only for a small number of major proposals, and only if time allows.

With a few exceptions, CBO's cost estimates for individual legislative proposals in previous years have not reflected changes in behavior that would affect the total output of the economy, such as any changes in the labor supply or private investment resulting from changes in fiscal policy, and that would thereby affect the federal budget. That is, CBO's cost estimates have generally not included what is sometimes known as dynamic scoring. CBO and the budget committees have followed that approach since the Congressional budget process was established in the 1970s, reflecting the infeasibility of completing macroeconomic analysis of all proposed legislation, the negligible budgetary impact of the macroeconomic effects of most legislation, and the uncertainty of such estimates. The only exceptions have been a few cost estimates for immigration legislation that would have substantially increased the size of the U.S. labor force. Assuming that those bills would have had no effect on overall output would have ignored one of their primary effects and distorted the estimates too severely.

Nevertheless, CBO has devoted significant effort to developing analytical tools that enable the agency to assess the macroeconomic effects of fiscal policies. In selected reports—as distinguished from cost estimates—CBO has provided estimates of the effects that significant changes in federal spending and tax policies would have on the overall economy. Some of those analyses have also examined how the projected changes in the economy would in turn affect the federal budget. Recent reports incorporating such analyses include the agency's annual examination of the economic impact of the President's budget, its annual *Long-Term Budget Outlook*, and several reports on the macroeconomic effects of alternative budgetary paths, including those specified in the recently passed Congressional budget resolution. CBO has also reported on some of the economic effects of policies on other occasions—for the American Recovery and Reinvestment Act of 2009, the Affordable Care Act, and proposed legislation to increase the minimum wage, for instance.

CBO expects to devote considerable attention to further developing its capacity to conduct dynamic analysis in the coming year, so that it can effectively carry out the requirements specified in the budget resolution. The agency anticipates that the form in which the information is provided to the Congress will evolve over time depending on what sort of presentation seems most useful. Cost estimates that incorporate dynamic analysis will include all of the information typically presented in cost estimates as well as information on the macroeconomic effects and the uncertainty surrounding those effects. To the extent possible within the time available, CBO will explain the basis for determining the budgetary impact of macroeconomic effects. The agency has already shifted some resources to bolster its dynamic analysis and has requested funding for additional staff to work on such analyses.

### Give Special Emphasis to Analysis of Federal Health Care Spending

CBO faces significant challenges in projecting the future costs of federal health care programs and in analyzing proposals to change those programs. Although spending for health care in the United States has grown more slowly in recent years than it had previously, health care spending per person has grown faster, on average, than the nation's economic output per person during the past few decades.

CBO expects that federal spending on the government's major health care programs will continue to rise substantially relative to the size of the economy, though the estimates are subject to a considerable degree of uncertainty. A particular challenge currently is assessing the extent to which the recent slowdown in the growth of health care spending results from temporary factors like the recession or, instead, reflects more enduring developments. CBO has found no direct link between the recession and slower growth in spending for Medicare. Accordingly, over the past several years, CBO has substantially reduced its 10-year and long-term projections of spending per person for Medicare, for Medicaid, and for the country as a whole. However, the growth rates for such spending per person are expected to rebound somewhat from their recent very low levels without returning all the way to the high levels of the past.

Interest in legislative proposals related to health care—on the part of committees of jurisdiction, the Congressional leadership, and the budget committees—remains very high. The enactment of the Affordable Care Act in 2010 has been followed by a great deal of Congressional interest in analysis of that legislation and of possible modifications to it. Several developments and possibilities could heighten that interest, along with CBO's workload. More data will become available about the costs of the expansion of health insurance coverage under the Affordable Care Act, which will further understanding of potential effects of changing that law. In addition, the Supreme Court's upcoming ruling regarding that act could require changes to CBO's baseline projections for health care spending and could lead to significant legislative activity.

In the coming year, CBO expects to expend a great deal of effort analyzing health care spending. The agency is in the process of analyzing various aspects of the health care system and enhancing its analytical capacity to assess the effects of future legislation on that system and on the federal budget. It is training a number of new analysts to replace those who have recently retired or accepted attractive offers to work elsewhere and continues to recruit analysts to boost the quantity of analysis while maintaining or enhancing the quality.

## CBO Will Focus on Meeting Three Broad Goals

On a broader scale, in carrying out its mission of serving the Congress during 2015 and 2016, CBO will focus on meeting three goals:

- Continue to provide the Congress with budget and economic information that is objective, insightful, and timely.
- Continue to present and explain the methodology and results of CBO's analyses clearly.
- Continue to improve CBO's internal management.

### Continue to Provide the Congress With Budget and Economic Information That Is Objective, Insightful, and Timely

In the coming year, CBO expects to provide the following estimates and other analyses to the Congress in quantities roughly similar to last year's:

- About 20 reports presenting an assessment of budgetary developments during the current fiscal year, the outlook for the budget and the economy, analyses of the President's budget, long-term budget projections, and options for reducing budget deficits;
- More than 500 formal cost estimates, most of which will include not only estimates of federal costs but also assessments of the cost of mandates imposed on state, local, and tribal governments or the private sector;
- Thousands of preliminary, informal cost estimates, the demand for which is very high as committees seek to have a clear picture of the budgetary impact of proposals and variants of proposals before they formally consider legislation;
- About 120 scorekeeping tabulations, including account-level detail for individual appropriation acts at all stages of the legislative process and summary tables showing the status of discretionary appropriations (by appropriations subcommittee) and running totals on a year-to-date basis; and
- Roughly 85 analytic reports and other publications—generally required by law or prepared in response to requests from the Chairmen and Ranking Members of key committees—on a broad range of topics, including health care, policies for increasing economic growth and opportunity, changes in benefit programs, defense policy, infrastructure, energy policy, and the government's role in the financial system. Those publications will also include working papers to enhance the transparency of CBO's analysis and to encourage external review of that analysis.

Such a body of analysis requires very hard work by CBO's highly dedicated staff. Nevertheless, the agency expects that the anticipated volume of estimates and other analyses it can produce will fall considerably short of the number of Congressional requests. The demands on CBO remain intense, especially with regard to health care issues: In addition to the interest in analyses of the Affordable Care Act and possible modifications to it, committees are considering many other types of proposals for changes in federal health care programs. Also, the slow recovery from the economic downturn has spurred interest in the agency's economic forecasts and in policies that might affect economic growth and opportunity in both the near term and the longer term. Moreover, the surge in federal debt and the high level of projected deficits have led to ongoing Congressional efforts to enact fundamental changes in spending and tax policies. Other issues arise frequently and create a heavy workload—including, for example, ones surrounding the Highway Trust Fund, immigration, defense authorization bills, farm legislation, employment benefits, trade adjustment assistance, and reform of the Postal Service.

Analyzing the possibilities and proposals has strained the agency's resources in many areas. As a result, responding in a balanced way to requests from both the majority and minority of multiple committees in both the Senate and the House is a continuing challenge. CBO regularly consults with committees and the Congressional leadership to ensure that its resources are focused on the work that is of highest priority to the Congress.

### Continue to Present and Explain the Methodology and Results of Analyses Clearly

CBO makes a considerable effort to make its work transparent by explaining the basis of its findings so that Members of Congress, their staff, and outside analysts can understand the results and question the methodologies used. In particular, although much of the work that CBO does is extremely technical in nature, the agency devotes substantial time and energy to presenting the work as clearly and nontechnically as possible.

Obtaining feedback in response to those efforts is a key element of CBO's efforts to ensure that the information it provides is of the highest quality; another key element is conducting extensive external review of the agency's analytic reports before they are released and of the methodologies on which its products are based.

In the coming year, input from outside experts and extensive external review will remain an important component of transparency:

- CBO will continue to solicit external professional review of its work so that the agency's analyses reflect both the consensus and diversity of views of experts from around the country.
- CBO's reports will be reviewed by outside experts before publication. Those reviewers will include professors, analysts at think tanks, private-sector experts, and employees at other government agencies. CBO will select reviewers whom it expects to have diverse views about the topics being analyzed and methods of analysis.
- The agency's cost estimates will often draw on consultation with outside experts.
- The agency's Panel of Economic Advisers will meet twice to provide input on the agency's latest economic forecast and other issues, and the agency's Panel of Health Advisers will meet to evaluate the agency's analyses of health care issues and examine new research in health care and health care financing. CBO will also regularly consult with those distinguished experts and other experts for guidance on the agency's work on a broad range of topics.

CBO's documents and related information will aim to go well beyond presentations of results:

- Formal cost estimates will describe the basis for the estimate—that is, the information that CBO collected and how that information was used in constructing the estimates.
- The agency will document and explain the revisions to its budget projections in each successive baseline, and it will report on the accuracy of its projections. CBO has recently released an assessment of the accuracy of its economic forecasts and will soon release a similar analysis of its revenue forecasts.
- The agency will publish supplementary data and other technical information with some of its key reports.
- Many of CBO's reports will provide substantial discussions of the relevant research literature and CBO's modeling approaches—in the text, in separate boxes, or in appendixes.

- CBO will publish background reports and working papers providing details about its analyses for nonexperts and technical descriptions for experts.

And the agency will promote transparency by providing broad access:

- When CBO completes a budget or economic projection, a cost estimate for a public piece of legislation, or another type of analysis, it will make the results of that analysis available immediately to all Members of Congress, their staff, and the public.
- CBO's analysts will regularly explain details underlying the agency's estimates and other analyses to interested Hill staff.
- To promote discussion among experts in the field, CBO's analysts will present their work—including descriptions of their modeling approaches—in working papers and at professional conferences.

Examples from CBO's past work illustrate other aspects of the agency's commitment to transparency. For instance, when CBO revised its views of the effectiveness of malpractice reform in reducing health care costs, of the effect of prescription drug use on Medicare's spending for other health care services, and of the effect on the budget deficit of raising Medicare's age of eligibility to 67, it issued reports explaining why.

In addition, CBO undertakes and publishes analyses of the sensitivity of its estimates to key parameters. For example, CBO's analyses of the economic effects of fiscal policies include alternative estimates that would apply if various effects were stronger or weaker than expected—such as the amount of short-term restraint provided by higher taxes or lower government spending, the response of the labor supply to changes in tax rates, the effects of budget deficits on private saving and international capital flows, and the effect of changes in federal investment on the economy. Similarly, a report on employment-based health insurance under the Affordable Care Act showed how the results would vary if employers' and employees' responses to that act differed from the agency's expectations.

Because the overall demand for CBO's work is high and its resources are constrained, the agency needs to balance the desire to publish more detail about finished analyses with requests for new analyses and with its other responsibilities, such as regularly updating its baseline budget and economic projections. Much of CBO's analysis is very technical, so publishing explanations of the models and other analytic techniques used is time-consuming. Because the pace of Congressional action often requires CBO to produce its analysis quickly, the amount of explanation that can be provided when an estimate or analytic report is released is usually limited by the time available. How to strike the appropriate balance between publishing additional explanation, undertaking new analyses, and pursuing other responsibilities is part of the guidance about priorities that CBO seeks from committees and the Congressional leadership.

## Continue to Improve Internal Management

In addition to focusing directly on serving the Congress, CBO devotes resources to attracting and retaining talented people, developing their skills, and providing the support services and other infrastructure needed to make them as productive as possible. In a recent assessment conducted by the Partnership for Public Service, CBO was ranked the sixth best place to work among 30 small federal agencies and received higher ratings than all but one of the midsized and large agencies. CBO is incorporating the feedback from the survey into the broad management goals that it has pursued in recent years, including keeping staff current in their fields and enhancing the agency's ability to communicate clearly.

CBO continues to face considerable competitive pressure in attracting and retaining the highly educated and skilled employees that it needs. More than two-thirds of CBO's staff consists of economists and budget analysts. Talented people with those backgrounds are highly sought by other government agencies, private analytic organizations, universities, and private companies. Some of CBO's economists and budget analysts could earn significantly higher compensation working in the executive branch, and many could do so working in the private sector. Moreover, the gap between the compensation that CBO can provide and the compensation that people with such backgrounds can receive elsewhere is increasing. For example, in the past 17 years, the average inflation-adjusted annual salary paid to professors of economics has risen by about 47 percent, while the highest inflation-adjusted annual salary paid at CBO has fallen by 7 percent. In addition, most of CBO's staff who are not economists or budget analysts work in other fields with competitive private labor markets; that group includes information technology professionals, lawyers, and others.

To attract and retain talented employees, CBO relies heavily on the nonmonetary rewards of working at the agency. Fortunately, the appeal of the agency's mission to provide objective analyses, the intellectual challenges, the open and collaborative culture that the agency has maintained since its founding, and the satisfaction of public service have enabled CBO to build a dedicated and skilled workforce. However, with the current limits on the salaries that CBO can pay in the competitive markets for economists, budget analysts, and other professionals, hiring and retaining strong performers will be difficult over the long term.

This testimony incorporates information from *CBO's Appropriation Request for Fiscal Year 2016*, testimony provided by CBO's Director before the Subcommittee on the Legislative Branch of the Senate Committee on Appropriations on March 10, 2015. That document represents the work of many people at CBO.

This testimony is available on CBO's website, at www.cbo.gov/publication/50177.

Keith Hall
Director

# Appendix: CBO's Products in 2014

In 2014, the Congressional Budget Office produced several hundred formal cost estimates and mandate statements, thousands of informal estimates, more than 100 "scorekeeping" tabulations for appropriation acts, and multiple budget projections and economic forecasts. In addition, the agency released several dozen analytic reports and working papers.

## Formal Cost Estimates and Mandate Statements

CBO completed more than 600 formal cost estimates in 2014. They generally included explanations of the components of the estimates and the estimating methodology used. Major cost estimates included, for example, those for the Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 (H.R. 4435), the TRIA Reform Act of 2014 (H.R. 4871), the Postal Reform Act of 2014 (S. 1486), the SGR Repeal and Medicare Beneficiary Improvement Act of 2013 (S. 1871), and the Veterans Access to Care Act of 2014 (H.R. 3230).

The vast majority of the formal cost estimates also included mandate statements, which assess whether legislation contains intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and, if so, assess the magnitude of the mandates' effects on the private sector and on state, local, and tribal governments.

That count of formal estimates greatly understates CBO's total cost-estimating workload because most of the agency's estimates are provided on a preliminary, informal basis, when legislative proposals are still at the early stages of development by committees or by the leadership of the House or Senate. CBO provided thousands of informal cost estimates in 2014.

In addition, CBO provided estimates pursuant to the Statutory Pay-As-You-Go Act of 2010. Such estimates are requested by one of the budget committees for inclusion in the *Congressional Record* before House or Senate passage of legislation.

## Scorekeeping Tabulations

On an ongoing basis during 2014, CBO provided spending estimates with account-level detail for individual appropriation acts at all stages of the legislative process. Those tabulations totaled 110 last year. The agency also provided periodic summary tables showing the status of discretionary appropriations (by appropriations subcommittee) and running totals on a year-to-date basis.

## Budget and Economic Projections and Related Analyses

CBO provided two 10-year economic projections in 2014 (in February and August) and three 10-year budget projections (in February, April, and August). Those projections were presented in *The Budget and Economic Outlook: 2014 to 2024* (February), *Updated Budget Projections: 2014 to 2024* (April), and *An Update to the Budget and Economic Outlook: 2014 to 2024* (August). CBO also released an extensive amount of additional data related to those projections.

CBO produced analyses of the budgetary and economic impacts of the President's budgetary proposals in *An Analysis of the President's 2015 Budget* (April) and *The Economic Effects of the President's 2015 Budget* (July).

In addition, the agency provided a comprehensive analysis of the federal budget over a 25-year horizon in *The 2014 Long-Term Budget Outlook* (July). That report also included analysis of the economic outcomes under different budgetary paths and of the uncertainty surrounding long-term budget projections, as well as supplemental projections extending to 75 years.

Continuing its practice of producing a compendium of possibilities for cutting federal spending or increasing federal tax revenues, CBO published *Options for Reducing the Deficit: 2015 to 2024* (November).

At the beginning of every month in 2014, CBO published its *Monthly Budget Review.* That report provides a timely analysis of the previous month's outlays and revenues and a review of budgetary developments for the fiscal year to date.

## Analytic Reports

In addition to the budget and economic projections and related reports (discussed above), CBO published several dozen analyses of budget and economic issues in 2014. Some of those analyses took the form of formal reports; others were conveyed through testimonies before Congressional committees, answers to questions for the record following a Congressional hearing, letters to Members of Congress, and infographics (visual presentations of estimates and analysis). Those analyses, arranged by topic, are listed below.

In conjunction with some of its analytic reports, CBO posted supplemental data, and it posted certain data of interest as stand-alone publications. In addition, the agency posted more than 35 presentations, most drawn from published analyses. And it produced blog posts on various topics.

### Analyses of Broad Budgetary Issues

*Answers to Questions for the Record Following a Hearing on the 2014 Long-Term Budget Outlook Conducted by the House Committee on the Budget* (September)

*Sequestration Update Report: August 2014*

*CBO's Projections of Federal Receipts and Expenditures in the National Income and Product Accounts* (August)

*The 2014 Long-Term Budget Outlook* (Testimony before the House Committee on the Budget, July)

*Answers to Questions for the Record Following a Hearing on the Budget and Economic Outlook for 2014 to 2024 Conducted by the House Committee on the Budget* (June)

*Answers to Questions for the Record Following a Hearing on the Budget and Economic Outlook for 2014 to 2024 Conducted by the Senate Committee on the Budget* (June)

*Letter to the Honorable Paul Ryan on the Feasibility of CBO Undertaking the Analyses That Would Be Required by the Amendments to H.R. 1874, the Pro-Growth Budgeting Act of 2013* (April)

*Discretionary Spending in 2013* (Infographic, April)

*The Federal Budget in 2013* (Infographic, April)

*Mandatory Spending in 2013* (Infographic, April)

*Revenues in 2013* (Infographic, April)

*Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Ryan, April 2014*

*A Review of CBO's Activities in 2013 Under the Unfunded Mandates Reform Act* (March)

*Letter to the Honorable Paul Ryan Regarding Federal Spending for Major Mandatory Spending Programs and Tax Credits That Are Primarily Means-Tested* (March)

*The Budget and Economic Outlook: 2014 to 2024* (Testimony before the Senate Committee on the Budget, February)

*The Budget and Economic Outlook: 2014 to 2024* (Testimony before the House Senate Committee on the Budget, February)

*Unauthorized Appropriations and Expiring Authorizations* (January)

*Final Sequestration Report for Fiscal Year 2014* (January)

*Letter to the Honorable Patty Murray Regarding CBO's Report on Appropriations and Sequestration for Fiscal Year 2014* (January)

### Analyses of Broad Economic Issues

*The Economic and Budgetary Effects of Producing Oil and Natural Gas From Shale* (December)

*Federal Policies and Innovation* (November)

*How CBO Analyzes the Effects of Changes in Federal Fiscal Policies on the Economy* (November)

*Characteristics of the Long-Term Unemployed in March 2007 and March 2014* (October)

*Answers to Questions for the Record Following a Hearing on the Minimum Wage Conducted by the Senate Committee on Health, Education, Labor, and Pensions* (May)

*Increasing the Minimum Wage: Effects on Employment and Family Income* (Testimony before the Senate Committee on Health, Education, Labor, and Pensions, March)

*Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2013* (February)

*Revisions to CBO's Projection of Potential Output Since 2007* (February)

*The Effects of a Minimum-Wage Increase on Employment and Family Income* (February)

*The Slow Recovery of the Labor Market* (February)

**Analyses of Financial Markets and Credit Programs**

*Transitioning to Alternative Structures for Housing Finance* (December)

*Answers to Questions for the Record Following a Hearing on the Export-Import Bank Conducted by the House Committee on Financial Services* (October)

*Budgetary Estimates for the Single-Family Mortgage Guarantee Program of the Federal Housing Administration* (September)

*Estimates of the Cost of the Credit Programs of the Export-Import Bank* (Testimony before the House Committee on Financial Services, June)

*Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024* (May)

*Report on the Troubled Asset Relief Program—April 2014*

**Analyses of Health Care Issues**

*Comparing the Costs of the Veterans' Health Care System with Private-Sector Costs* (December)

*How Initiatives to Reduce Fraud in Federal Health Care Programs Affect the Budget* (October)

*Competition and the Cost of Medicare's Prescription Drug Program* (July)

*Payments of Penalties for Being Uninsured Under the Affordable Care Act: 2014 Update* (June)

*Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act, April 2014*

*Approaches to Reducing Federal Spending on Military Health Care* (January)

**Analyses of Highway Financing and Infrastructure Issues**

*Answers to Three Questions Regarding the Status of the Highway Trust Fund* (June)

*Answer to a Question Regarding the Status of the Highway Trust Fund* (June)

*The Highway Trust Fund and the Treatment of Surface Transportation Programs in the Federal Budget* (June)

*Answers to Questions for the Record Following a Hearing on New Routes for Funding and Financing Highways and Transit Conducted by the Senate Committee on Finance* (June)

*The Status of the Highway Trust Fund and Options for Financing Highway Spending* (Testimony before the Senate Committee on Finance, May)

*Public-Private Partnerships for Highway Projects* (Testimony before the House Panel on Public-Private Partnerships, Committee on Transportation and Infrastructure, March)

**Analyses of National Security Issues**

*An Analysis of the Navy's Fiscal Year 2015 Shipbuilding Plan* (December)

*Long-Term Implications of the 2015 Future Years Defense Program* (November)

*Growth in DoD's Budget From 2000 to 2014* (November)

*Historical and Planned Future Budgets for the Missile Defense Agency's Ground-Based Midcourse Defense Program* (July)

*Letter to the Honorable Howard P. "Buck" McKeon Regarding a Preliminary Estimate of the Direct Spending Effects of H.R. 4435, the Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015* (May)

### Analyses of Tax Issues

*Taxing Capital Income: Effective Marginal Tax Rates Under 2014 Law and Selected Policy Options* (December)

*The Distribution of Household Income and Federal Taxes, 2011* (November)

*Answers to Questions From Senator Hatch About Various Options for Payroll Taxes and Social Security Tax Issues* (July)

### Other Analyses

*CBO's 2014 Long-Term Projections for Social Security: Additional Information* (December)

*Letter to the Honorable Paul Ryan Regarding Estimating the Budgetary Effects of Disposing of Land and Associated Natural Resources* (December)

*Letter to the Honorable Patrick J. Leahy Regarding Budgetary Impact of Court Decisions Related to Salaries and Benefits of Federal Judges* (September)

*Veterans' Disability Compensation: Trends and Policy Options* (August)

*The Renewable Fuel Standard: Issues for 2014 and Beyond* (June)

*Letter to the Honorable Ron Wyden Regarding S. 1875, the Wildfire Disaster Funding Act of 2013, and H.R. 3992, the Wildfire Disaster Funding Act of 2014* (May)

## Working Papers

To enhance the transparency of CBO's work and to encourage external review of that work, the agency's working papers provide technical descriptions of official CBO analyses or present independent research by CBO analysts. In 2014, CBO posted eight working papers:

*Updated Death and Injury Rates of U.S. Military Personnel During the Conflicts in Iraq and Afghanistan* (December)

*Assessing the Design of the Low-Income Subsidy Program in Medicare Part D* (October)

*Labor Force Participation Elasticities of Women and Secondary Earners Within Married Couples* (September)

*Modeling the Budgetary Costs of FHA's Single Family Mortgage Insurance* (September)

*Examining the Number of Competitors and the Cost of Medicare Part D* (July)

*Complementary Putty-Clay Capital and Its Implications for Modeling Business Investment and Measuring Income from Intangible Capital* (April)

*The Long-Run Effects of Federal Budget Deficits on National Saving and Private Domestic Investment* (February)

*Market Efficiency and the U.S. Market for Sulfur Dioxide Allowances* (January)

Chairman ENZI. Thank you. We appreciate the information and realize that you have not been there very long—yet. We will have questions, 5 minutes for each Senator, in the order of their arrival but alternating back and forth between the Republicans and the Democrats.

Director Hall, I recognize that you have only been the Director for 59 days. In fact, I think today is the 59th day. But I suspect you have begun to reflect on the goals of your tenure in office and can tell that from your statement. Could you please take a minute or two to tell us what your midterm goals are for the CBO under your leadership—in other words, what accomplishments you would like to be able to talk about in 6 months and what objective measures we could have to determine if those have been achieved?

Mr. HALL. Well, part of my initial impression is that the CBO is running and working very well. They have an excellent, well-deserved reputation for quality of the work, and I certainly did not come into the job with the idea that large changes were needed at all.

Two things, though, that come to mind since I have been with CBO, and one is an interest I have had even before coming to CBO, and that is, providing transparency with what we do. You know, I think it is vitally important that the work of CBO is credible. The value to you is that our work is credible. It needs to be objective and independent. And people have to believe that we have made an honest effort at it, and part of that, I think, is being transparent—being transparent with what we have done, how we have done it, and being able to communicate it.

In fact, I think transparency has two really important roles: one is the credibility; but, second, by being more transparent, I hope that we get feedback on what we are doing. So if we provide an estimate and somebody thinks it is too high, it is not helpful if all they can say is, "It is too high." If we provide an estimate and explain how we got it and you think there are problems with our methodology or some of the estimates that we have made, you can say that, and that is something that we can talk about and we can make improvements on.

So one thing I think is definitely with transparency, certainly with dynamic scoring, I think we have got some transparency there and sort of making clear how we are going to do our work. And I think we also need to make some effort to make sure we are working with economic consensus on dynamic methods.

One of the things I think that we are starting to do now—in fact, we just did it last week. We had our Director of Macroeconomic Analysis present at the Conference of Business Economists about dynamic scoring, and the slides are now available online. It has provided some detail. She is going to make a similar talk to our panel of economic advisers in a month or so. And then starting fairly soon with a long-term budget analysis and the President's budget, the economic effects of the President's budget later this year, we are going to try to improve our presentation of dynamic results and try to improve the transparency. That is one place where I hope you will see a difference going forward.

The other thing is the development of health care models. We are doing work on health care, and it has been a real challenge for

CBO, in large part because all we had was theory. And our modeling was based on theory, and we were doing our—CBO did its best to estimate the effects of the ACA based on what economic theory suggests. But now we are starting to get some experience with the ACA. We are starting to get some data, and we are going to need to adapt our methodology as we get more data and as more research is done.

So one of the things I would like to do in the near term is starting to encourage, maybe trying to be more transparent about the sort of economic research that we would like to see from the private sector or elsewhere on how to improve our modeling of the health care.

Chairman ENZI. Thank you. I appreciate that, and particularly your comments during your testimony about the disclosure of your methodology, too, which will help for people to have a better understanding of how you got there and whether they think it was right or not. And hopefully we will have constructive suggestions for ways to improve that.

Now, your predecessor's submission to the Appropriations Committee earlier this year—and I do mention that it was your predecessor—asked for authorizing provisions in the 2016 appropriations bill. CBO requested permission to hire employees with non-immigrant visas for difficult-to-fill positions and to keep half of the unused appropriations in fiscal year 2016 for use in fiscal year 2017.

It is my understanding that the House Committee on Appropriations, which reported its legislative branch appropriations last week, did not include these requested authorization changes. Do you know why CBO sought those provisions through the appropriations process rather than with changes in the authorizing statute through the Budget Committee? And is there a list of administrative provisions that have been adopted in the appropriations bill that affect how the agency conducts it, share with the Senate and the House Budget Committees? If not, please prepare such a list and submit it to the Senate and House Budget Committees. That is a pretty long question.

Mr. HALL. Well, I think I can give you kind of a short answer, because I was not involved and I do not know why the submission was made through the appropriations. I do know that generally the interest of increasing our ability to hire is a concern. It actually is a concern throughout the Federal Government that some skilled positions like economists and finance and some of those high areas, it is very hard to hire them, and it is very hard to pay those salaries. So I think there was some interest in expanding our capability to hire some non-citizens.

And the other stuff, I will be happy to follow up. I do not know a lot about it at this point.

Chairman ENZI. And it would be helpful to maybe have some comparisons. You mentioned professors went up by 47 percent, but 47 percent of what? So it would be helpful to see what some of the dollar numbers are as well.

My time has expired. Senator Kaine?

Senator KAINE. Thank you, Mr. Chair, and thank you, Dr. Hall.

Dr. Hall, I am interested in one kind of metric question. I understand that it is not your office's job to offer policy, but here is a metric question that has bothered me since I came into the Senate, and it is a question over what is an acceptable level of debt and what is a dangerous level of debt. We had a hearing in this Committee a couple months back, and I think the title of it was, "America's Dangerous Debt." We had three witnesses, and I asked them—and I think I may have been the last questioner that day: "Describe what is a dangerous level of debt."

One witness said that he actually did not like the way we calculate debt, and so any debt-to-GDP ratio he thought was meaningless. He did not really offer—I do not think he offered us a great alternative, but he at least candidly said, "I do not think debt-to-GDP ratios is a meaningful number."

The second witness said that she did not feel professionally qualified to offer an opinion about a metric for distinguishing acceptable debt from dangerous debt.

And the third witness gave the most elegant 5-minute non-answer that I have heard on this Committee.

So no one would say here is what the metric is. And, you know, early in my time in the Senate, the Rogoff- Reinhart study came out that, you know, tried to say here is acceptable and here is dangerous, and there was a lot of critiquing of that. And as I followed this in 2–1/2 years in the Senate, I have been struck by how different it is from being a Governor. We had debt ratios that we used that were bipartisan, that, you know, Democratic and Republican Governors and Democratic and Republican legislative bodies generally followed, with plenty of controversy about how to manage to the ratio. You know, how do you construct the expenditure side or the revenue side to manage to the ratio? But we used total debt as a percentage of State GDP and debt service as a percentage of the State general fund budget as our ratios. When I was mayor of a city, we used similar ratios. We did not have a number for debt, but we had ratios for debt.

I wonder, you know, what is your particular opinion, your office's opinion, or what you think is an economic consensus, to the extent that there is one, about what is an appropriate way to measure sort of appropriate debt versus dangerous debt. And then we would have all the controversies about how to, from a policy standpoint, manage to that. But I would love to hear your thoughts on the metric itself.

Mr. HALL. Sure. Well, first of all, the idea of debt- to-GDP is helpful in that it gives you some idea of the ability to pay it back, right? So, you know, if a small business owes $1,000 or Starbucks owes $1,000, those are two different situations. So it does help to put it in some perspective with GDP, its ability to pay it back. And then, of course, there is sort of the time value of money. GDP grows, prices grow, the debt grows. It helps to give you some idea, again, about how that works.

One of the things that CBO has done a fair amount of that I think is really useful is to make projections, long- term projections, under different scenarios. So you have a debt-to-GDP, and we can give you some idea of what could be the case in 10 years, in 25 years, under different scenarios with respect to productivity growth, et cetera. So you get some idea of worst-case scenarios, best-case scenarios in that respect.

And then I think probably one of the most helpful things—and I think we are going to continue to try to do this—is give you some idea of what it would take to get rid of the current level of debt, you know, what sort of cutbacks in either spending or taxes that would eliminate debt, and that will give you some perspective as to how hard it will be to get away, just how big that problem is. That is probably as good a way as any.

As far as a level, you know, it is hard to say a level that is a dangerous level.

Senator KAINE. And just to follow up on that—and this is helpful—even recommendations about what it would take to get rid of the current level of debt, I mean, I do not think any of us around the table feel like we are going to be as a Nation just debt free. The idea would be to get rid of debt that could be unproductive or a challenge and to have an appropriate level of debt. But I just wonder whether you think in the province of the office is some advising of us about, you know, what are appropriate versus dangerous levels. Again, we have to manage the policy—we have to grapple with the policy choices about how to get to the metric. But is that something that you think is in the province of your office? Or is that more of just a hotly contested, you know, economic theory that you guys will be agnostic on?

Mr. HALL. No, actually I think it is something that we can look at and think about, ways of sort of giving you perspective on just how big a debt is, how much trouble you can be in with it. I think that is a difficult thing because there is so much uncertainty and providing these sort of point estimates where there is lots of uncertainty, when you know that under some scenarios that debt could be much worse than it looks. I think it would be helpful for us to think about that. We could probably do a little work.

Senator KAINE. Great. Thank you very much.

Thanks, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Perdue?

Senator PERDUE. Thank you, Mr. Chairman. And, Dr. Hall, I am a fan. I have watched your work at the Council of Economic Advisers. I welcome you to your new role, and thank you for being willing to step up and help us.

This is a great conversation. I want to follow up on Senator Kaine's direction. Obviously, we have just gone through a budget cycle. I do not think anybody on this Committee is really ecstatic about the process. Our Chairman and Ranking Member did a great job with a budget, but the long-term thing that really concerns me is our ability to address this debt. And I want to follow up on Senator Kaine. I think he is headed in the right direction, and I want to commend him on the nonpartisan approach I think a lot of people are taking in this Committee with regard to the question.

You did not mention interest rate models, and obviously the uncertainty around interest rates have a large impact on what happens with how we manage the debt. But I am really interested how you can help us look at the alternatives we have to address the debt issue. Like Senator Kaine says, we will deal with the policy issues, but one of those is particularly of interest to several of us here, and I know I have heard Senator Whitehouse talk about this, and a few others on the other side, and that is, redundant agencies, agencies that are actually totally duplicative of other agencies.

The GAO comes out with a report. They quantify some, they do not quantify others. And I know that they cannot really estimate savings without some help from the CBO or some reports from the CBO. Can you address how you are looking at maybe interfacing with some of these other agencies in terms of helping us answer some of the questions we are dealing with, specifically with regard to the debt?

Mr. HALL. So you are talking about looking at sort of what they are saying about the debt?

Senator PERDUE. Yes, and what would be the potential models around reduction or elimination of some of these—or changes really in mandates around some of these duplicative agencies that the GAO estimates or identifies every year?

Mr. HALL. Yes, well, certainly the sort of thing that we can do is look at the possible effects of doing some of that work, the effect on the budget of eliminating some of this overlap. That is the sort of thing that I think is sort of in our wheelhouse so we get an idea perhaps of some specific ideas on that that we could do some work on that.

Senator PERDUE. Let us go to dynamic scoring then. What are the risks—and I know this is one of several measures that you would use in evaluating any change. Talk to us about how we should be thinking about that relative to looking at ways to reduce the debt with regard specifically about growing the economy and doing some things on the public side—or the private side that would help generate growth in the economy.

Mr. HALL. Well, sure. Certainly that is one of the things about the macroeconomic work that we have been doing, is sort of looking at the possible macroeconomic effects of some policy spending or taxation. You know, it is the sort of thing where it is very difficult to make these estimates. There is a lot of uncertainty. But there actually is pretty good consensus on some of these issues that there is some macroeconomic effect, there are some growth effects going forward. And it is certainly true if you are looking at Federal debt, a Federal budget deficit, there is sort of three things that are important there: it is spending, it is revenues, but it is also economic growth. So that is sort of a third thing that we are trying to take into account with a dynamic aspect.

It is just a difficult thing to do for policies, but it is certainly an important thing. And you will see that actually in our forecast, especially our long-term forecasting, how much if we change some of the assumptions in something like productivity growth, how much that makes a difference in the debt going forward.

Senator PERDUE. Thank you. That is very helpful.

Switching over to just an oversight question, you mentioned that you were pleased with what you found so far coming in after 59 days. Give us a sense operationally of how you think we should think about CBO's effectiveness in terms of dealing with new things that we are asking you to do, like dynamic scoring and others, given the organization, the people you have, the challenges you have of retention, and the things that you have already mentioned. But going forward, as we look at dealing with this debt over the next few years, what do we need to be thinking about relative to CBO's resources, capabilities, and what we are asking you to do? Do we need to look at priorities? Or are we asking too many things?

Mr. HALL. Well, certainly one important thing for a place like CBO is to always have a certain amount of their time and resources set aside for developing new methodologies, and right now I think the two things I mentioned—dynamic scoring and especially health care—those are really new areas. And so for a lot of the CBO work, we are sort of taking the consensus of economic science and applying that. And something like health care, we are sort of creating, we are on the frontier of that. So we have got to spend a considerable amount of time ourselves trying to develop the modeling and such and just having some resources where we can do that and vet that work is very important.

And then, of course, just setting priorities for us. You know, one of the things that this really clears, we get more requests than we could possibly handle at times, and having some guidance as to which ones we should move on first is very, very helpful for us.

Senator PERDUE. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Whitehouse?

Senator WHITEHOUSE. Thank you, Chairman.

Mr. Hall, welcome. I think a lot of us are concerned about where this dynamic scoring issue goes. As you just pointed out, it is a new frontier for CBO, and you will be responsible for setting the kind of behind-the-scenes ground rules for the application of the rule. And my concern is that in setting the ground rules for the application of dynamic scoring, you might be inclined to set it up in such a way that it favors things that the majority party likes, like big tax cuts for wealthy people, and produce dynamic scoring results that show that that is such a wonderful thing, and not things that they do not like so much, like the Clean Air Act. So the Clean Air Act, according to EPA, for every dollar that the polluting utilities have had to spend to clean up the air has paid back more than $30 in public benefit. A lot of that is in health savings. A lot of that comes back through the federally supported health care system.

Are things like the savings from clean air and clean water likely to be picked up in the way that you will organize the dynamic scoring? Or is it just going to be taxation and the things our friends like so much? Will you treat us fairly in setting up this rule so that it falls on the just and unjust alike, as some would say?

Mr. HALL. Well, I think as I said before, I think the credibility of what CBO does is important to us, but it is important to you on both sides, that we do not have any value probably for you if what we do is not credible and is not objective and independent.

With respect to something like dynamic scoring, CBO has already been using dynamic scoring. You can sort of see how it has been implemented. But that is a big part to me of transparency, is making clear how we are going to do the dynamic scoring, what models we are going to use, what estimates we are going to use.

Senator WHITEHOUSE. And in making those selections, will you be sure that it can apply fairly to all results, no matter what the desired policy outcome might be by certain interests?

Mr. HALL. Absolutely. As I say, that is part of the transparency. You know, for example, we have an economic advisory panel, and we are going to vet our methodology at our next meeting, in fact. We are going to talk in some length about our dynamic methodology and get some feedback from those folks. And as I say, when we increase our transparency, we are going to open ourselves up to criticism and comments if we are not doing a fair job. And I think that is the only way for us to remain credible and also improve on what we are doing. And the goal is, like I say, to do this in a way that represents sort of the state of economic science, and we are trying to look for consensus as much as possible in what we do.

Senator WHITEHOUSE. You come to us from, among other places, the Mercatus Center, which is very heavily funded by polluting interests and has, from my view, an unfortunate record of attacking the Clean Air Act, pretending that the science of climate change is not real and in general supporting the industry antagonism towards doing anything about carbon pollution. And that would not, I hope you will agree, be an appropriate set of points of view to be bringing with you into your new position at CBO. Is that correct?

Mr. HALL. Absolutely. The goal of CBO and my goal is to maintain what I think is an excellent reputation of CBO for doing independent and objective work, and we will continue to do that.

Senator WHITEHOUSE. So the policy goals that Mercatus Center sought to achieve on behalf of its big funders are things that we need not worry about infiltrating your work as CBO Director?

Mr. HALL. Yeah, I cannot—to be honest, I could not tell you offhand what their policy goals are, but absolutely.

Senator WHITEHOUSE. All right. Delivery system reform is an area in the health care system where there is a lot of bipartisan support. Are there any provisions of the Affordable Care Act right now that you can say have led to health care savings?

Mr. HALL. You know, I am pretty new on the job, and I do not want to talk too much about CBO's work because I have not been involved in it. You know, certainly one of the things that has already happened at CBO was some of the early modeling of the ACA, like I say, was based on theory. And as we are starting to get some experience, the results are going to change a little bit based on an experience like that.

So if what you say is true, we find that is true, it will be reflected in our modeling going forward.

Senator WHITEHOUSE. Well, my time is up. I look forward to working with you, Mr. Hall, and I welcome you to CBO.

Mr. HALL. Thank you.

Chairman ENZI. Thank you.

Senator Sessions?

Senator SESSIONS. Thank you. Thank you, Mr. Hall, and we are glad to have you on board.

Mr. HALL. Thank you.

Senator SESSIONS. And you will be challenged, and I think Dr. Elmendorf did a pretty good job, and a lot of times he was under intense political pressure, and I think in general he produced reports that were objective and respected on both sides. And you will be under pressure, too, and I hope you will adhere to what you just said. You are going to give the facts as you see them.

Senator Kaine asked about debt and dangerous levels. Professor Kotlikoff from Boston University was here, and he gave us, I think, almost a passionate but objective analysis of our long-term unfunded liabilities that he said put us on a path to disaster. And he indicated that perhaps a better way to judge our financial condition rather than whether we have a budget that balances or not is whether we are adding to or reducing our long-term unfunded liabilities.

Do you think that would be a valuable way, one valuable way to analyze the debt course of America?

Mr. HALL. Well, certainly that is what CBO I think is already doing for you with some of the long-term forecasts and talking about some of the things that will impact those long-term budgets going forward.

Senator SESSIONS. Now, Dr. Elmendorf said that even though we have seen some reductions in our deficits, we are under $500 billion presumably this year—hopefully we will be—that we will begin a relentless climb in those numbers in the years to come, reaching $900 billion or more 10 years from today, and he asserted that was an unsustainable future, that it presented unacceptable risks to our financial future. Would you agree with that?

Mr. HALL. I absolutely agree with CBO's assessment then, and I think it will continue that way for a little while.

Senator SESSIONS. Now, one of the most unusual things that happens here to me is to some degree our lack of understanding of the huge numbers that we deal with. I am not raising this to attack Obamacare, but I want to talk about it. On the eve of the vote, December 23rd, I pressed Mr. Elmendorf to give a report on the action that was proposed by that legislation, and it was going to reduce spending and produce savings in Medicare by $400 billion, as I recall. And that money was going to be used to fund the new program, Obamacare, and it was asserted that these reductions in spending in Obamacare—in Medicare would strengthen Medicare, put it on a sounder footing, and also provide money to the new program.

Now, if we were dealing with a small amount of money, $500, people would obviously see the danger in this analysis. And so I said, "Isn't this double counting? And I want a letter from you on it." And he wrote me a letter, and he said, "You cannot spend the same money twice."

"You cannot spend the same money twice. And it is double counting"—he used those words—and he said, "Though the conventions of accounting might suggest otherwise," was what his written statement to me was. Well, by then, it was too late. The bill passed and we never analyzed that.

So have you thought about—and am I correct to say that we have a trust fund for Medicare, trustees that manage that fund, and when we reduced the payments to Medicare providers and saved $400 billion, that was a savings that accrued to the trustees for the Medicare beneficiaries. It did not provide any extra cash for the Treasury of the United States to fund Obamacare with. And, in fact, the Treasury of the United States borrowed the money or, in effect, counted that savings improperly because the money belongs to the trustees of Medicare.

Am I wrong about that? And it is a pretty big issue, wouldn't you think, $400 billion? Can we agree on that?

Mr. HALL. Well, I do not want to agree purely because I have not had enough experience and looked at this enough. I am happy to go back and take a look at Doug's letter and sort of get an idea of, a better understanding of the issue.

Senator SESSIONS. Well, you need to—we need to understand this. This is huge, because we have a unified budget. It ignores in that process the trust funds. It assumes that we just have all money coming into the Federal Government and all money going out of the Federal Government, and w have trustees of Medicare, and they claim it is—and it is their money that was saved, and it did not provide the money for Obamacare. It really in a sense was all borrowed eventually by the Treasury of the United States to the extent that it produced costs.

My time is up. Thank you, Mr. Chairman.

Chairman ENZI. Dr. Hall, that gives you a little indication of some of the written questions that you might get now, which, of course, you will have a little longer time to think about before you respond to us. But I would mention that any of my colleagues that have some additional questions, they are due by 6:00 p.m. today, the hard copy delivered to the Committee Clerk in Dirksen 624. And then we would hope that you would respond within 7 days from the receipt of the questions.

I have a number of questions. Most of them have to do with numbers, and I learned a long time ago in the Senate that if you ask the number questions, at least the people in the audience fall asleep, even though you and I might be intensely interested in the details of those. So you can probably expect some more detailed questions that we would be interested in.

So I thank you for being—

Senator KAINE. Mr. Chairman?

Chairman ENZI. Yes?

Senator KAINE. Would it be possible to ask one more?

Chairman ENZI. You have waited. Certainly.

Senator KAINE. Thank you.

Dr. Hall, one question I wanted to get to and did not, when we have had testimony from your predecessor, one of the things that interests me is looking at certain spending categories to GDP and how they are trending. So our defense spending as a percent of GDP is going down. Our nondefense discretionary spending as a percent of GDP is going down. Social Security as a percent of GDP is going up. Other health care, kind of combined Medicaid, Medicare, probably VA health care-related, going up. Tax expenditures as a percentage of GDP, growing pretty significantly.

As we analyze expenditure categories kind of for the arc of going the right way, going the wrong way, should we look at tax expenditures sort of as a spending item?

Mr. HALL. You mean in terms of the trend and the share of GDP?

Senator KAINE. Yes.

Mr. HALL. Sure. It sounds like that is a useful way of looking at it.

Senator KAINE. And I guess one of the challenges on the dynamic scoring is that, you know, you can reduce an expenditure that will have, you know, minimal kind of extra economic consequence or you can reduce an expenditure like an infrastructure expenditure that could have significant economic consequence, and similarly on the tax side, whether it is a rate or a tax expenditure, you might make a move up or down that would have minimal kind of ripple effect, or you might make a move that would have maximum ripple effect and what dynamic scoring, done well, should enable us to understand a little bit is what the magnitude of the sort of ripple effects are.

Mr. HALL. Yeah, I think that is right, and I think that is why we have to be very careful and transparent about exactly how we have analyzed things, especially with the dynamic scoring.

Senator KAINE. Great. Thank you.

Thank you, Mr. Chairman. I appreciate it.

Chairman ENZI. Certainly, and I appreciate your comments on that. And as another former mayor, we did our budgeting a little bit differently, and consequently we had one of the few debt-free cities in the Nation, I think. So we did not worry about what the percentage was of GDP. We worried about whether we were paying all our bills or not.

I am going to have some more detailed questions on if the hiring of the non-immigrant visas for the difficult-to-fill positions saves money and also some other places where we are interested, since we are putting quite a burden on the other committees to come up with some savings to see if there are not some places where we can come up with some savings as well.

Chairman ENZI. So thank you very much for being here at this first oversight hearing in 33 years. Thank you for your answers.

Mr. HALL. Thank you.

[Whereupon, at 11:26 a.m., the Committee was adjourned.]

# THE COMING CRISIS: CBO'S ANALYSIS OF THE FEDERAL GOVERNMENT'S DEEPENING FISCAL CHALLENGES

**WEDNESDAY, JUNE 17, 2015**

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
*Washington, D.C.*

The Committee met, pursuant to notice, at 10:01 a.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Sessions, Toomey, Corker, Perdue, Sanders, Stabenow, Whitehouse, Warner, Kaine, and King.

Staff Present: Eric Ueland, Majority Staff Director; and Warren Gunnels, Minority Staff Director.

## OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I will call this hearing to order. Good morning, Senator Sanders. Good morning, colleagues, and welcome to this hearing on the Federal Government's long-run fiscal challenges.

Today the Senate Budget Committee will focus on the Congressional Budget Office's newly released publication on this vital topic while across the Capitol our colleagues on the House Budget Committee are discussing the need to act on these critical issues by balancing our budget. Together, the two Budget Committees are devoted to restoring order to our fiscal books.

I both shudder and rejoice each year when the CBO publishes its long-term budget outlook. On the one hand, I am always amazed at the enormity of the fiscal problems our current policies have built and the calamity ahead of us unless we act. On the other hand, I am always grateful to CBO for telling us their accounting of where we will stand without a change in course.

The 535 sitting Members of Congress are better positioned than any of the 330 million fellow countrymen to do something that avoids this dismal future. And what is it exactly that we have been hearing from CBO each year?

Let us see. I want to congratulate Dr. Hall on this report. I found it to be fascinating reading. Maybe that is because I am an accountant. But I did get the point that raising taxes is a drag on the economy, increasing the debt is a drag on the economy, so cutting spending is the only thing that increases the economy, and a 1-percent increase in GDP is equal to about $300 billion in additional tax revenue without raising taxes. If we send out signals of actions, that also stimulates the economy, and I am particularly fascinated with Appendix A which goes into the difficulty of making projections. And I am reminded of Yogi Berra who said, "The future is hard to predict, especially since it is about the future."

It goes into the demographics that are involved in it and also the economic variables that can cause a problem. And it is very clear to me that the longer we delay, the less options that we have.

So the message has remained remarkably consistent over the past generations. Let me quote briefly from testimony provided by the CBO's Deputy Director, James Blum, in 1997. He had been invited by this Committee to testify on the long-term budget outlook and options, and he said, "Just over the horizon is the retirement of the large Baby Boom generation. That retirement will drive up the costs of three important Government programs: Social Security, Medicare, and Medicaid. If the resulting budget pressure from both demographics and health spending is not relieved, deficits will mount and seriously erode future economic growth."

We have done little to relieve this pressure since then and a good deal more to make it worse. Opportunities have come and gone over the intervening 20 years to reform Social Security and Medicare. We have failed to replace our broken and top-heavy tax system with one that supports a more vigorous economy. When the economy fell into recession in late 2007, we chose again to ignore much needed reforms and instead vastly expanded spending programs. We are left today with enormous debt, a crawling economy, and little evidence that we are prepared at all for the future that CBO has been warning us about for 20 years, and that future comes closer and closer every year. The Federal Government's deficit in 2007 was just 3 percent of GDP. By 2009, it had grown to 10 percent. Deficits from 2009 through 2012 exceeded $1,000 billion each year.

As you can see on the screen—as you cannot see on the screen. At any rate, the total debt held by the public grows by 81 percent between the end of calendar years 2008 and 2012. Today publicly held debt stands 105 percent above its level at the close of 2008. So you kind of have 105 percent plus 105 percent, which comes to about 210 percent.

Now our fiscal future is not worsening because we are starving the Federal Government for resources. Congress is already spending more tax revenue than at any point in history. Currently, Government's revenues equal more than 17.5 percent of our GDP, and that percentage is growing while outlays more than revenues equal 20.3 percent of GDP.

Even so, our books are not what they need to be as the Baby Boom generation moves into the rapid phase of retirement. About 10,000 Baby Boomers reach 65 each day, and nearly 4,000 of those retire each day. Fortunately, some are not. Both of those numbers will accelerate in the future. This enormous demographic shift will cause a vast expansion in the cost of Social Security, Medicare, and Medicaid, as well as a host of related programs.

Last year, CBO estimated that Federal spending on these programs would double by 2039. Unless we choose to cancel all the rest of Federal spending, most of this additional spending will be funded through debt. That means, again, according to CBO, in

2014 a doubling in the interest expenses of the Federal Government.

Let me direct your attention to the graph that is in the book on page 6. It shows CBO's projection of future publicly held debt as a percent of GDP if we continue on our current path. Debt rises from about 74 percent of GDP today to nearly 245 percent of GDP by 2039, or 24 years from now. If CBO's debt warnings are not enough to get our attention, well, here is one that might. It might be worthwhile to remind my colleagues of remarks made by Admiral Michael Mullen, former Chairman of the Joint Chiefs of Staff, "A Nation with our current levels of unsustainable debt cannot hope to sustain for very long its superiority from a military perspective or its influence in world affairs."

Admiral Mullen understands that if our debt continues to grow unchecked, our Nation will be hobbled as it tries to fund programs that are critical to military and diplomacy.

Some of my colleagues argue that growing debt is not a problem, that expanding debt in periods of slow or no growth is just what is needed to boost the economy. Hardworking taxpayers and millions of Americans who are out of work or underemployed have not benefitted from these types of policies over the last 6 years.

Indeed, recent research from the International Monetary Fund finds a negative relationship between high debt and growth. In a report released earlier this month, the IMF authors conclude, "Higher public debt leads to lower investment, slower transitional growth or recovery from a recession, and a lower long-run level of output. Debt is bad for growth."

Since high and growing public sector debt is bad for economic activity and rapid debts in our future, with the cause of that rapid buildup of debt currently unsustainable retirement and health programs, then, colleagues, I think it is well past time for us to reform the programs that drive up the debt, boost our economic growth, and provide a future that is secure for retirees and workers alike, as well as for the generations yet to come. Taking action now can help boost the economy and expand opportunity for each and every American. A boost in economic growth means more real jobs from the private sector and small businesses across the Nation.

It is important to note that when we talk about boosting economic growth, we are talking about growth from the private sector. Government spending does not contribute to this growth.

As my fellow Budget Committee member and businessman Senator Perdue notes, expanding Government does not help grow the economy.

When is the right time to take action? As President John F. Kennedy once said, "The best time to fix the roof is when the sun is shining." We are going to have to hurry. That same logic should be applied to boosting our economy and addressing our long-term fiscal challenges. Instead of waiting for another crisis or recession or watching our debt grow, we should take action on these critical fiscal challenges facing our Nation now. By working together on real reforms and real solutions, we can achieve real results, which is what hardworking American families want and what they deserve.

Senator Sanders?

**OPENING STATEMENT OF SENATOR SANDERS**

Senator SANDERS. Thank you very much, Mr. Chairman. Dr. Hall, thanks for being with us. Thanks for your work.

Mike Enzi and I are good friends. We like each other. But I think it is fair to say we look at the world a little bit differently.

The deficit and the debt are obviously very serious issues that we have to address, but I think it would be helpful to begin to understand maybe how we got to where we are today and what a fair and sensible approach to the problem is and to put the issue of debt in a broader economic context.

For a start, here is some good news, and that is that when President Bush left office, our deficit was $1.4 trillion. Today that deficit has been reduced by more than two-thirds. It is now $483 billion. $483 billion is a lot of money, but that is progress over a period of years.

Second of all, there is a lesson that I am afraid some of us have not yet learned, but one of the causes of our debt and our deficit are wars that were fought in Iraq and Afghanistan. So we do not want to get into those wars right now. Whether we should have gotten into Iraq is not for this discussion here. But I think it is fair to say—and I have a hard time understanding how some of my conservative friends do not accept this. You talk about spending and spending and spending, and you want to cut food stamps, you want to cut programs for hungry kids, and you want to cut Medicare, and you want to cut Medicaid. But how come you went to war in Iraq and Afghanistan and chose not to pay for those wars? If you spend money to feed a hungry child, that is an expense. If you spend money on a war in Iraq, that is an expense. Why do we pick and choose?

And then apparently the lesson is not learned because we are on the floor right now with the Defense Authorization Act, and there is another—what is it?—$38 billion to be put into the deficit for so-called emergency, which everybody knows is nothing more than a budgetary trick. Everybody knows that.

So I guess when we spend money on wars, that does not really count. When you spend money on infrastructure, health care, the needs of our children, ah, that is a serious problem. Well, we have a difference of opinion on that.

But it is not only wars that were not paid for. And, by the way, the wars in Afghanistan and Iraq are estimated, by the time we take care of our last veteran 50, 60 years from now, to cost between $4 and $6 trillion, all put on the credit card.

Second of all, when we talk about how we got to where we are, everybody in this room understands that we have a massive level and a grotesque level of income and wealth inequality. I do not think anyone debates that. The Republican solution to that over the years has been to give even more tax breaks to the wealthiest people in this country. Less revenue comes in. Now, I understand there is this trickle-down theory that if you give tax breaks to billionaires and large corporations, they are going to invest in America, they are going to create jobs. It is a theory that most economists no longer believe has any credibility at all. And in this very budget passed out of this Committee, what the Republicans propose—this is part of deficit reduction—is to give over $200 billion over a 10-year period in tax breaks going to the top two-tenths of 1 percent by completely repealing the estate tax. Now, how that helps us with deficit reduction, I am not quite aware of.

Under President Bush, Republicans for political reasons passed a Medicare Part D prescription drug benefit. I think seniors desperately need help with prescription drugs. But you have got to figure out a way to pay for it. They did not.

And last, but not least, when we talk about where we are, part of this deregulatory philosophy that my Republican colleagues talk about—and, by the way, was bipartisan; certainly Democrats were involved in that discussion—had to do with the deregulation of Wall Street. What a wonderful idea. Let us allow commercial banks, investment banks, and insurance companies to merge because, as Alan Greenspan just told us, they will always do the right thing. Well, it turns out that it did not quite happen that way. Their greed, their recklessness, their illegal behavior resulted in the worst economic crash since the Great Depression, also adding to our deficit and our national debt.

So those are, I think, some of the causes of why we are where we are today and why we have an $18 trillion debt that we might want to look at.

Now, where do we go from here? What is a sensible and fair approach that is good for the American people? Well, if you are going to approach figuring out ways how you grow the economy, which I think all of us want to do, and at the same time also deal with the deficit and the national debt, you have to know the context in which you are operating. So what is the economic context of today?

Well, the economic context is that for a variety of reasons the top 1 percent now earns more income than the bottom 50 percent. And since the Wall Street crash of 2008, more than 99 percent of all new income goes to the top 1 percent. CEOs of large corporations now earn nearly 300 times what their workers make. You have the wealthiest family in this country, one family, the Waltons, owning more wealth than the bottom 42 percent of the American people. So you have a grotesque level of income and wealth inequality in America.

Now, what is the rational solution? Do you really go to the people who are hurting? Do you go to the families where median family income has gone down by $5,000 since 1999? Do you really want to balance the budget by cutting education, by cutting health care, by cutting nutrition? Or maybe, just maybe, we might want to ask the wealthiest people and the largest corporations who are doing phenomenally well to start paying their fair share of taxes.

You know, I know that my Republican colleagues talk a lot about their fears of redistribution of wealth. It gets them very nervous. And yet since 1985, we have had a massive redistribution of wealth in this country. Unfortunately, it has gone from the middle class to the top one-tenth of 1 percent. That is just a fact. And if you want to deal with the unmet needs of this country, rebuilding our infrastructure, making sure that our young people can get to college, dealing with the horrendous situation of child care in this country, making public education strong, all of the unmet needs that we have as a Nation, climate change and so forth, you know what? We are going to have to ask the billionaire class to pony on up. If they to accept the benefits of being Americans, they are going to have to accept their responsibilities as well. You cannot run away from that. You cannot keep attacking a middle class which is disappearing.

From 1985 until 2013, the share of the Nation's wealth going to the bottom 90 percent of Americans has gone down from 35 percent to just 22.8 percent. Meanwhile, over that same period, the top one-tenth of 1 percent saw its share of the Nation's wealth more than triple from 7 percent in 1985 to 22 percent today. That is the reality. The very, very rich get richer, the middle class shrinks. The Republican solution: Let us attack the middle class and working families.

Well, I respectfully disagree. We need to have a tax system which ends the enormous loopholes that currently exist. We lost $100 billion every year by corporations stashing their money in the Cayman Islands, Bermuda, and other tax havens. We have an individual tax rate such that hedge fund managers are paying a lower effective tax rate, as Warren Buffett tells us, than working people are. That is wrong.

So, Mr. Chairman, I look forward to working with you. I know the people on our side of the aisle do. But the economic realities that we face now as a country have got to be very seriously considered before we go forward.

Thank you very much.

Chairman ENZI. Thank you. And I do have to make one comment on that. I would like to debate a number of pieces of that, but my one comment is on the—and this is very important for the debate we are having on the floor right now. On the overseas contingencies that are in the budget, that is to keep from breaking the BCA cap which results in a sequester across the board for everybody. But it is covered in the balanced budget numbers. It does not add to the debt. We had to make other corrections in order to make sure that it did not add to the debt. That is very important.

Senator SANDERS. Well, if I could just very briefly add, Mr. Chairman, I think that some of your conservative economists out there regard this as—to say the word kindly—"gimmickry" "Budget gimmickry." I think that is a fair statement.

Chairman ENZI. Well, I am just hoping there is less gimmickry in this one than we have had in any of the past. I am interested in any ideas you have for eliminating gimmickry, because that has got to be one of our goals as well because, otherwise, we will wake up one day in the midst of a financial crisis that the CBO has been telling us about for a long time. And every day that goes by, we have less choices for fixing what is wrong. So this will be a very important hearing.

Our witness this morning is Dr. Keith Hall, the recently appointed Director of the Congressional Budget Office. It is my understanding this is Dr. Hall's first testimony given as—no, it is the second one give as CBO Director because he has been before us before. On behalf of my colleagues in the Senate, let me welcome you to a place at the table that will soon become all too familiar.

Prior to his appointment as CBO Director on April 1st, Dr. Hall served as Chief Economist and Director of the Office of Economics at the U.S. International Trade Commission. Hall has had over 20 years of Federal service with the Department of the Treasury, the International Trade Commission, the Department of Commerce, the Executive Office of the President, and the Bureau of Labor Statistics.

In 2007, President George Bush nominated Dr. Hall to be the 13th Commissioner of the Bureau of Labor Statistics. Before becoming the Bureau of Labor Statistics Commissioner, he served as the Chief Economist for the White House Council of Economic Advisers, where he analyzed a broad range of fiscal, regulatory, and macroeconomic policies and directed a team that monitored the state of the economy and developed economic forecasts.

Dr. Hall has held numerous academic posts. He received his Bachelor of Arts degree in economics from the University of Virginia and his Master's and Ph.D. in economics from Purdue University.

For the information of colleagues, Dr. Hall will take about 7 minutes for his opening statement, and that will be followed by questions.

Dr. Hall, please begin.

## TESTIMONY OF THE HONORABLE KEITH HALL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. HALL. Chairman Enzi, Ranking Member Sanders, and members of the Committee, thank you for the opportunity to testify on the Congressional Budget Office's most recent analysis of the outlook for the Federal budget over the long term.

The long-term outlook for the Federal budget has worsened dramatically over the past several years in the wake of the Great Recession and slow recovery. Financial turmoil and a severe drop in economic activity, combined with various policies implemented in response to those conditions, sharply reduced Federal revenues and increased spending. As a result, budget deficits rose, and the Federal debt held by the public soared, nearly doubling since 2007. Debt is now equivalent to about 74 percent of the economy's annual output, a higher percentage than at any point in U.S. history except one.

If current law remained generally unchanged and the economic recovery continued, this debt would decline slightly but remain very high over the next few years. After that, rising Federal Government spending, mainly caused by the aging of the population and rising health care costs, would push debt back to, and then above, its current high level. The deficit would grow from less than 3 percent of GDP this year to over 6 percent in 2040. At that point, 25 years from now, Federal debt held by the public would exceed 100 percent of GDP.

In particular, over the next 25 years, spending for Social Security and the Government's major health care programs would rise sharply, reaching 14 percent of GDP. This would occur because of the aging of the population, growing in per capita spending on health care, and to a lesser extent, an increase in the number of recipients of exchange subsidies and Medicaid benefits attributable to the Affordable Care Act.

In addition, net outlays for interest on the debt would grow to more than 4 percent of GDP, while in contrast, all other Federal spending would decline to just 7 percent of GDP, a very low level by historical standards. Current law would also raise Federal revenues to a historically high level relative to GDP, but at a much slower pace than the rise in Federal spending.

So what consequences would a large and growing Federal debt have?

First, the large amount of Federal borrowing would draw money away from private investment and productive capital over the long term. The result would be a smaller stock of capital and, therefore, lower output and income than would otherwise have been the case.

Second, Federal spending on interest payments would rise, thus requiring the Government to raise taxes, reduce spending for benefits and services, or both, to achieve any targets that it might choose for budget deficits and debt.

Third, the large amount of debt would restrict policymakers' ability to use tax and spending policies to respond to unexpected challenges, such as economic downturns or financial crises.

And, last, the rising debt would not be sustained indefinitely. Although there is no identifiable tipping point in the debt-to-GDP ratio to indicate that a crisis is likely or imminent, the larger a government's debt, the greater the risk of such a fiscal crisis.

So how large would policy changes need to be to lower the trajectory of Federal debt? Because under current law debt is projected to rise continuously relative to the size of the economy in the long term, the policy changes needed to reduce debt to any given level would become larger and larger over time.

To put the Federal budget on a sustainable path for the long term, you would have to make significant changes to tax and spending policies by reducing spending for large benefit programs below the projected amounts, letting revenues rise more than they would under current law, or adopting some combination of these approaches.

The size of such changes would depend upon the amount of Federal debt you considered appropriate. We have illustrated two possible goals in one of the figures from the written testimony that we have distributed to you.

One possible target would be to cut debt roughly in half as a share of GDP, reducing it to about the average over the past 50 years. Doing so by 2040 would require an increase in revenues and/or a reduction in non-interest spending totaling 2.6 percent of GDP every year. That would come to almost $500 billion in 2016, with greater amounts each year after that.

If all the change was made on the revenue side of the ledger, the average middle-income household would have to pay about $1,700 more in Federal taxes in 2016 and larger amounts in subsequent years. If all of the change was achieved by cutting non-interest spending across the board, that would reduce initial annual Social Security benefits for an average 65-year-old in the middle of their earnings distribution by about $2,400 in 2016 and by larger amounts thereafter.

In deciding how quickly to carry out policies to put Federal debt on a sustainable path, regardless of the chosen goal for debt, you would face several difficult tradeoffs. The sooner significant deficit reduction was implemented, the smaller the Government's accumulated debt would be, the smaller the policy changes would need to be to achieve the chosen goal, and the less uncertainty there would be about what policies might be adopted.

However, waiting for some time before reducing spending or increasing taxes would result in a greater accumulation of debt, which would represent a greater drag on output and income in the long term and increase the size of the policy changes needed to reach the chosen target for debt.

Thank you. I am happy to answer any questions.

[The prepared statement of Mr. Hall follows:]

Congressional Budget Office

# Testimony

# The 2015 Long-Term Budget Outlook

**Keith Hall**
**Director**

**Before the**
**Committee on the Budget**
**United States Senate**

**June 17, 2015**

*This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Wednesday, June 17, 2015. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.*

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for the opportunity to testify on the Congressional Budget Office's most recent analysis of the outlook for the federal budget over the long term. My statement today summarizes *The 2015 Long-Term Budget Outlook*, which was released yesterday.[1]

The long-term outlook for the federal budget has worsened dramatically over the past several years, in the wake of the 2007–2009 recession and slow recovery. Between 2008 and 2012, financial turmoil and a severe drop in economic activity, combined with various policies implemented in response to those conditions, sharply reduced federal revenues and increased spending. As a result, budget deficits rose: They totaled $5.6 trillion in those five years, and in four of the five years, they were larger relative to the size of the economy than they had been in any year since 1946. Because of the large deficits, federal debt held by the public soared, nearly doubling during the period. It is now equivalent to about 74 percent of the economy's annual output, or gross domestic product (GDP)—a higher percentage than at any point in U.S. history except a seven-year period around World War II.[2]

If current law remained generally unchanged in the future, federal debt held by the public would decline slightly relative to GDP over the next few years, CBO projects. After that, however, growing budget deficits—caused mainly by the aging of the population and rising health care costs—would push debt back to, and then above, its current high level. The deficit would grow from less than 3 percent of GDP this year to more than 6 percent in 2040. At that point, 25 years from now, federal debt held by the public would exceed 100 percent of GDP.

Moreover, debt would still be on an upward path relative to the size of the economy. Consequently, the policy changes needed to reduce debt to any given amount would become larger and larger over time. The rising debt could not be sustained indefinitely; the government's creditors would eventually begin to doubt its ability to cut spending or raise revenues by enough to pay its debt obligations, forcing the government to pay much higher interest rates to borrow money.

## What Is the Outlook for the Budget in the Next 10 Years?

The economy's gradual recovery from the recession, the waning budgetary effects of policies enacted in response to the weak economy, and other changes to tax and spending laws will cause the deficit to shrink in 2015 to its smallest percentage of GDP since 2007, CBO projects—2.7 percent, a much smaller percentage than the recent peak of nearly 10 percent in 2009.[3] Throughout the next decade, however, an aging population, rising health care costs per person, and an increasing number of recipients of exchange subsidies and Medicaid benefits attributable to the Affordable Care Act would push up spending for some of the largest federal programs if current laws governing those programs remained unchanged. Moreover, CBO expects interest rates to rebound in coming years from their current unusually low levels, raising the government's interest payments on debt.

Budget deficits would not substantially increase at first, but eventually they would begin to rise. They would approach 4 percent of GDP toward the end of the 10-year period spanned by CBO's baseline budget projections, the agency anticipates. Deficits over the entire period would total about $7.4 trillion.

With deficits projected to remain close to their current percentage of GDP for the next few years, federal debt held by the public would remain at a very high level, between 73 percent and 74 percent of GDP, from 2016 through 2021. Thereafter, the larger deficits would boost debt—to 78 percent of GDP by the end of 2025.

1. See Congressional Budget Office, *The 2015 Long-Term Budget Outlook* (June 2015), www.cbo.gov/publication/50250.

2. When analyzing changes in spending, revenues, deficits, and debt, CBO usually measures those amounts relative to economic output. That approach automatically incorporates inflation and growth in population, output, and income, providing context for understanding the size of the government's activities at different points in time and their effects on the sustainability of the budget.

3. The projections in *The 2015 Long-Term Budget Outlook* are consistent with CBO's March 2015 budget projections after adjustments are made to incorporate the effects of recently enacted legislation. The most important such adjustment was to incorporate the estimated effect of Public Law 114-10, the Medicare Access and CHIP [Children's Health Insurance Program] Reauthorization Act of 2015, which became law on April 16, 2015. For information on the March baseline budget projections, see Congressional Budget Office, *Updated Budget Projections: 2015 to 2025* (March 2015), www.cbo.gov/publication/49973.

## What Is the Outlook for the Budget Through 2040?

To analyze the state of the budget in the long term, CBO has extrapolated its 10-year baseline projections through 2040, yielding a set of *extended* baseline projections that span a total of 25 years. (Both sets of projections generally incorporate the assumption that current law will not change.) Mainly because of the aging of the population and rising health care costs, the extended baseline projections show revenues that fall well short of spending over the long term, producing a substantial imbalance in the federal budget. As a result, budget deficits are projected to rise steadily and, by 2040, to raise federal debt held by the public to a percentage of GDP seen at only one previous time in U.S. history—the final year of World War II and the following year.

The harmful effects that such large debt would have on the economy would worsen the budget outlook. The projected increase in debt relative to the size of the economy, combined with a gradual increase in effective marginal tax rates (that is, the rates that would apply to an additional dollar of income), would make economic output lower and interest rates higher than CBO projected when producing the extended baseline. Those macroeconomic effects would, in turn, feed back into the budget, leading to lower federal revenues and higher interest payments on the debt. (The harm that growing debt would cause to the economy was not factored into CBO's detailed long-term budgetary projections, and it is generally not reflected in the discussion of the extended baseline elsewhere in this testimony, but it is addressed in further analysis presented in Chapter 6 of *The 2015 Long-Term Budget Outlook*.)

In the extended baseline projections, before those feedback effects are considered, federal spending rises from 20.5 percent of GDP this year to 25.3 percent of GDP by 2040 (see Table 1). (Its average over the past 50 years has been 20.1 percent.) The projected increase reflects the following paths for various types of spending:

- Federal spending for Social Security and the government's major health care programs—Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through the exchanges created by the Affordable Care Act—would rise sharply, to 14.2 percent of GDP by 2040, if current law remained generally unchanged. That percentage would be more than twice the 6.5 percent average seen over the past 50 years. The boost in spending is projected to occur because of the aging of the population; growth in per capita spending on health care; and, to a lesser extent, an increased number of recipients of exchange subsidies and Medicaid benefits attributable to the Affordable Care Act.
- The government's net outlays for interest would grow to 4.3 percent of GDP by 2040, CBO projects. That percentage would be higher than the 2.0 percent average of the past 50 years, because federal debt would be much larger.
- In contrast, other noninterest spending—that is, spending on everything other than Social Security, the major health care programs, and net interest—would decline to 6.9 percent of GDP by 2040, which would be well below the 11.6 percent average of the past 50 years.

Federal revenues would also increase relative to GDP under current law, but much more slowly than federal spending would. Revenues would equal 19.4 percent of GDP by 2040, CBO projects, which would be higher than the 50-year average of 17.4 percent. That increase would occur mainly because people's income grew more rapidly than inflation, pushing more income into higher tax brackets over time.[4]

By 2040, in CBO's projections that do not account for macroeconomic feedback effects, the deficit equals 5.9 percent of GDP, a higher percentage than in any year between 1947 and 2008. The resulting debt reaches 103 percent of GDP in 2040, more than in any year except 1945 and 1946.

Under the extended baseline with feedback effects included, CBO's estimate of the deficit in 2040 is higher—6.6 percent of GDP—and so is its estimate of federal debt held by the public: 107 percent of GDP.

4. One consequence is that individual income and payroll taxes as a share of income would grow for many households. For example, a married couple with two children earning the median income in 2014 and filing a joint tax return would have paid about 16 percent of their income in individual income and payroll taxes. Under current law, a similar couple earning the median income 25 years from now would pay about 19 percent of their income in individual income and payroll taxes.

**Table 1.**

## Key Projections Under CBO's Extended Baseline

Percentage of Gross Domestic Product

| | 2015 | 2025 | 2040 |
|---|---|---|---|
| | | Without Macroeconomic Feedback[a] | |
| Revenues | | | |
| Individual income taxes | 8.4 | 9.5 | 10.4 |
| Payroll taxes | 5.9 | 5.7 | 5.7 |
| Corporate income taxes | 1.8 | 1.8 | 1.8 |
| Other sources of revenues | 1.7 | 1.2 | 1.5 |
| **Total Revenues** | **17.7** | **18.3** | **19.4** |
| Spending | | | |
| Mandatory | | | |
| Social Security | 4.9 | 5.7 | 6.2 |
| Major health care programs[b] | 5.2 | 6.1 | 8.0 |
| Other mandatory programs | 2.6 | 2.3 | 1.8 |
| Subtotal | 12.7 | 14.1 | 16.0 |
| Discretionary | 6.5 | 5.1 | 5.1 |
| Net interest | 1.3 | 3.0 | 4.3 |
| **Total Spending** | **20.5** | **22.2** | **25.3** |
| Deficit | -2.7 | -3.8 | -5.9 |
| Debt Held by the Public at the End of the Year | 74 | 78 | 103 |
| | | With Macroeconomic Feedback | |
| Deficit | -2.7 | -3.8 | -6.6 |
| Debt Held by the Public at the End of the Year | 74 | 78 | 107 |
| **Memorandum:** | | | |
| Social Security[a] | | | |
| Revenues[c] | 4.4 | 4.3 | 4.3 |
| Spending | 4.9 | 5.7 | 6.2 |
| Net increase (-) in deficit | -0.5 | -1.4 | -1.9 |
| Medicare[a] | | | |
| Revenues[c] | 1.5 | 1.6 | 1.7 |
| Spending | 3.5 | 4.4 | 6.3 |
| Offsetting receipts | -0.5 | -0.8 | -1.2 |
| Net increase (-) in deficit | -1.5 | -2.0 | -3.4 |
| Tax Expenditures | 8.1 | n.a. | n.a. |
| Gross Domestic Product (Billions of dollars)[a] | 18,016 | 27,456 | 50,800 |

Source: Congressional Budget Office.

Notes: The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2025 and then extending the baseline concept for the rest of the long-term projection period.

n.a. = not available.

a. These projections do not reflect the macroeconomic feedback of the policies underlying the extended baseline after 2025.

b. Net of offsetting receipts for Medicare.

c. Revenues include payroll taxes other than those paid by the federal government for federal employees, which are intragovernmental transactions. Revenues also include income taxes paid on Social Security benefits, which are credited to the trust funds.

## What Consequences Would a Large and Growing Federal Debt Have?

How long the nation could sustain such growth in federal debt is impossible to predict with any confidence. At some point, investors would begin to doubt the government's willingness or ability to meet its debt obligations, requiring it to pay much higher interest costs in order to continue borrowing money. Such a fiscal crisis would present policymakers with extremely difficult choices and would probably have a substantial negative impact on the country. Unfortunately, there is no way to predict confidently whether or when such a fiscal crisis might occur in the United States. In particular, as the debt-to-GDP ratio rises, there is no identifiable point indicating that a crisis is likely or imminent. But all else being equal, the larger a government's debt, the greater the risk of a fiscal crisis.[5]

Even before a crisis occurred, the high and rising debt that CBO projects in the extended baseline would have macroeconomic effects with significant negative consequences for both the economy and the federal budget:

- The large amount of federal borrowing would draw money away from private investment in productive capital over the long term, because the portion of people's savings used to buy government securities would not be available to finance private investment. The result would be a smaller stock of capital, and therefore lower output and income, than would otherwise have been the case, all else being equal. (Despite those reductions, output and income per person, adjusted for inflation, would be higher in the future than they are now, thanks to the continued growth of productivity.)

- Federal spending on interest payments would rise, thus requiring the government to raise taxes, reduce spending for benefits and services, or both to achieve any targets that it might choose for budget deficits and debt.

- The large amount of debt would restrict policymakers' ability to use tax and spending policies to respond to unexpected challenges, such as economic downturns or financial crises. As a result, those challenges would tend to have larger negative effects on the economy and on people's well-being than they would otherwise. The large amount of debt could also compromise national security by constraining defense spending in times of international crisis or by limiting the country's ability to prepare for such a crisis.

5. For further discussion, see Congressional Budget Office, *Federal Debt and the Risk of a Fiscal Crisis* (July 2010), www.cbo.gov/publication/21625.

## What Effects Would Alternative Fiscal Policies Have?

Again, most of the projections in *The 2015 Long-Term Budget Outlook* are based on the assumption that federal tax and spending policies will generally not differ from what current law specifies. (CBO makes that assumption not because it expects current law to remain the same, but because the budgetary and economic implications of current law are a useful benchmark for policymakers when they consider changing laws.) However, if tax and spending policies differed significantly from those specified in current law, budgetary and economic outcomes could differ significantly as well. To illustrate some possible differences, CBO analyzed the effects of three additional sets of fiscal policies: an extended alternative fiscal scenario, which would result in more debt than in the extended baseline; and two illustrative scenarios, which would result in less.

Under the extended alternative fiscal scenario, certain policies that are now in place but that are scheduled to change under current law are assumed to continue; some provisions of law that might be difficult to sustain for a long period are assumed to be modified; and federal revenues and certain kinds of federal spending are assumed to be maintained at or near their historical shares of GDP. If those changes to current law occurred, deficits (excluding interest payments) would be about $2 trillion higher over the next decade than they are in CBO's baseline; in subsequent years, such deficits would exceed those projected in the extended baseline by rapidly growing amounts. The harmful effects on the economy from the resulting increase in federal debt would be partly offset by the lower marginal tax rates that would be in place under the scenario. Nevertheless, in the long term, economic output would be lower and interest rates would be higher under the scenario than they would be if current law remained in place. After including the effects of those macroeconomic changes, CBO projects that federal debt held by the public would rise sharply—to about 175 percent of GDP in 2040.

Under the first of the two illustrative scenarios, budget deficits would be smaller than those projected under current law. Deficit reduction would be phased in so that deficits (excluding interest payments) would be a total of $2 trillion smaller through 2025 than they are in CBO's baseline; thereafter, deficits would be reduced each year by the same percentage of GDP by which they had been reduced in 2025. If that scenario occurred, output would be higher and interest rates would be lower in the long term than they would be if current law remained unchanged. Factoring in the effects of those macroeconomic changes on the budget, CBO projects that federal debt held by the public would equal about 72 percent of GDP in 2040, close to its percentage in 2013.

Under the other illustrative scenario, one with twice as much deficit reduction as in the previous scenario—a total decrease of $4 trillion in deficits (excluding interest payments) through 2025—CBO projects that federal debt held by the public would fall to 39 percent of GDP in 2040. That percentage would be close to the average ratio of debt to GDP over the past 50 years (38 percent). As in the preceding scenario, output would be higher and interest rates would be lower in the long term than they would be if current law did not change.

The fiscal policies in the three scenarios would also affect the economy in the short term, reflecting the short-term impact of tax and spending policies on the overall demand for goods and services. The first scenario, by making spending higher and taxes lower than they would be under current law, would increase demand and thereby raise output and employment over the next few years. By contrast, the deficit reduction that would take place under the other scenarios would decrease demand and thus reduce output and employment over the next few years.

## How Uncertain Are the Long-Term Budget Projections?

Even if future tax and spending policies did not vary from what current law specifies, budgetary outcomes would undoubtedly differ from CBO's projections because of unexpected changes in the economy, demographics, and other factors.

To illustrate the uncertainty of its projections, CBO examined how varying its estimates of four factors—future mortality rates, productivity growth, interest rates on federal debt, and federal spending on Medicare and Medicaid—would affect the projections in a version of the extended baseline that included the macroeconomic effects of fiscal policies on the budget. In that version of the extended baseline, CBO's central estimate is that federal debt will equal 107 percent of GDP in 2040. The degree of variation in the four factors was based on their past variation as well as on possible future developments. For instance, during recent 25-year periods, beginning in the 1950–1974 period and ending in the 1990–2014 period, the average growth rate of total factor productivity—the average real output per unit of combined capital and labor—varied by about 1 percentage point. CBO therefore projected economic and budgetary outcomes if total factor productivity grew by 0.8 percent per year or by 1.8 percent per year over the next 25 years—that is, 0.5 percentage points more slowly or more quickly than the 1.3 percent projected for the extended baseline. The estimates show the following:

- In cases in which CBO varied only one of the four factors, federal debt held by the public after 25 years ranged from 18 percent of GDP below the agency's central estimate to 23 percent above it.
- In a case in which all four factors varied simultaneously in a way that raised projected deficits, but varied only 60 percent as much as in the individual cases just mentioned, federal debt after 25 years was projected to be about 37 percent of GDP higher than the agency's central estimate. Conversely, in a case in which all four factors varied in a way that lowered deficits but, again, by only 60 percent as much as in the individual cases, debt after 25 years was projected to be lower than CBO's central estimate by 31 percent of GDP.

Those calculations do not cover the full range of possible outcomes, nor do they address other sources of uncertainty in the budget projections, such as the risk of an economic depression or major war or the possibility of unexpected changes in birthrates, immigration, or labor force participation. Nonetheless, they show that the main implication of *The 2015 Long-Term Budget Outlook* applies under a wide range of possible values for some key factors that influence federal spending and revenues. That is, in 25 years, if current law remained generally unchanged, federal debt—which is already high by historical standards—would probably be at least as high as it is today and would most likely be much higher.

## What Choices Do Policymakers Have?

The unsustainable nature of the federal tax and spending policies specified in current law presents lawmakers and the public with difficult choices. Unless substantial changes were made to the major health care programs and Social Security, spending for those programs would equal a much larger percentage of GDP in the future than in the past. Federal spending as a whole would rise rapidly—even though, under current law, spending for all other federal benefits and services would make up a smaller percentage of GDP by 2025 than at any point in more than 70 years. Federal revenues would also represent a larger percentage of GDP in the future than they have, on average, in the past few decades. Even so, spending would soon start to exceed revenues by increasing amounts relative to GDP, generating rising budget deficits. As a result, federal debt held by the public would grow faster than the economy, starting a few years from now. Because debt is already unusually high relative to GDP, further sustained increases could be especially harmful to economic growth.

To put the federal budget on a sustainable path for the long term, lawmakers would have to make major changes to tax policies, spending policies, or both—by reducing spending for large benefit programs below the projected amounts, letting revenues rise more than they would under current law, or adopting some combination of those approaches. The size of such changes would depend on the amount of federal debt that lawmakers considered appropriate.

For instance, if lawmakers set a goal for 2040 of reducing debt held by the public to the average percentage of GDP seen over the past 50 years (38 percent), one approach would be to increase revenues and cut noninterest spending, relative to current law, by a total of 2.6 percent of GDP in each year beginning in 2016. That would come to about $480 billion, or $1,450 per person, in 2016 (see Figure 1).[6] Many combinations of policies could be adopted to meet that goal, including the following:

- At one end of the spectrum, lawmakers could choose to reduce deficits solely by increasing revenues. Such a policy would require boosting revenues by 14 percent in each year over the 2016–2040 period relative to the amounts that CBO projects in the extended baseline. For households in the middle fifth of the income distribution in 2016, a 14 percent increase in all types of revenues would raise federal tax payments for that year by about $1,700, on average.
- At the other end of the spectrum, lawmakers could choose to reduce deficits solely by cutting noninterest spending, in which case they would have to make such spending 13 percent lower than projected in the extended baseline in each of the next 25 years. For example, a 13 percent cut would lower initial Social Security benefits by an average of about $2,400 for people in the middle fifth of the lifetime earnings distribution who were born in the 1950s and who claimed benefits at age 65.

Another goal might be to reduce debt in 2040 to its current percentage of GDP—74 percent. Meeting that goal would require increases in revenues and cuts in noninterest spending, relative to current law, totaling 1.1 percent of GDP in each year beginning in 2016.[7] Of course, other goals and other patterns for the timing of savings are possible as well.

In deciding how quickly to carry out policies to put federal debt on a sustainable path—regardless of the chosen goal for debt—lawmakers would face difficult trade-offs:

- The sooner significant deficit reduction was implemented, the smaller the government's accumulated debt would be; the smaller the policy changes would need to be to achieve the chosen goal; and the less uncertainty there would be about what policies might be adopted. However, precipitous spending cuts or tax increases would give people little time to plan and adjust to those policy changes, and the changes would weaken the economic expansion during the next two years or so—a period when the Federal Reserve would have little ability to lower short-term interest rates to boost the economy.

6. The estimated size of those policy changes does not account for the macroeconomic effects either of the particular policies that might be changed or of the reduction in debt.

7. The estimated size of those policy changes does not account for the macroeconomic effects of the particular policies that might be changed.

**Figure 1.**

**The Size of Policy Changes Needed Over 25 Years to Make Federal Debt Meet Two Possible Goals in 2040**

If Lawmakers Aimed for . . .

**Debt** in 2040 to Equal Its 50-Year Average of **38%** of GDP . . .

**Debt** in 2040 to Equal Its Current Level of **74%** of GDP . . .

How Much Would They Need to Increase Revenues or Reduce Noninterest Spending per Year?

**2.6%** of GDP, which is equal to a **14%** ↑ Increase in **Revenues** or **13%** ↓ Cut in **Spending**

**1.1%** of GDP, which is equal to a **6%** ↑ Increase in **Revenues** or **5½%** ↓ Cut in **Spending**

What Would That Increase in Revenues or Reduction in Noninterest Spending Amount to in 2016?

**$480 billion**, which is equal to **$1,450** per person

**$210 billion**, which is equal to **$650** per person

What If the Changes Were Increases (of Equal Percentage) in All Types of Revenues?

+$1,700

One effect in 2016 is that, on average, **taxes on households** would be higher than under current law.

+$750

Values are for households in the middle fifth of the income distribution. Those taxes are projected to be $12,300 under current law.

What If the Changes Were Cuts (of Equal Percentage) in All Types of Noninterest Spending?

-$2,400

One effect is that **initial Social Security benefits** would be lower than under current law.

-$1,050

Values are averages for people in the middle fifth of the lifetime earnings distribution who were born in the 1950s and who would claim benefits at age 65. Those benefits are projected to be $18,650 (in 2016 dollars) under current law.

Source: Congressional Budget Office.

Notes: The values shown in this figure are relative to CBO's extended baseline. The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2025 and then extending the baseline concept for the rest of the long-term projection period. The sizes of the policy changes do not account for the macroeconomic feedback of the policies that might be used to achieve the goals or, in the case of the goal to reduce debt to 38 percent of GDP, of the reduction in debt.

GDP = gross domestic product.

- Spending cuts or tax increases that were implemented several years from now would have a smaller negative effect on output and employment in the short term. However, waiting for some time before reducing spending or increasing taxes would result in a greater accumulation of debt, which would represent a greater drag on output and income in the long term and increase the size of the policy changes needed to reach the chosen target for debt.

CBO has estimated how much a delay in deficit reduction would increase the size of the policy changes needed to achieve a chosen goal for debt. If the goal was to reduce debt to its 50-year historical average by 2040, but lawmakers waited to implement new policies until 2021, the combination of increases in revenues and reductions in noninterest spending over the 2021–2040 period would need to equal 3.2 percent of GDP—0.6 percentage points more than if policy changes took effect in 2016. If lawmakers chose the same goal but postponed taking action until 2026, the necessary policy changes over the 2026–2040 period would amount to 4.2 percent of GDP.

Even if policy changes that shrank deficits in the long term were not implemented for several years, making decisions about them sooner rather than later could hold down longer-term interest rates, reduce uncertainty, and enhance businesses' and consumers' confidence. Such decisions could thereby make output and employment higher in the next few years than they would have been otherwise.

This testimony reiterates the summary of *The 2015 Long-Term Budget Outlook*, which is one in a series of reports on the state of the budget and the economy that CBO issues each year. Prepared with guidance from Linda Bilheimer, Wendy Edelberg, Benjamin Page, Julie Topoleski, and David Weiner, the report represents the work of many people at CBO. In accordance with CBO's mandate to provide objective, impartial analysis, neither the report nor this testimony makes recommendations. Both are available on CBO's website, at www.cbo.gov/publication/50250 and www.cbo.gov/publication/50178, respectively.

Keith Hall
Director

Chairman ENZI. Thank you, Dr. Hall.

We will turn to questions. Let me remind the members of the process before we start. Each member will have 5 minutes for questions, beginning with myself and then Senator Sanders. Then following the two of us, we will alternate questions between the Republicans and the minority. All members who were in attendance when the hearing began will be recognized in order of seniority. For those who arrived after the hearing began, you will be on the list in order of arrival. If you are not here when it is your turn, you will be put to the bottom of the list. And when everyone is done, then you will get a chance.

With that, Dr. Hall, thank you for your testimony, and I do have a few questions. Am I correct in my reading of your report that nearly half of health care program costs are expected to come from excess cost growth? It seems to show about one-third of the increase will be due to provisions in Obamacare. I thought the Affordable Care Act was supposed to reduce the growth in health care costs. Did I read your document correctly?

Mr. HALL. Well, that is right, but we have done analysis of repealing the ACA, and we found that doing so would actually increase deficits somewhat over 10 years, and the difference is the savings from repealing coverage provisions if you repealed the ACA would be outweighed by the costs of repealing other provisions, including those that reduced Medicare's payment updates.

Chairman ENZI. Okay. Thank you.

Your report contains estimates of what a delay in addressing our rising debt would cost us if we delay 5 years in taking action and if we delay 10 years. Please review these costs and give us your thoughts on the benefits of taking action now rather than much later.

Mr. HALL. Well, sure. In the example I gave you, we would need—if we started immediately, we would need a drop of—we would need to cut either spending or raise taxes by about 2.6 percent of GDP every year if we started now. If we waited just 5 years, that would go up to 3.2 percent. And if we waited 10 years, that would go up to 4.2 percent. So even with just 5 or 10 years' delay, the policy change would be pretty significantly increased.

Chairman ENZI. Okay. The long-term projections you released give a worse outlook for Social Security, which you kind of covered. In last year projections, it looks that nearly one-quarter of all Federal spending will be devoted to Social Security with increases on the way. Can you review some of the reasons for that worsening outlook?

Mr. HALL. Well, sure. The main big reason, the main reason is the aging population. That is a big contributor. Then, of course, just generally rising health care costs also contribute to that. And that is stuff that has been there for a long time. It has been part of our long-term budget outlook forecast for a long time, so that really has not changed.

Chairman ENZI. The future of your report portrays one where the Federal Government's borrowing requirements would probably depress long-term national savings and income, and that would have a negative effect on the economy's growth rate, again, in the long term. You also indicate that the rapid growth in debt would increase pressure for tax increases and reduce the ability to respond to domestic and international problems, including future financial crisis.

Can you walk us through the likely economic and social costs contained in this future? Specifically, how will this fiscal scenario likely affect the prospects of young people just starting their working lives?

Mr. HALL. Well, sure. One of the aspects of this, of course, is, as you say, the growing debt winds up being a drag on economic growth. But, also, there is the issue of delay. The longer you delay, there really is maybe a generational impact here. The longer you delay fixing this problem, the more you push the cost of fixing the problem back to later and later generations. So I think that is an important consideration here.

In fact, right now we are doing a little work looking at sort of the generational impact of fixing this problem now versus later and to give you some idea of the sort of tradeoffs we have in delaying like that with respect to generations.

Chairman ENZI. Yes, we have watched with Social Security the options that we had in 1998 when I was first here and the options that we have available now.

Your long-term outlook report contained two budget projections, one that you called the "extended baseline projection," which is the current law, and another you called the "extended alternative fiscal scenario," which allows certain programs and policies to continue past their expiration date. I guess you could say that the alternative scenario is one Ronald Reagan has in mind when he suggested there is nothing more permanent than a Government program, and there are 260 programs that have expired. Under the alternative scenario, the deficit is a good deal worse by 2025, and especially 2040.

How much deficit reduction do we have to do over the next several years to avoid higher deficits and bring our debt and deficit levels back to historical averages?

Mr. HALL. Well, to get back to something like historical averages, actually that handout that I gave you gives you an idea of that. The scenario on the left in that handout, where you are aiming for getting debt down to 38 percent of GDP, which is the long-run average, would require a change of either—excuse me, a rise in revenue of either 14 percent or a cut in spending of 13 percent, or some combination of that. So that is pretty significant. And what that amounts to is if you did that every year for 25 years with that as the target, it would cost us about $480 billion, which winds up being about $1,450 per person, which is pretty significant. And, of course, if you wait, that number goes up quite a bit.

Chairman ENZI. Thank you. My time has expired.

Senator Sanders?

Senator SANDERS. Thank you, Mr. Chairman.

Director Hall, thanks in part, I believe, to work of members of this Committee, I see that the CBO has begun to study the impacts that climate change may have on the Federal budget, and this is a welcome development, and I thank you for your interest in that. Your team has begun looking at the impacts of increased hurricane activity and intensity due to climate change, and the results clearly are not good. Even over just the next 10 years, you forecast billions of dollars in extra damages due to the effects of climate change, and that is just over the next 10 years and just from hurricanes.

I suspect that if you added to it the impact of drought in the West and what that means for agricultural output, et cetera, the numbers would be a lot higher than that.

But my question is: Would it be fair to say that climate change is having a very significant impact on the economy and on our deficit? And would you expect these costs to go up as climate changes further and its impacts become worse?

Mr. HALL. Sure. Well, our expertise does not lie actually in climate change and the effects of climate change, so what we have done is we have taken some estimates of some other folks about the effects of climate change on things like the frequency of hurricanes and such. So I cannot tell you what the effects of climate change are going to be, but I can tell you that if we do get an increased number of hurricanes and a number of things like that, it would have a significant—

Senator SANDERS. Well, that is kind of common sense, and, again, if you throw in the impact of drought that we are seeing in the West, I think it is very hard for anybody to not understand that climate change is going to have an impact on all of our lives, and certainly on the budget as well. And I am glad that you are beginning to consider that.

Let me ask you another question. I think everybody in this room understands that our infrastructure, our roads, bridges, water systems, wastewater plants, rail are crumbling. The IMF tells us that investing in infrastructure would grow the economy without increasing our debt burden, especially when interest rates are as low as they are today. Other economists have made similar conclusions.

In your view, would it grow the economy and help the budget if we invested more in infrastructure?

Mr. HALL. Well, we have not done the sort of analysis about the actual investment, what levels, and then, of course, what effect it would have on the debt, because that would have sort of the opposite effect. But certainly if we do a dynamic analysis, look at the macroeconomic effects, investment in certain things would, in fact, have a positive effect outside of what the cost would be.

Senator SANDERS. Right, and is it fair to say that we are spending less on construction, on infrastructure construction at the Federal, State, and local level, which is just 1.5 percent of GDP combined, than we have in decades? Bottom line is we are spending substantially less in rebuilding our infrastructure than we have in the past. Is that a fair statement?

Mr. HALL. Yeah, I am not sure of the exact numbers, but I do think that is right. And let me say that the scenario that we went through, Federal spending on anything except Social Security and health care and those things goes down to very low levels over the next 25 years. So that is part of this story.

Senator SANDERS. Thank you.

There was a report that came out from the Center for American Progress last year which made a very interesting observation when we talk about Social Security, and that is, the impact of income inequality on Social Security. And what they pointed out is that because wages were stagnant and we had more inequality so that more people were above the cap, which is now $118,000, their point was that if we had maintained the same level of income inequality back in 1983, Social Security would have $1.1 trillion more in the trust fund and would be solvent for another 20 years.

Am I right in saying that income inequality not only is a problem unto itself but has impacted the solvency of Social Security?

Mr. HALL. Yeah, the part where it particularly impacts what we are doing here is that the income inequality, because its growth in income above the taxable maximum, that has affected our forecast, and that is part of our forecast that this is—this issue does reduce revenues for Social Security and does create more of a problem.

Senator SANDERS. And the other half of that is that if incomes for somebody making $50,000 do not go up, they are contributing less into the fund as well. True?

Mr. HALL. That is right.

Senator SANDERS. Okay. Thank you very much.

Chairman ENZI. Senator Grassley.

Senator GRASSLEY. Welcome to your new job.

Question number one: Some individuals in recent months—and I will not name those individuals—and some people have been saying this for years that we have declared our debt problem solved. Looking at CBO's long-term outlook, it is clear that that is nowhere near the case, so I hope you will give me a short answer. Is there anything to suggest that we are currently on a sustainable fiscal path?

Mr. HALL. I think it is safe to say that we are on an unsustainable path right now.

Senator GRASSLEY. Okay. Questions number two: When it comes to making difficult fiscal decisions, we hear a lot about economic harm done to this population or that population, depending upon whatever fiscal austerity you are talking about. However, I believe the debt burden that we are placing on our children and grandchildren and the negative economic impact that debt burden will have is a great moral tragedy that gets little attention. In other words, we tend to talk economics in this town, and there is a moral aspect of it.

Can you talk about the economic harm that we are causing to future generations by ignoring the long-term debt situation? And let me quickly follow that up: Are we jeopardizing economic opportunities for future generations by ignoring long-term debt burden?

Mr. HALL. Well, one of the things that is clear in our analysis is that the growing long-term debt is a drag on economic growth. So we do actually have—it actually really is a serious issue here in terms of economic growth and incomes going forward, and then, of course, just the debt service itself. Right now we are paying about 1.3 percent of GDP just paying for the debt with interest payments. In 25 years, at our current pace that is going to go up to 4.3 percent, which is a very high level. And so this is going to be an issue going forward.

And let me also say one thing, too. Our little scenario here that takes us out 25 years, one of the big problems is not where we get to then, but it is also we are on a trajectory for worse numbers. And that is going to play in here in terms of future generations.

Senator GRASSLEY. Okay. To harm future generations.

Mr. HALL. That is right.

Senator GRASSLEY. Okay. Question number three: Much of the growth in spending between now and 2040 is due to major health care programs. Non-interest spending as a percentage of the economy actually decreases. Social Security increases somewhat. Net interest costs will triple. But the real driver is health care—and if I am wrong on that, you can correct me—which has averaged 2.5 percent of the economy and will grow to 8 percent by 2040.

If Congress were to attempt to increase revenues to meet the higher level of spending, do you have an estimate of the amount of revenue that we need to collect as a percentage of the economy?

Mr. HALL. Well, the major health care programs, at the rate we are going they are going to—the cost is going to increase about 8 percent of GDP by 25 years. I do not actually have a raw number on that, but that is a pretty significant number. That is a very large number.

I think right now at the moment, individual income taxes are about 8 percent of GDP, so you get 25 years out from now, that 8 percent is going to be going to major health care programs.

Senator GRASSLEY. Okay. We have averaged around 17.5 percent of GDP on taxes. What level of revenue would be necessary—well, you talked about the income tax, so you have answered that question at 8 percent, right?

Mr. HALL. Right.

Senator GRASSLEY. But I would like to follow up. What impact would that have on the economy and economic growth?

Mr. HALL. Of an increase in revenues to cover that?

Senator GRASSLEY. Yes.

Mr. HALL. Well, I can tell you right now in our scenario, because we are looking at current law, the tax rates actually are going up in our scenario, so we actually do have an increase in tax revenue. We go up from about 17.7 to about 19.4.

When we did our alternate scenario and we did not raise taxes, and we also kept spending at a flatter level, we got ourselves into a much worse situation where about 175 percent of GDP is in debt versus our forecast now of about 107. So that is a really significant number, and we are talking about, gosh, I guess the difference is—like I say, it is about 8 percent of GDP, so that is going to have an impact on economic growth probably more than we have got in our current scenario.

Senator GRASSLEY. Thank you very much.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Mr. Chairman. Thank you, Dr. Hall, for being here.

Could I ask that you run your projection changing one variable? In the projection that you have presented to us, you presume an increase of health care expenditure as a proportion of GDP from 16 percent to 25 percent?

Mr. HALL. I am just looking here to sort of see what we have got. On the major health care programs?

Senator WHITEHOUSE. Yes.

Mr. HALL. I think that is right. I do not have the number in front of me.

Senator WHITEHOUSE. Just for modeling purposes, could you let me know what would happen if over the forecasted period we were able to keep that flat at 16 percent? And could you let me know what would happen if that 16 percent could actually be reduced to the level of the least efficient OECD country that we compete with, which is around 12 percent? You could use 12 percent as a proxy or you could use the least efficient OECD number. I think that is a pretty easy run to make, and for the record, I would like to ask that question, if I may. Thank you.

Senator WHITEHOUSE. Second, thank you for addressing the climate change issue. You point out that hurricane damage is expected to increase over time because climate change is projected to lead to rising sea levels, which will tend to increase damage from storm surges when hurricanes occur. It goes without saying, does it not, that that damage will be experienced primarily by the coastal States?

Mr. HALL. That is right. If hurricane frequency went up, that is right.

Senator WHITEHOUSE. So coastal States like Rhode Island would take the hit.

Mr. HALL. I believe that is right.

Senator WHITEHOUSE. And when you say that climate change may increase the occurrence of the most intense storms in the North Atlantic Basin leading to more damage in the United States, again, that damage would fall on the coastal Atlantic States, correct?

Mr. HALL. Yes, let me just be clear, because it is not our expertise. We do not estimate that climate change will have these effects. What we are looking at is we are looking at the—that if these effects occur, what would be the economic impact?

Senator WHITEHOUSE. No, you are—

Mr. HALL. The answer is yes.

Senator WHITEHOUSE. —reflecting conclusions—

Mr. HALL. Reflecting somebody else's—

Senator WHITEHOUSE. —of people who know what they are talking about that these will be the effects. If they were not realistic effects, you would not have bothered to model them, would you?

Mr. HALL. Well, I do not know how realistic they are. I am just trying to be fair here, that that it is not our work—

Senator WHITEHOUSE. Are there any other scenarios that you model in here that you have no opinion as to whether they are realistic or not? Do you just flagrantly pick topics to model without any realistic basis for the concern?

Mr. HALL. No, these were estimates—these were legitimate estimates.

Senator WHITEHOUSE. Very good. Okay.

Mr. HALL. These are not—I am just trying to be clear that that is not our—

Senator WHITEHOUSE. This is not your voice speaking. You are doing the mathematics.

Mr. HALL. That is right.

Senator WHITEHOUSE. Somebody else has decided what the risk is.

Mr. HALL. That is right. So, really, if you think about it, our question was: If this occurs, what would be the economic impact?

Senator WHITEHOUSE. Got it. And the economic impact would fall primarily on Atlantic coastal States like mine.

Mr. HALL. That is right.

Senator WHITEHOUSE. Okay. I would appreciate if at some point—you say you have not undertaken a full analysis of the budgetary costs stemming from climate change because of uncertainties. I think it would be helpful if you could do like a ranging exercise. What is the scope of the risk? Is it zero to a billion dollars a year? Is it zero to $100 billion, over what period of time? If you would consider doing that, I would appreciate it.

Mr. HALL. Okay.

Senator WHITEHOUSE. The last thing that I will mention is that I just cannot help but acknowledge what our Ranking Member has said, and that is that Republican concern about the debt and the deficit seems to vary considerably depending on the program at issue. If it is Pell grants, for instance, then the Ryan budget would love to slaughter them. When it is defense spending and the benefit of defense contracts to big contractors, well, then, my friends happily walk down the OCO path and use funny money to deficit spend. And I think if we are going to address this problem, we need to stop playing favorites and, in particular, we need to stop playing favorites by looking only at spending and not at tax spending. Once again, we have more money, as of 2014, going out the back door of the Tax Code in tax spending than we spend on Social Security, than we spend on Medicare and Medicaid together. It is about twice what defense discretionary spending is. It is more than twice what nondefense discretionary spending is. And there is not a tax loophole that it appears our colleagues are willing to address. Oil companies have never made more money, but can we take away their subsidies? Oh, no. Oh, no, that is way less important—it is more important to protect the subsidy than it is to do anything about the deficit. Similar for carried interest. On and on and on and on and on.

The Tax Code is rigged and riddled with this nonsense, and at some point I think we really have to look at that. And with that, I will yield.

Chairman ENZI. Senator Sessions.

Senator SESSIONS. Thank you, Mr. Chairman. I appreciate the hearing.

I would note with regard to global warming, we have had a rather dramatic decline in hurricane activity in the United States over the last decade. I live on the gulf coast. I saw Frederic and Katrina that impacted my area, and it has been remarkable. So the projections of tornadoes and hurricanes have been much higher than have occurred, and it raises some doubt about that, and also other—we know that the temperature increase did not occur as projected. So it is okay to do those studies, and I appreciate you doing that, but I think that is important to acknowledge.

And with regard to income inequality, I am concerned, and the real concern is we have not had enough growth in working people's salaries. It is not so much inequality. We need more growth in the incomes of people who go to work every day. And I am concerned about that.

Dr. Hall, with regard to the potential possible fiscal crisis that might occur, would you say that the risk of that increases with the increase in debt and that the severity of it and the ability of the country to work its way out of any crisis is more difficult with a high debt hanging over our heads?

Mr. HALL. Well, that is absolutely right. Not only is it a drag on growth in incomes, but it does create an increased risk of another crisis, another recession or something that would have considerable harm.

Senator SESSIONS. I would like to talk about the growth in income and growth in the economy. Our good economist Mr. Beach has done some research over the last several years, and I would just like to ask a few questions about it, because if this is correct—and I believe it is— then we need to have an additional intensity of interest in stopping the increase in debt.

The International Monetary Fund published a report in June of 2015 that finds a strong correlation between high and growing debt levels and reductions in economic growth. The IMF concluded, "Higher public debt leads to lower investment, slower transitional growth or recovery from a recession, and a lower long-term level of output. Debt is bad for growth."

Do you agree with that?

Mr. HALL. I do.

Senator SESSIONS. Also, Rogoff and Reinhart—Mr. Rogoff has testified before this Committee, and Dr. Reinhart has, too. They found a distinct tendency for slower economic growth once total or gross debt approached and exceeded an amount equal to about 90 percent of GDP. So we are at 74 percent gross debt, public debt today?

Mr. HALL. That is correct.

Senator SESSIONS. And for developed economies, they found, "Gross debt in excess of 90 percent of GDP has typically been associated with mean growth of 1.7 percent versus 3.7 percent growth when debt is low, under 30 percent." Do you think that is a valid concern? Would you be in general support of that analysis?

Mr. HALL. Yeah, I do not know what the consensus is on that work, but that certainly seems like reasonable work, and I do support the idea that higher debt slows economic growth.

Senator SESSIONS. And they went on to find that the drag on economic growth increases as the debt grew greater. And the economist at the Bank of International Settlements observed, "Our results support the view that beyond a certain level, debt is bad for growth. For government debt, the number is about 85 percent of GDP." Is that consistent with your concerns about debt?

Mr. HALL. That is right. I do not have sort of a magic number in mind about how big it gets before it is too large, but there is a "too large" there somewhere.

Senator SESSIONS. Well, the International Monetary Fund also found a connection between growing debt and slowing economic activity, finding, "On average, a 10- percentage-point increase in the initial debt-to-GDP ratio is associated with a slowdown in annual real per capita GDP growth of around 0.2 percentage points per year, with the impact being smaller on advanced economies."

Is that also consistent with the concerns of debt and slow growth?

Mr. HALL. Yes.

Senator SESSIONS. And the European Central Bank found that high debt slows the economy: "For high debt-to-GDP ratios above 95 percent, additional debt has a negative impact on economic activity."

So if our concern is to help the American people do better and to deal with our debt crisis that we face, aren't these studies consistent with the idea that we have got to confront the debt path we are on?

Mr. HALL. Yes, and that is one of our messages for today, that we are on an unsustainable path at the moment.

Senator SESSIONS. Thank you, Mr. Chairman.

Chairman ENZI. Senator Warner?

Senator WARNER. Thank you, Mr. Chairman. And, Dr. Hall, thank you for your very good work.

Mr. Chairman, I have enormous respect for you and your background as an accountant. I do have to say, as somebody, like Senator Corker and Senator Perdue, who spent a whole lot of time in business, I could not imagine any of us using an OCO account, financial finagling that would pass any kind of FASB muster. And, again, let me acknowledge both sides have used it, but the sooner we get rid of these gimmicks the better.

I also, Mr. Chairman, really appreciate the fact that you quoted Admiral Mullen about the challenge of the debt. I agree with Senator Sessions' and Dr. Hall's comments. I would simply—I think we need to make sure the record includes all of Admiral Mullen's statement: "No partisan ideology is worth the cost to our Nation." Then it goes on further to say: "So as eventually to bring the budget into balance, this framework must include tax reforms to raise more revenue, encourage growth, and enhance progressivity." So I hope the record will reflect all of Admiral Mullen's comments.

I would also like to make sure—Dr. Hall, I know that this is not in your report, and I think your slides are quite good. A couple of comments.

One, you probably have seen some of the things that we

look at in the Finance Committee on our tax structures. You may not have this knowledge at your fingertips, but I would like to insert into the record that actually America, in terms of the 40 top OECD nations in terms of total revenue raised, is 37th. I think Korea and Turkey raise a little less revenue. So countries like Singapore and others that we say have growth patterns, you know, actually raise more revenues. They do it with a more efficient system. I would be the first to grant you that. But would you contradict—I mean, because I have got a couple other comments, but do you have any reference to kind of how we rank vis-a-vis the rest of the world?

Mr. HALL. I do not.

Senator WARNER. Well, I will get that for you.

One of the things I also really appreciate you pointing out was, you know, oftentimes our colleagues sometimes on the other side of the aisle cite historic revenue run rates of about 17.4 percent, which you show their average, 65 in 2014. I think it is helpful to note that we have never balanced the budget on that revenue run rate—with the exception, I would add, of the late 1990s when our revenue run rate—and I know CBO has changed the analysis—was closer to about 19.5 percent. Is that correct?

Mr. HALL. Yes.

Senator WARNER. Thank you, sir. So, you know, obviously we do have to bring down our spend, and there are a group of us on this side of the aisle that have taken some heat for laying out ways to rein in our entitlement costs. But I have not seen any realistic passed at least my smell test approach that does not include some increase in revenues. We can debate about how we get them. I do not think they can come from magic growth alone or simply cutting taxes to gain more revenues. I think those theories have been debunked in the past. But I think you have really laid out some great data for us to go through.

One of the things I have tried to urge my colleagues to look at, you know, our deficit on an annual basis is really much higher, I would argue, than is reflected, although I am not sure $450 billion in the hole would be something to celebrate on the private sector side, because of, one, extraordinarily low interest rates; two, one-time payments from the Fed that last year averaged about $90 billion and had been for some time; and, three, an issue that Senator Corker and I have spent a lot of time working on, the extraordinarily kind of, again, one-time or couple-year profits from Fannie and Freddie. Is that accurate to reflect? If you took those—if you took traditional interest rates and got rid of the Fed payments and the Fannie and Freddie payments, our deficits, do you want to estimate how they would look?

Mr. HALL. It would look much worse, and one of the things that we have done is look at different interest rate tracks in the future. That has a really big impact on the accumulation of debt going forward. If we do not get a rise in—sorry, if we get too large a rise in—

Senator WARNER. Right. I have seen a number—you may not have it at your fingertips—that a 100-basis-point increase in interest rates adds $120 billion a year on an annual basis in debt payments.

Mr. HALL. Yeah, I do not know.

Senator WARNER. That I can point to my colleagues is much larger than the Department of Homeland Security spending alone. So I guess—and one other item I am working Senator Isakson on an issue—and I think, again, there is a lot of bipartisan interest on this—on chronic care. The remarkable thing is that 32 percent of our Medicare fee-for-service population which have only zero or one chronic condition only account for 7 percent of Medicare spending; the 14 percent that have more than six chronic care issues account for about half our Medicare spending, something that we hopefully can find some commonality on.

So, Mr. Chairman, I appreciate this. I look forward to working with you and everybody else, and I will be willing to take on the entitlement issue. But we cannot get there without additional revenues.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Corker?

Senator CORKER. Thank you, Mr. Chairman. And, Dr. Hall, thank you again for your service. You did not, I do not think, answer the question that Chairman Enzi asked in the way he wanted you to answer it on the ACA thing, but could you just spend maybe 30 seconds talking about why deficits would increase if ACA was repealed.

Mr. HALL. Well, sure. Our analysis has been that the other provisions in ACA, those that reduce Medicare's payment updates, that that outweighs the spending on coverage provisions. But it is absolutely true, though, that our estimate of that depends—the fact that it really depends upon reducing Medicare's payment updates. So that is a big part of uncertainty, I think, in our estimate of the impact of the ACA.

Senator CORKER. And Congress' likely inability to keep those in place, is that what you are saying?

Mr. HALL. Well, I think it is just what sort of experience we are going to have going from. Will, in fact, those reduced payments materialize?

Senator CORKER. The question came up earlier about the Highway Trust Fund, and you mentioned that investment in infrastructure certainly creates growth in the economy.

Mr. HALL. Right.

Senator CORKER. But it depends on how you actually pay for that, I think is your comment. What is the most efficient way—it has been paid for as it is a trust fund, or kind of. It has been a trust fund where a user fee has paid for those expenditures. What is the best way for us— you know, it is the ultimate malpractice that we have continued to deal with the Highway Trust Fund the way that we have. What would be the very best way to fund that in a manner that does not slow the economy or has the least negative impact?

Mr. HALL. You know, I am not sure I can tell you that. I am not sure I know enough about it to tell you that. I think I can maybe get back to you. I think we have done a little work on some of the Highway Trust Fund.

Senator CORKER. That would be good. It would be very helpful. I think we are actually beginning to look at that right now. I think it obviously expires here in the next 6 weeks, and so it is the beginning time for us to look at it, unfortunately.

Senator CORKER. Let me ask you this: The growth in incomes issue, the inequality component of that, are you aware of policies that Congress has put in place that have exacerbated that? Or is it something to do with just the way society is and technology and the ability to make things happen so much more quickly than in the past and those with resources are able to multiple those resources even more rapidly? Or is it things that we have actually done here that have created that disparity?

Mr. HALL. I think there is not really—there is not consensus among economists as to why the income inequality has been growing and continues to grow like it has. In fact, that was a challenge I thought for us in our forecast, because we simply forecast that the income inequality was going to continue in the same path it has been. But I do not know that we really understand what has been causing that.

Senator CORKER. Would that be something that your area should look at?

Mr. HALL. Yeah, we can look at that. I think—yeah, we can get back with you. I can give you some idea what we have looked at with that.

Senator CORKER. I mean, I do not think there is any question there is a serious amount of income disparity, and I think, you know, folks like Senator Perdue and myself and Senator Warner and others, you know, we do have the ability, when we are not serving in the Senate, you know, to increase incomes, and I do find a lot of people in the middle-income area no doubt are having significant struggles, and I think it would be really good for you guys to look at, you know, why that is taking place and are there policies that we are putting in place that are making that more difficult? Or is this just some kind of macro societal change that is occurring? I think that would be very helpful to us.

There is no question you have mentioned that increased taxes slow growth, so you have to be very careful when you deal with that issue, and that increased debt—obviously, debt burdens lower the standard of living. Would you agree with that?

Mr. HALL. Yes.

Senator CORKER. And I think you would say that at present our Nation is really not prepared for another financial crisis or crisis of any kind. Is that correct?

Mr. HALL. Well, absolutely correct, and I think all you need to do is look at what happened to debt. It almost doubled since 2007 from that crisis, and now if we would have another one, with debt being as high as it is now, we would have real trouble responding to it.

Senator CORKER. And so the alternative scenario that you lay out is really the scenario that is more realistic, is it not, than if you go by law—

Mr. HALL. Right.

Senator CORKER. —obviously we tend to have tax extenders that we extend every year. There are policies that Congress just cannot get away from. And so the alternative scenario is actually the real scenario in all likelihood based on past behavior. Is that correct?

Mr. HALL. Well, yeah, we hate to predict what Congress is going to do, but based on past actions, that seems more realistic.

Senator CORKER. It is likely that Congress will continue to not make difficult decisions. Would you agree?

Mr. HALL. Well, if they do not, this would be the scenario.

Senator CORKER. So, in essence, what you are saying is—and, by the way, let me ask you this: Do you know of anybody here in Congress today or any committee that is actually working to change previous behavior? Are you aware of any policy changes that may be under way to change the alternative scenario?

Mr. HALL. I am not.

Senator CORKER. So if I could, I would just say that I really appreciate your report. It seems to me that where we are is that our Nation is much worse off than your projections are, that there are difficult decisions that are not being made. The longer we put those decisions off, the more difficult they become and the worse off our Nation is. And you are not aware of any effort under way whatsoever in Congress today to deal with this crisis that is brewing. Is that correct?

Mr. HALL. Yeah, I do not want to hold myself up as an expert in what is happening in Congress right now, but—

Senator CORKER. Well, I would not want to either. I am not aware of any, though. So I would just say that we have a lot of work to do. Mr. Chairman, I thank you for the time, and I would say that passing a budget is interesting, but actually enacting policies that put us in a better place is the most important work, and I am unaware of that taking place today.

Thank you.

Chairman ENZI. Senator King.

Senator KING. Thank you, Mr. Chairman. I would begin by acknowledging that debt is a problem and it is a serious problem, and it is only going to get worse. "'My other piece of advice, Copperfield,' said Mr. Micawber...[is that] 'Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.'" Charles Dickens had it right, and we are in that situation today where we have chronically been spending more than we take in.

I think the question is: How do we get out of this situation? And I want to commend you. The graphics and the presentation in your report I think is very good, very clear and helpful.

I think one of the most important points—and it goes to what Senator Corker was just saying—is the sooner we do it, the better. The difficult decisions today will be impossible 10 years from now. That is one of the central realities. Every day that goes by, the difficult decisions become harder and harder to the point where it is almost impossible. So the choices, it seems to me, go from difficult to impossible, and if we do not start acting now— and I believe you have testified to this.

I think it is also your testimony that the deficits are not being driven by what are sort of nondefense and defense discretionary spending, but by health care and demographics. Is that correct?

Mr. HALL. That is right.

Senator KING. It is Social Security, Medicare, Medicaid, health care. That is what is driving the deficit. And, in fact, discretionary spending is actually declining somewhat significantly in terms of a share of GDP.

Mr. HALL. That is right, under current law.

Senator KING. And they are, in fact, headed for historic lows, as I recall, the lowest in something like 70 years for both defense and nondefense.

Mr. HALL. That is right.

Senator KING. So that gets me to the point that targeting our budget-balancing efforts on discretionary spending, whether it is defense or nondefense, is really missing the big picture, which is health care and entitlement programs.

Mr. HALL. Well, certainly those are the things that are creating the problem. You know, it is up to you to decide how they are going to contribute to the solution.

Senator KING. But the salient point you just made is those are the things that are creating the problem.

The truth is, if you carry the projections out far enough, those nondefense—I am sorry, nondiscretionary expenditures plus interest rates essentially will drive everything else down to—it could be nothing or certainly much lower. I mean, that is what is happening, correct?

Mr. HALL. Yes.

Senator KING. The X factor in all of this, it seems to me, is growth, and the question is: How do we—all of these problems would go away, we would not be having this hearing if we were growing at 4 percent a year instead of 1.8 or 2.1. The question is: How do we get there? And I am not being argumentative or partisan here. I am being genuinely curious, and perhaps you would want to take this question for the record.

It is an article of faith around here that tax cuts stimulate growth and that tax increases drive growth down. I am interested, is there any economic literature that substantiates that sort of article of faith?

Mr. HALL. Well, yes, when, for example, we do our macroeconomic effects and we look at the effects of taxes, we are basing that on research and estimates of the likely effect.

Senator KING. And it shows a direct correlation between reductions in taxes and economic growth?

Mr. HALL. That is right. But just to be fair, we are also talking about literature that shows the effect of Government spending, particularly investment side spending that actually can increase productivity and raise growth as well. So it is—

Senator KING. Well, you anticipated my next point, because I would argue that the two most successful economic development projects, if you will, over the last 50 years are the Interstate Highway System and the GI bill after World War II, both of which were expenditures. They were investments. So you have got to have both of those. It seems to me you have to look at both sides of the ledger if you are talking about stimulating economic growth.

Mr. HALL. Right, and let me just say our biggest challenge in economic growth is not—is really from demographics. That is actually part of the aging population issue. And when you look at our GDP growth forecast, that is in large part due to the aging population.

Senator KING. Is there any data on—I mean, Senator Sanders made a strong point about income inequality, and you cannot argue that it has happened. The question is: What is the impact? Is there any data on the actual impact of growing income inequality in terms of economic growth?

Mr. HALL. You know, there is some recent research looking at that. I do not think there is a consensus on that yet. And I do not know how that research is holding up in terms of additional work on that.

Senator KING. I will submit a question for the record on that.

Mr. HALL. Okay.

Senator KING. Because, clearly, if the middle class has more money to spend, that is economic—and Henry Ford figured that out 100 years ago when he doubled his workers' salaries so they could buy his cars. I mean, if the middle class has more money in a consumer-driven economy—70 percent of our economy is driven by consumer spending—it just seems to me logical that more money for the middle class equals greater economic growth. But I would appreciate getting your reaction for the record.

Senator KING. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Perdue?

Senator PERDUE. Thank you, Mr. Chairman. And, Dr. Hall, it is good to see you again.

I for one am excited that you are in your new role. You and I are taking on our responsibilities at a similar time, and I look forward to working with you. I have got several questions relating to this debt and the long-term forecast that you are working on. And I really would look forward to working with you on that because I think getting accurate information in this town is really hard. Getting objective information is even harder.

There are divergent views on where we are, how we got here, and what we need to do. To me it is very simple. I just think that this debt crisis already is past the tipping point in several areas.

First of all, I would like to qualify—or quantify, rather, what this debt really is. We talk about the public debt being about $13.5 trillion today. The number I use is about $18 trillion because we have got those interdepartmental numbers in there. And I do want to have some clarification of that, and I really want us to get on the same page, because we are still talking about public debt as the $13.5 trillion. But when you talk about ultimate responsibility, the interdepartment that we borrowed the money from, that is a liability there, too. Social Security has got a problem. If we had a surplus there, I would not be making this comment.

But if interest rates today alone were at their 30-year historical average, if you use the $18 trillion number, now we are approaching $1 trillion in interest alone, either current interest payments or deferred interest payments that go as an accrual. That is unsustainable. It is twice what we spend on our military. That is one issue.

The second tipping point are these future unfunded liabilities, driven, as we have said, by Social Security, Medicare, pension benefits for Federal employees, and the interest on the debt. It is a self-fulfilling prophecy. If we do not solve it today, it is not going to get solved in the future.

But then I think the third tipping point is Social Security and Medicare. Not only is a long-term debt crisis, we have a program that right now we will not be able to meet the commitments that we have been making over the last 100 years, and that is a critical crisis, in my mind.

I just want to point out I think there is a lot of, you know, partisan opinion and comment on this Committee and so forth, and that is all well and good. There is also a lot of nonpartisan—not bipartisan—nonpartisan opinion in here. Senator Warner made several comments. Even the Ranking Member and I agree on some things. There is no argument about the growth in income inequality. I know Senator Kaine and I and Senator King and I have talked several times about there are things that we agree on. There are obviously things we disagree on, but one of the things I am putting in the record right now is that there are no innocent parties up here, Mr. Chairman. And, Dr. Hall, I for one, I want you to hear me say that. This is not about how we got here. But I think it is informative because to determine where we go, we have to look at the mistakes we made in getting here.

First of all, the Social Security and Medicare are major commitments that we made. We have known since 1949 or somewhere in that period of time that we had a baby boom coming. But we had comments even in the 1960s made, "Well, we know that is coming. We will deal with that in the future."

If you look at the last 100 years, we have had three political super majorities. The first gave us the New Deal; the second gave us the Great Society; and the third has given us Obamacare and Dodd-Frank. And I would argue that a lot of this fiscal catastrophe that we have right now, Mr. Chairman, can be laid at the feet of those three super majorities.

Now, the Ranking Member is accurate in saying that in 2000 we had $6 trillion of public debt. That compares to the $18 trillion. That is all debt, private and—or public debt and the interdepartmental debt, $6 trillion. At the end of the Bush administration, 2008, we had $10 trillion. So we added $4 trillion pretty much on the back of two wars that were not paid for outside the line items of the budget.

Since then, we have doubled down, and we spent—in the last 6 years, we have spent $21.5 trillion, I think, running the Federal Government. We borrowed $8 trillion of that. Therein lies the problem. We all talk about growth. I have spent my life in difficult situations in the business community dealing with how to work out situations very similar to this—not with numbers this large, I will say. But we never were able to cut our way out, and we were never able to raise prices enough—or raise taxes, in this analogy. We had to grow the business, and that means that we had to become more important to our customers. We had to educate our workforce. We had to grow our workforce.

There are ways that we can do this. It seems to me pretty simple, Mr. Chairman. We have got choices to make, hard choices to make relative to our spending. We need to cut overhead in D.C.—not the programs. I mean, we get accused of wanting to cut programs all the time. I want to cut the overhead here. Delivery of these safety net programs is really critical. We have got to grow the economy. There are simple ways to do that. Lee Kuan Yew talked about the—somebody mentioned the Singapore example earlier. They invested in water; they invested in cheap power; they invested in infrastructure; they invested in educating their workforce. And they created an economic miracle. In all four of those counts today, America is lagging the world, and I am going to come to you and ask for some modeling on what would it look like if we invested in some of those things and actually got results.

But it takes priorities. We have got a lot of spending in Social Security and Medicare right now, and yet both of those trust funds go to zero in the next 15 to 18 years. We have got to change the budget process, Mr. Chairman. I know you and I have talked about that; other members on both sides of the aisle are talking about that. I believe that gimmicks have to be dealt with. We have got to do away with the artificial sense of security that we build up through the budgeting process, through the use of corporation timing shifts, SNRFs, DNRFs. We need to look at these one-time funding issues with the Fed, with Fannie and Freddie. That has already been mentioned today. I will not take time and do that.

But, lastly, I think honestly this crisis has risen to a point that we are so far past getting political oneupsmanship on each other, that this is going to require all of us to make tough decisions about priorities and how do we dig out of this with regard to getting the economy growing.

Let me say one last thing, Mr. Chairman. I know I am over my time, but I think it is important to counter an argument that has been made in here repeatedly, and that is, income inequality is not a Republican-generated issue. There are no innocent parties on this issue. In my mind, one of the largest contributors to income inequality today in the middle class—and I think it is there—is the fact that we have fewer people working as a percentage of our workforce than we have had since 1978. Middle-class net worths are down 19 percent, and in the last 6 years alone, we have allowed 4 million women to fall into poverty.

So if we focused on getting our people back to work, that alone would help us grow this economy. Thank you.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair. This has been a great hearing, and I want to commend Dr. Hall. Your opening page is just a great bit of data. I mean, I think there is so much good data here that we are going to go back and study it. But I will kind of gig you just a little bit.

I think you are already adopting the ways of a Senator or a Member of Congress, because I look at your opening page, and you talk about how we would—if we wanted to stay on an appropriate path, and you can put an asterisk by what is an appropriate path, debt to GDP, how we would get there, and then you talk about, you know, what we would have to do to increase revenue or cut spending—increase revenue or cut spending. And I think we all know the answer is both, and if you did both, then the magnitude of the changes to revenue and spending are a good bit smaller in the percentages under either scenario.

One of the things that I just have found sort of frustrating over 2–1/2 years is an unwillingness to contemplate doing a little bit of both rather than a whole lot of either. And so, you know, one side generally does not want to do anything on the revenue side, and one side generally does not want to do anything on the spending side, especially when it comes to programs that, you know, we would call Medicare, Medicaid, or Social Security.

But if you had a balanced package where you did a little bit of both, where you do tax reform that increases revenue, and when you tackle some of the challenges, especially Medicaid and Medicare, some of these long-term programs driven by health care and demographics, I do not agree—I agree with Senator King on virtually everything. He said if we wait, it goes from difficult to impossible. I do not think it is that difficult. I think the deal has been apparent to anybody who has looked at this for probably 5 years, and if you do some mixture of it and each side has to give a little bit, okay, well, we do not want to do this, but we will—you know, we will concede a little bit if you will concede a little bit. I think it is actually not that hard to do.

You know, we are not a Japan with the debt-to-GDP at 200 percent. It gets bad if we do not touch it for a while. But I think we are in a good place right now to do something. It is just my hope Senator Corker is right. It does not seem like there is real discussions going on now about the solution. I just do not think it is that hard. And the inability thus far to get to it is troubling to me.

I want to ask you about one answer that you gave to Senator King. He has pointed out a long time that, to the extent we have spending challenges, it is not spending generally. It really is—and I think your phrase was "health care and demographics." And even those two are not independent, because a lot of health care is a demographic issue.

I pulled up on my iPhone here—Mr. Chair, I was not just doing e-mails during the hearing; I was really doing research—Time magazine's February cover with the little baby on it: "This baby could live to be 142 years old." A lot of our challenges are not driven because Democrats and Republicans have done horrible things. They are driven because, thank God, we are living longer. It is great. The average life expectancy of a human being on the planet Earth was 30 in 1990, and it was 30 in 2000 B.C. But it has gone from, you know, 30 to nearly 80, and it is growing even more. But the consequence of the good news—and it is good news. We should celebrate the good news. It is a triumph of American ingenuity and global ingenuity in medical care. My kids know all four of their grandparents. I did not know my four grandparents. Two of them had died by the time I was born.

So it is great that we are living longer, but that seems to be the thing that, you know, we can say it is good news, but it really poses these challenges for us.

What assumptions did you make going forward about life expectancy as you were looking at this, at all your projections?

Mr. HALL. Sure. A lot of what we relied on certainly on that one is current trends, trends over the past 50 years, something like that. We do know that that is one of those unknown things, and, in fact, if you look back, we have a chapter on uncertainty. One of the things we do is we vary the mortality rate pretty significantly to see what kind of effect that has on our numbers. That will give you a feel for how much this contributes to it and how much of a budget problem it creates if you have the good news about mortality rates going down.

Senator KAINE. So I would suspect in your answer to the earlier question that Senator Whitehouse asked you about why did you have kind of the medical cost as a percent of GDP going from 16 to 25, it is not just because, you know, a procedure costs more, but you were probably—that is probably affected to some degree by your trend lines about life expectancy and just people living longer, and then more years of actually consuming health care. That is probably one of the reasons you have that going on.

Mr. HALL. It is one of the reasons, but there has been a trend of rising health care costs. That is part of that as well.

Senator KAINE. So you capture both factors in there.

Mr. HALL. Yes.

Senator KAINE. Well, I am going to encourage the Aging Committee that I am on to have a hearing on this longevity stuff because—it was Senator Warner who first pointed this out to me a number of years ago, Mr. Chair. Policymakers do not have their arms around the consequences of growing longevity. And it is a good thing, but everything from how long people should get driver's licenses to what our policy should be about how we pay for programs and the Tax Code, I mean, it is so massive, and we are not really thinking about it. The good news is it is good news. But it puts a burden on our shoulders to be more thoughtful about the policy.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Toomey?

Senator TOOMEY. Thank you, Mr. Chairman. And, Dr. Hall, thanks for joining us. I do want to respond—I wish the Ranking Member were still here for this because he gave an impassioned argument about income inequality, and it is real, and it is something I think we ought to be concerned about. But I think it is necessary to observe that over the last 6 years, certainly, the policies that this Federal Government has pursued have not exactly been at the top of, say, my priority list. We have seen huge tax increases, massive net tax increases, big stimulus spending, huge bailouts, massive deficits and debt, an unprecedented wave of regulation between Obamacare, Dodd-Frank, EPA—really across the economy, the level of regulation is, I think, at an all-time high—a zero interest rate policy.

Our friends on the other side really got all the policies that they wanted when they had the opportunity to get them, and now we are living with the consequences, which include the slowest economic growth after a major recession that we have ever had and rising income inequality. So I think it is worth pointing that out.

We have also had this discussion about how revenue needs to be part of some kind of solution, so I want to talk about that a little bit. Our figures for this year show that revenue is already 17.7 percent of GDP. Is that correct, Dr. Hall?

Mr. HALL. That is right.

Senator TOOMEY. And the historic average, around about 50 years, has been 17.4.

Mr. HALL. Yes.

Senator TOOMEY. Next year it goes to 18.4. And by 2040, it is up, under your projections, to 19.4.

So we are already operating where the amount of money we are taking out of the private sector that the Government is consuming is greater than its historical average, and it is going to get greater and greater still under your projections.

So to suggest that somehow we have to agree to part with more revenue is a little hard to take, because it is already there. We have had a huge tax increase. We are already operating year in and year out—in fact, isn't it true that every single year of your projections, the projected revenue number is above what the historic average has been for the last several decades?

Mr. HALL. I think that is right.

Senator TOOMEY. So, I mean, the way I look at this, this tax increase that my friends on the other side want, they have gotten. It is there. It is in the numbers.

Now let us look at the spending side. Spending this fiscal year is currently about 20.5 percent of GDP, correct?

Mr. HALL. Yes.

Senator TOOMEY. And that, too, is higher than the historical average. Over this roughly comparable period of time, the historical average is about 20.1 percent. So spending is already higher than it has historically been. It rises to 22 percent by 2025 and to 25 percent of GDP by 2040. And we know there are a lot of reasons why, but the reality is if you are looking at historical averages, if you are looking at where we have come from, it seems to me indisputable that the source of the increasing deficits and corresponding debt are the increases in spending. It cannot be—it is not the case that we have less revenue than we had before, right?

Mr. HALL. That is right, although I will say that spending on Social Security and major health care programs are dominating.

Senator TOOMEY. So let us talk about that. So your GDP growth forecasts about 4.3 percent per year over the next 10. That is the nominal growth.

Mr. HALL. Right.

Senator TOOMEY. Three categories of Federal spending— the Social Security program, mandatory health care, and interest on our debt, just those three—they grow at 7 percent per year. And they are projected, just those three, by 2025 to consume 81 percent of all the revenue that you are expecting us to take, which is a record high level of revenue. It goes up to 95—by 2040, these three categories- -Social Security, mandatory health care, and interest—by 2040 consume 95 percent of all the revenue that we are projected to take in, and we are projected to take in more than we used to.

It seems to me—well, let me ask the question this way: Is it fair to say that major Government programs cannot be considered sustainable if they are growing faster than nominal GDP indefinitely?

Mr. HALL. Yeah, that is right.

Senator TOOMEY. Right. And you cannot fix that phenomenon by raising someone's taxes. Taxes do not change that fundamental dynamic, right?

Mr. HALL. Right.

Senator TOOMEY. Then the last thing I want to touch on—well, I am kind of running out of time here, but the last thing I do want to touch on briefly is the reduction that you have made in our economic growth forecasts, because this is a very big deal. Our average historical growth over these same time periods we are talking about is a little over 3 percent, 3.1. Now we are talking about real, not nominal. And your numbers suggest that our potential for growth now is only 2.2 percent. That may sound like a very small difference to people. Nine-tenths of 1 percent, you know, doesn't that sound small? Here is what that adds up to. That means in

2023 we are going to have a $1.5 trillion smaller economy than we would have had based on your forecast—not yours, but CBO's forecast just 2 years ago. that is $4,000 per person less. Is that about right? Does that sound—I know that is a lot of math to do in your head. If it is $4,000 per person, doesn't that mean a significantly lower standard of living for average Americans? I mean, isn't that what we are talking about? Even what might seem nominally to be a small difference in the rate of growth, I guess my point is over time doesn't that end up having a very big impact on the standard of living of ordinary Americans?

Mr. HALL. Yes.

Senator TOOMEY. Thank you.

Thanks, Mr. Chairman.

Chairman ENZI. Thank you.

That concludes our questions. Director Hall, thank you for your testimony today. We appreciate your time here with us and your service to Congress.

I want to remind colleagues that questions for the record are due no later than 6:00 p.m. today, with a hard copy delivered to the Committee clerk in Dirksen 624. Under our rules, Director Hall will have 7 days from receipt of the questions to respond with answers.

With no further business before the Committee—well, before I say that, I am going to mention that one of the questions that I will be submitting will be one that deals with how much revenue increases—because we have talked about revenue increases quite a bit—how much revenue increases will happen with a decrease in the rate of regulation that we are having. Regulations affect a lot of things, and I will have a more properly phrased question, of course, that we will be submitting in writing.

[The questions follow:]

/ COMMITTEE INSERT

Chairman ENZI. With no further business to come before the Committee, the hearing is adjourned.

[Whereupon, at 11:32 a.m., the Committee was adjourned.]

# REFORMING THE FEDERAL BUDGET PROCESS: THE NEED FOR ACTION

**WEDNESDAY, OCTOBER 21, 2015**

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
*Washington, D.C.*

The Committee met, pursuant to notice, at 10:30 a.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Sessions, Crapo, Toomey, Ayotte, Corker, Perdue, Sanders, Murray, Whitehouse, Baldwin, Kaine, and King.

Staff Present: Eric Ueland, Majority Staff Director; and Warren Gunnels, Minority Staff Director.

## OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I call this hearing to order. Good morning, and welcome to the first in a series of hearings this Committee will hold on reforming the Federal budget process. We are meeting here today to discuss America's challenging fiscal future and our outdated budget process that is ill equipped to deal with it.

According to the Congressional Budget Office, Federal spending is set to rise rapidly in the coming decades based solely on growth in a few of the largest Federal programs and debt interest costs. It is an unsustainable course that threatens the solvency of critical programs that serve our most vulnerable citizens. Our balanced budget resolution met this challenge head on, but there has been very little progress since.

The American public knows that Congress is not doing its job, and the institution's approval rating has plummeted as a result. Generally, a well-functioning budget process strengthens democracy by giving citizens a better idea of Government's role and provides them with the knowledge that their tax dollars are being spent wisely. When the process breaks down, so does the people's faith in Government and their elected officials.

Congress and the President have ignored this most basic of governing and have decimated the faith and trust of hardworking Americans who yearn for a Government that is both accountable and effective. That is why budget process reform is critical.

While the nuances of budget law may be overly complicated, the basic elements of a strong budget process are clear: It must encourage regular order, predictability, require legislative review, and provide transparency and accurate information for lawmakers and the public. These elements are critical to ensuring an effective and accountable Government, and our current process has failed on all three fronts.

First and foremost, Congress must be able to do its job and enact its budget and appropriations on time and in a deliberate manner. I have long spoken on the merits of considering bills, amending bills, and passing bills under regular order. It is a process that our constituents demand, and it is one that makes the Senate a healthier institution. This is especially true for the budget and appropriations bills that set our Government's priorities and allocate taxpayers' hard-earned dollars.

Earlier this year, we took the first step by passing a balanced budget that would serve as a fiscal blueprint for lawmakers to authorize and appropriate funding. But, once again, the progress has ground to a halt. Regular order has been increasingly rare in the budget process.

Congress' first job in the annual process is to pass a budget resolution, but Congress has passed budget resolutions in less than half of the last 15 fiscal years. Prior to this year's balanced budget resolution, the last time we passed a 10-year balanced budget was 2001. Once the resolution establishes top-line spending levels, Congress must enact 12 annual spending bills before the start of the next fiscal year.

If you look up on the screen, you will see a chart showing how the appropriations process has functioned since the Budget Act took effect. The bars show the number of appropriations bills enacted on time for each fiscal year. You will see that in the last 40 years, all appropriations bills have been completed on time in only four fiscal years. The red bars show you when at least one appropriations bill was signed into law. But in most years, Congress did not even come close to enacting all the annual spending bills. In 15 of those years, not even one appropriations bill was enacted on time. Instead, since 1977, Congress enacted 173 short-term spending bills—we call them "continuing resolutions"—to prevent a Government shutdown, and the Government operated under a short-term spending bill for an average of 186 days per year. That is over half the year.

The power of the purse is one of the most important constitutional roles of Congress. Its authority to tax and spend must be exercised by the representatives of the people so that Americans can hold Government accountable. The Founders knew that without legislative oversight, the bureaucracy would run amok. Congress, therefore, has a constitutional duty to use its regular deliberative process to exercise the power of the purse and provide constant review, not forfeit that power to the executive branch.

There are many signs of Congress' failure to effectively oversee Government budgets, the most obvious being our unsustainable overspending and explosive debt. Since the Congressional Budget Act was passed 40 years ago, the Federal Government has spent more money than is coming in about 90 percent of the time. And the national debt as a share of the economy has almost tripled.

Duplication, fraud, waste, and spending with no current authority is also rampant across Government. But the Government Accountability Office's annual list of offending programs has yet to force meaningful legislative action. Program authority or congressional committees' review programs for validation, transparency, and measurable goals are often ignored. Last year, the Government spent $293.5 billion on 260 expired programs, according to the Congressional Budget Office. One obvious problem is that the composition of Federal spending has changed dramatically, and the budget has not kept pace.

The chart on the screen shows the share of total Federal spending that falls under the annual appropriations process, which is called "discretionary spending." That is the spending where we actually get to make decisions.

In 1974, when the modern budget process was created, discretionary spending accounted for 60 percent of the budget. Forty years later, discretionary spending has increased dramatically in terms of dollars spent, but it now accounts for just one-third of all spending. We keep making more programs mandatory. That is because permanent or mandatory spending has grown to take its place, as the red line in the chart shows.

Over 40 years, Congress enacted many new programs that spent automatically or mandatorily. Without further congressional action or review, mandatory spending now accounts for two-thirds of the total Federal spending.

Despite the growing share of our budget devoted to mandatory spending, our current budget process still forces Congress to spend the majority of its time each year worrying about annual appropriations that now account for a much smaller portion of Federal spending. While each of the appropriations bills must travel through the normal legislative process each year, mandatory programs continue to spend and grow. Unless Congress musters its political will and decides to vote otherwise, the budget process must change to keep up with the new composition of Federal spending.

Finally, outdated budget rules mean Congress is not even given the accurate information it needs to conduct oversight and make rational budget decisions. The last Government commission to conduct a comprehensive review of Federal budget concepts concluded its work in 1967. That is 50 years ago. As such, many of the rules governing the Federal budget today are outdated and have not kept up with advances in finance, economics, or accounting. Nor have they provided the best tools for controlling spending. This deprives Congress of the most accurate information with which to make budget decisions and determines budget enforcement rules meant to keep Congress honest.

The first step to correcting Government spending and trust deficits is to put in place a process that encourages regular order, increases legislative oversight, and provides accurate information to Congress—all critical ingredients to strengthening our democracy and reducing our Nation's unsustainable spending and debt.

Senator Sanders?

**OPENING STATEMENT OF SENATOR SANDERS**

Senator SANDERS. Mr. Chairman, thank you very much.

Before I get into the thrust of my remarks, let me put your discussion of the financial situation of the Government in a broader context. Obviously, that is a usually important issue, but it has to be put into the context about what is happening in our economy in general. And what is happening in our economy in general is that, for the last 30 years, there has been a massive transfer of wealth from the middle-class and working families of this country—we are talking about many, many trillions of dollars—to the top one-tenth of 1 percent. So when we talk about budget priorities and budget process, we have to look at the broader picture of what is happening in America. We cannot forget that.

So we are living in a situation now where, unbelievably, the top one-tenth of 1 percent now owns almost as much wealth as the bottom 90 percent. We are looking at a situation where one family, the wealthiest family in America, owns more wealth than the bottom 40 percent. We are looking at a situation today where people in the State of Vermont, and I suspect in Wyoming, are working longer hours for lower wages, millions of people working two or three jobs, and yet 58 percent of all new income is going to the top 1 percent.

So to begin this discussion about budget without looking at the reality of what is happening in America, which is that for 40 years the middle class of this country has been disappearing, looking at a country today which has 47 million people living in poverty, looking at a nation which has the highest rate of childhood poverty of almost any major country on Earth, looking at a country which has more income and wealth inequality than any other major country, and worse here today than at any time since 1928—if we do not take those factors into consideration, we are missing, I believe, the most important point. And that takes us to where we are right now.

Just a couple of weeks ago, we started a new fiscal year without eliminating sequestration. I think that was a serious mistake. These arbitrary, across-the-board budget cuts are damaging the economy and are hurting millions of the most vulnerable people in our country, especially the children, the very old, the sick, and the poor. Are those the people we really want to go after at a time when we have massive income and wealth inequality?

Adding insult to injury, we are also less than 2 weeks ago from hitting the debt ceiling. If we do not act by November 3rd, we will default on our bills for the first time in our Nation's history.

Mr. Chairman, you talked about people's faith in Government diminishing. Well, let me tell you something. If the United States Government under Republican leadership in the House and the Senate does not pay its bills, you ain't seen nothing in terms of people's faith in Government diminishing.

Mr. Chairman, let us be clear. Defaulting on our debt would be a disaster. I hope and expect there is not a lot of disagreement on that. It would precipitate a national and international financial crisis. If a default occurs, interest rates will spike for home mortgages, car loans, student loans, and credit cards. Millions of Americans can lose their life savings and pensions. Millions of veterans, senior citizens, our brave men and women in our armed forces, young children who depend on food stamps, and our entire economy would be put at risk.

I hope my Republican colleagues will not allow that to happen and will do what we have done throughout the history of this country: pay our bills.

Mr. Chairman, it would be wrong for my Republican colleagues to attempt to shut down the Government or threaten the full faith and credit of the United States Government, as they have done in the past, because of their dislike of Obamacare or Planned Parenthood or because of their desire to cut Social Security, Medicare, and Medicaid. You have your opinions. That is fine. But you talked about regular order. Fine, let us debate those issues. We have a budget process. Do not shut down the Government because people disagree with what Planned Parenthood does. I think they do a great job. You may not. Do not shut down the Government because of that issue.

I hope everybody in this room would agree that that is wrong. A democratic Government cannot function when a small faction chooses to hold the American people hostage in hopes of cutting programs that, in fact, the vast majority of the people in this country actually support.

I understand that my Republican colleagues are concerned about the deficit, which, by the way—and I think it is important to throw this on the table. Is the deficit today a serious issue? Yes, it is. But let us not forget that that deficit has been reduced by more than two-thirds in the last 6 years—not an inconsequential effort. And when we talk about the deficit and when we talk about an $18.4 trillion national debt, let us not forget—but apparently it is a lesson that some of my Republican colleagues have forgotten—that a lot of this deficit and debt has a lot to do with wars in Iraq and Afghanistan which we have not paid for.

And I do find it always remarkable that many of my Republican colleagues feel we have to cut Medicare and Medicaid and nutrition programs for hungry children. We just have to pay for those things. But apparently when you go to wars, you can put that on the credit card.

The national debt is an issue that all of us are concerned about, but where we disagree is how you address the deficit and the debt. And we feel strongly that from a moral perspective and from an economic perspective, you do not balance the budget on the backs of the elderly, the children, the sick, and the poor. When you have massive income and wealth inequality, you do not balance the budget on the backs of the most vulnerable people in this country.

Today, as I think most people know, major corporation after major corporation pays in a given year zero—nothing—in Federal income taxes. Profitable corporations like GE, Verizon, and Boeing have not only paid nothing in Federal income taxes in a given year, they actually got rebates from the IRS. So maybe we want to take a look at that issue before we cut the WIC program, which provides assistance to low-income pregnant women and their babies.

According to a report from the Congressional Research Service, each and every year profitable corporations are avoiding about $100 billion in taxes by stashing their profits in the Cayman Islands and other offshore tax havens. In 1952, corporations contributed about 32 percent of all Federal revenue; today they contribute about 11 percent— one-third of what they did in 1952.

In terms of individual tax rates, we have a situation where hedge fund managers on Wall Street who make hundreds of millions of dollars a year pay an effective tax rate lower than a truck driver or a nurse. Yet my Republican colleagues have been absolutely determined to make certain that the wealthy and large corporations not contribute one penny more for deficit reduction and that all of the sacrifice comes from the middle-class and working families in terms of cuts to Social Security, Medicare, Medicaid, LIHEAP, community health centers, education, Head Start, nutrition, affordable housing, et cetera, et cetera.

Mr. Chairman, here are just a few examples of what will happen if we do not eliminate sequestration this year.

At a time when real unemployment is over 10 percent, 800,000 fewer jobs will be created; 2 million young Americans, dislocated workers, and veterans will not get the job training they need; 620 community health centers will not open their doors, which would reduce access to primary care for more than 2.6 million Americans; 144,000 young children will not be able to enroll in Head Start; 430,000 Americans will not get the comprehensive family planning and preventative health services they need; and 20,000 veterans will not get the medical care they need through the VA.

Mr. Chairman, I would hope that all of us would agree that this is unacceptable. At a time of massive wealth and income inequality, let us work together on a budget that is fair, that does not go after the most vulnerable in our country. At the very least, I hope we can all agree right now that the United States Government should pay its bills on time, and that we will not allow the U.S. to become a deadbeat Nation.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you, Senator Sanders. I hope I am not oversummarizing by saying that we must need some budget reform and some appropriations reform. But instead of pushing forward for reform, we are kind of mired in negotiations right now over spending that should have been set months ago and will expire in less than a year. So how can—

Senator SANDERS. Well, Mr. Chairman—

Chairman ENZI. —we competently exercise this power of the purse?

Senator SANDERS. Yes, we do need reform, and I think we do need to be involved. But I hope you will agree with me that we should not be shutting down the United States Government because some people dislike Planned Parenthood.

Chairman ENZI. That is an oversummarization of my opinion.

Senator SANDERS. And I was not just focusing on you, but there are people in your party who hold that point of view.

Chairman ENZI. Well, that is a discussion that will be held outside of budget reform, I am sure. And I hope that we can come up with some suggestions for an accurate, transparent, deliberative process that will get us out of this kind of a situation in future years, that will allow us to make those spending things with a lot more looking at the details rather than doing these omnibuses where we do not get to really see or talk about what is in them or make amendments to them in case there are things that offend us, or that we think need to be done differently.

So that is why we have this outstanding panel today, and our first witness is Michael Peterson, who is the president and chief executive officer of the Peter G. Peterson Foundation, an organization dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future and urging action. He oversees the strategic direction of the foundation, guiding policy and shaping its major initiatives, partnerships, and long-term objectives.

Our second witness is very familiar to us, Douglas Holtz-Eakin, the president of the American Action Forum. Dr. Holtz-Eakin has a distinguished record as an academic, policy adviser, and Government administrator. During his career in Government service, Dr. Holtz-Eakin was the sixth Director of the Congressional Budget Office and twice served on the President's Council of Economic Advisers, first as a senior economist and later as the chief economist. A lot of experience there.

Our third witness is Deborah Weinstein, the executive director of the Coalition on Human Needs since 2003. She was previously director of the Family Income Division of the Children's Defense Fund and executive director of the Massachusetts Human Services Coalition, a nonprofit advisory organization made up of human service providers, religious organizations, labor, and advocacy groups.

I want to thank you all for joining us today and to share your expertise on this very important subject, and we will begin with you, Mr. Peterson.

**STATEMENT OF MICHAEL PETERSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PETER G. PETERSON FOUNDATION**

Mr. PETERSON. Thank you. Good morning, Chairman Enzi, Ranking Member Sanders, and members of the Committee. Thank you for the opportunity to appear before you today to discuss how budget process reform can help secure a brighter fiscal and economic future for our Nation.

The Peterson Foundation is a nonpartisan organization. Our mission is to increase awareness and accelerate action on America's long-term fiscal challenges because we believe that our unsustainable fiscal outlook is a serious threat to our future. Our foundation works with policy experts from across the political spectrum to educate and engage Americans and build support for solutions.

Today's hearing is important because the current budget process hinders our ability to address these challenges. While process alone is not responsible for our growing debt, the current Federal budget process keeps policy focused on the short term, reinforces the tendency to go from crisis to crisis, and diverts attention from the key drivers of the budget long term.

Let me begin by providing some context. Current annual deficits are down from $1.4 trillion at the height of the Great Recession to $440 billion today. Even though that is still a large deficit, that is a great improvement.

However, the more significant problem is the trajectory of debt over the long term. The Congressional Budget Office projects that within 25 years, debt held by the public could climb to more than 100 percent of GDP under current law, and to a staggering 175 percent of GDP under less optimistic assumptions. By any definition, the fiscal path we are on is unsustainable and dangerous.

We need a more effective, forward-looking budget process because there are severe consequences of our current fiscal path. Most directly, interest costs will consume a huge amount of the Federal budget. Over the next 10 years alone, CBO projects that interest costs will be more than $5 trillion under current law.

Under CBO's alternative fiscal scenario, interest costs will become the third largest category of the budget in 2023, the second largest category in 2032, and the single largest category by 2040. With our many important budget priorities, none of us wants interest to become the largest Government program.

Higher interest costs would crowd out important public investments that can fuel economic growth. Discretionary spending is already on a path to fall to well below historical averages. And a Nation saddled with debt will have even less to invest in its own future.

In addition, growing Federal debt reduces the amount of private capital for investments, which hurts economic growth and wages.

Furthermore, this fiscal path would lower income levels. CBO projects that our debt will reduce incomes by $6,000 per person in 2040. We are all very concerned about the lack of growth in low and median incomes and the growing disparities in income and wealth. At the very least, the Federal Government should not let its own budget imbalances contribute to these very harmful trends.

In addition, on our current path, we are at greater risk for a fiscal crisis, and it leaves us with much less fiscal flexibility to deal with future economic crises. If we faced another major recession like 2008, we may not be as able to work our way out.

Lastly, and in many ways most importantly, this high level of debt imperils the safety net and the most vulnerable in our society. If our Government does not have the resources and the stability of a sustainable budget, these essential programs, and those who need them most, are put in jeopardy. We cannot let that happen.

The good news is that there are plenty of solutions to choose from. One of the Peterson Foundation's most important projects is the Solutions Initiative, which brings together policy organizations from across the political spectrum to develop long-term fiscal plans.

Experts from five leading think tanks participated: the American Action Forum, led by Dr. Holtz-Eakin; the American Enterprise Institute; the Bipartisan Policy Center; the Center for American Progress; and the Economic Policy Institute. Each of these organizations developed specific, "scoreable" proposals. And I am very proud to report that all of them successfully stabilized the debt as a share of the economy over the long term.

While these very different organizations have a wide range of priorities, their plans demonstrate that comprehensive solutions do exist.

Finally, let me close with a brief discussion of budget process.

While budget process reforms alone cannot solve our fiscal challenges, there are various changes that would better encourage long-term fiscal planning. Let me discuss three key principles for you to consider.

First, look further into the future. The current Congressional budget window looks out only 10 years. We would recommend increasing that to 25 years. If we do not look further out, then there is no meaningful discussion of long-term trends, there is no visible information about long-term effects, and there is no credit given for long- term improvement. This is perhaps the single most important change that would encourage better long-term budgeting.

Secondly, set goals. Requiring Congress and the President to set medium- and long-term fiscal goals, and then report on progress annually, would improve accountability and transparency.

Lastly, improve enforcement. Adding new or strengthening existing enforcement measures would help lawmakers meet budget targets. Of course, measures should be flexible enough to accommodate changing conditions, but they should be strong enough to reinforce the commitment to long-term fiscal sustainability.

In summary, we have a long-term fiscal challenge that could do great damage to our Nation's economy and role in the world. We know the causes, and we know the range of solutions. All it takes is leadership, commitment, honesty, and cooperation. The Peterson Foundation is committed to helping our Nation, and both political parties, to address the challenge successfully.

Thank you for your invitation to participate in this important discussion. I would be happy to answer any questions you may have, and with your permission, Mr. Chairman, I would like to submit this testimony and our Solutions Initiative plans for the record.

[The prepared statement of Mr. Peterson follows:]

Committee on the Budget
United States Senate
Hearing on "Reforming the Federal Budget Process:
The Need for Action"
October 21, 2015

Statement of Michael A. Peterson
President and CEO, Peter G. Peterson Foundation

PETER G. PETERSON FOUNDATION

Good morning Chairman Enzi, Ranking Member Sanders, and members of the Committee.

Thank you for the opportunity to appear before you today to discuss how budget process reform can help secure a brighter fiscal and economic future for our nation.

The Peterson Foundation is a non-partisan organization. Our mission is to increase awareness and accelerate action on America's long-term fiscal challenges, because we believe that our unsustainable fiscal outlook is a serious threat to our future. Our Foundation works with policy experts from across the political spectrum to educate and engage Americans, and build support for solutions.

Today's hearing is important because the current budget process hinders our ability to address these challenges. While process alone is not responsible for our growing debt, the current federal budget process keeps policy focused on the short-term, reinforces the tendency to go from crisis to crisis, and diverts attention from the key drivers of the budget over the long term.

Let me begin by providing some context. Current annual deficits are down from $1.4 trillion at the height of the great recession, to $440 billion today. Even though that's still a large deficit, that's a significant improvement.

The more significant problem is the trajectory of debt over the long term. The Congressional Budget Office projects that within 25 years, debt held by the public could climb to more than 100% of GDP under current law, and to a staggering 175% of GDP under less optimistic assumptions. By any definition, the fiscal path we are on is unsustainable and dangerous.

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Most directly, interest costs will consume a huge amount of the federal budget. Over the next ten years alone, CBO projects that interest costs will be more than $5 trillion under current law. Under CBO's alternative fiscal scenario, interest costs will become the third largest category of the budget in 2023, the second largest category in 2032, and the single largest category by 2040. With our many important budget priorities, none of us wants interest to become the largest government program.

Higher interest costs would crowd out important public investments that can fuel economic growth. Discretionary spending is already on a path to fall to well below historical averages. A nation saddled with debt will have even less to invest in its own future.

In addition, growing federal debt reduces the amount of private capital for investments, which hurts economic growth and wages.

Furthermore, this fiscal path would lower income levels. CBO projects that our debt will reduce incomes by $6,000 per person in 2040. We are all very concerned about the lack of growth in low and median incomes, and the growing disparities in income and wealth. At the very least, the federal government should not let its own budget imbalances contribute to these very harmful trends.

In addition, on our current path, we are at greater risk for a fiscal crisis. And it leaves us with much less fiscal flexibility to deal with future economic crises. If we faced another major recession like 2008, we may not be as able to work our way out.

Lastly, and in many ways most importantly, this high level of debt imperils the safety net and the most vulnerable in our society. If our government does not have the resources and the stability of a sustainable budget, these essential programs, and those who need them most, are put in jeopardy. We can't let that happen.

On the other hand, a strong fiscal outlook is a foundation for a growing, thriving economy. Putting our nation on a sustainable fiscal path creates a positive environment for growth, opportunity and prosperity. With a strong fiscal foundation, the nation will have increased access to capital, more resources for private and public investments in our future, improved consumer and business confidence, and a stronger safety net.

Our long-term debt problem stems from a structural mismatch between spending and revenue. The primary drivers of long-term spending are relatively simple: first, the nearly 80 million Baby Boomers are beginning to retire; second, older Americans are living much longer and therefore will spend more years in retirement; and third, the cost of healthcare in the U.S. is very high and (despite some recent improvements) is still growing faster than the economy. These structural factors are combined with a tax system that is inadequate, broken, and unfair, and fails to generate sufficient revenue to fund these programs. Put these facts together, and it leaves the United States on a dangerous long-term fiscal and economic path.

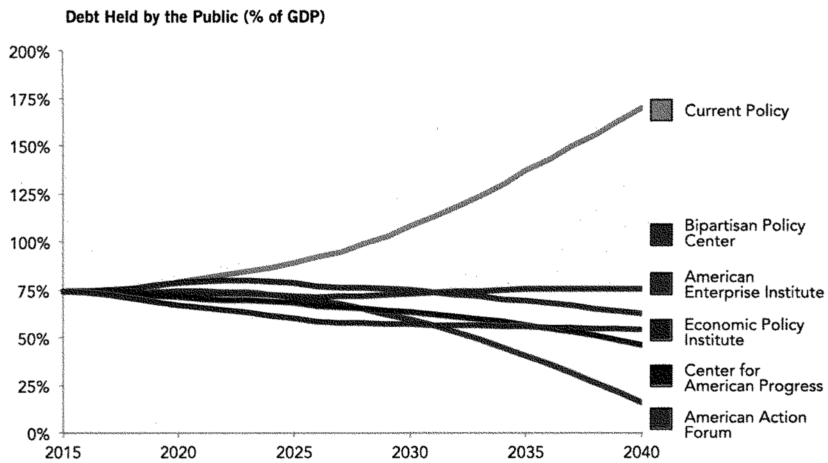
The good news is that there are plenty of solutions to choose from. One of the Peterson Foundation's most important projects is the Solutions Initiative, which brings together policy organizations from across the political spectrum to develop long-term fiscal plans.

Experts from five leading think tanks participated: the American Action Forum, the American Enterprise Institute, the Bipartisan Policy Center, the Center for American Progress, and the Economic Policy Institute. Each of these organizations developed specific, "scoreable" proposals. And I'm very proud to report that all of them successfully stabilized debt as a share of the economy over the long term.

While these very different organizations have a wide range of priorities, their plans demonstrate that comprehensive solutions do exist.

PETER G. PETERSON FOUNDATION

**Solutions do exist: PGPF Solutions Initiative plans from five think tanks show stable or declining federal debt through 2040**




SOURCE: Peter G. Peterson Foundation, *Solutions Initiative III*, May 2015. See pgpf.org/solutions-initiative-iii for more details.
NOTE: Current policy is defined as the alternative fiscal scenario without economic feedback from CBO's *2014 Long-Term Budget Outlook*.

It's also very important that we get started soon on fiscal reforms. According to CBO's alternative fiscal scenario, the current fiscal gap is 3.2% of GDP, which means that, in order to stabilize our debt, we need spending cuts or revenue increases or a combination of both, that total 3.2% of GDP. If we wait just 5 years, the amount of reforms we need grows by 24%. If we wait 10 years, the amount of reforms we need grows by 66%. Like any debt problem, the sooner you start to tackle it, the easier it is to solve.

Finally, let me close with a brief discussion of budget process.

The current, flawed federal budget process diverts attention away from our critical long-term challenges, and has contributed to an unfortunate recent pattern of gridlock and government-by-crisis – with significant economic costs for our nation. Our foundation commissioned a study by Macroeconomic Advisers, which estimated that that the uncertainty created by fiscal brinksmanship from 2010 to 2013 increased the unemployment rate by 0.6%, the equivalent of 900,000 jobs.

While budget process reforms alone cannot solve our fiscal challenges, there are various changes that would better encourage long-term fiscal planning. Let me highlight three key principles for you to consider:

First: look further into the future. The current Congressional "budget window" looks out only 10 years. We would recommend increasing that to 25 years. If we don't look further out, then there's no meaningful discussion of long-term trends, there's no visible information about long-term effects, and there's no credit given for long-term improvement. This is perhaps the single most important change that would encourage better long-term budgeting.

Secondly, set goals. Requiring Congress and the president to set medium- and long-term fiscal goals, and then report on progress annually, would improve accountability and transparency.

Lastly, improve enforcement. Adding new or strengthening existing enforcement measures would help lawmakers meet budget targets. Of course, measures should be flexible enough to accommodate changing conditions, but they should be strong enough to reinforce the commitment to long-term fiscal sustainability.

In summary, we have a long-term fiscal challenge that could do great damage to our nation's economy and role in the world. We know the causes. And we know the range of solutions. All it takes is leadership, commitment, honesty and cooperation. The Peterson Foundation is committed to helping our nation, and both political parties, to address this challenge successfully.

Thank you for your invitation to participate in this important discussion. I would be happy to answer any questions you may have.

Chairman ENZI. Thank you, and they will be a part of the record, as will your full statements from everybody.

[The plans follow:]

PETER G. PETERSON FOUNDATION

# Selected Charts for the Senate Budget Committee

**October 21, 2015**

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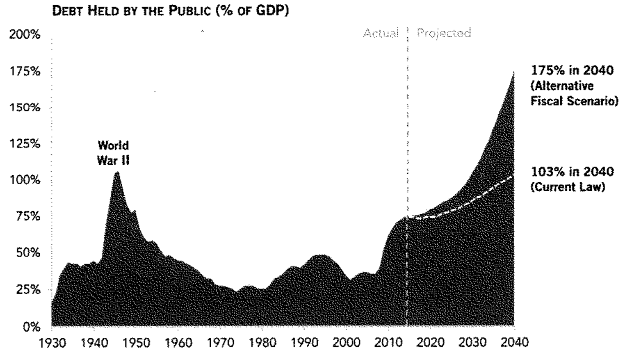
## U.S. debt is on an unsustainable path

**DEBT HELD BY THE PUBLIC (% OF GDP)**




SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Compiled by PGPF.
NOTE: Current law projections are from CBO's extended baseline scenario. Data for the alternative fiscal scenario include economic feedback.

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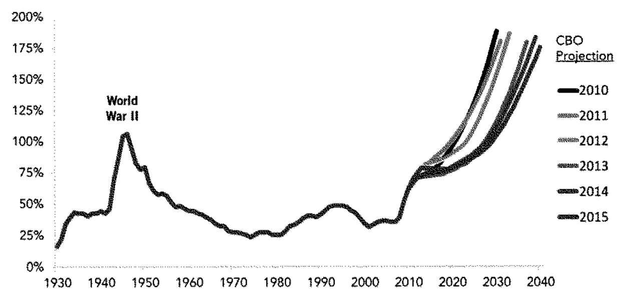
## U.S. debt – Recent improvements have only delayed an unsustainable trajectory

**DEBT HELD BY THE PUBLIC (% OF GDP)**




SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook* (June 2015), *The 2014 Long-Term Budget Outlook (July 2014), The 2013 Long-Term Budget Outlook (September 2013), The 2012 Long-Term Budget Outlook (June 2012), The 2011 Long-Term Budget Outlook (June 2011) , and The 2010 Long-Term Budget Outlook (June 2010).* Compiled by PGPF.
NOTE: Projections are based on CBO's alternative fiscal scenario with economic feedbacks. The projection use the midpoint of CBO's estimate of economic feedbacks.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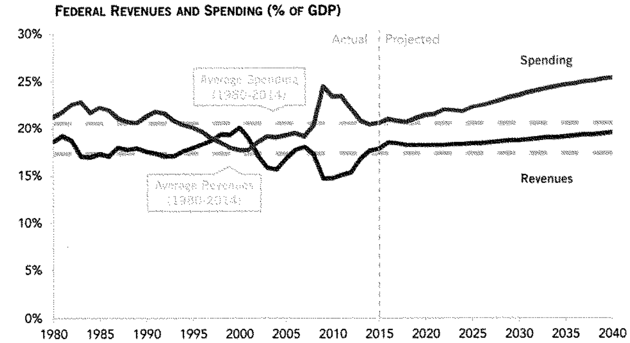
## The growing debt is caused by a structural mismatch between spending and revenues

**FEDERAL REVENUES AND SPENDING (% OF GDP)**




SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015, and *Updated Budget Projections: 2015 to 2025*, March 2015. Compiled by PGPF.
NOTE: Projections are from CBO's extended baseline scenario.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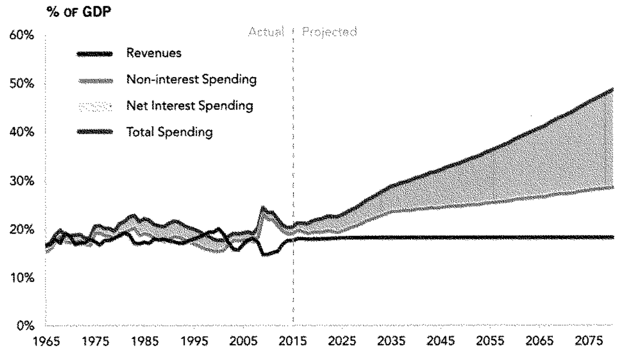
**Interest costs are projected to grow to unsustainable levels if current policies aren't changed**




SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015; and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016, Historical Tables*, February 2015. Calculated by PGPF.
NOTE: Projections are based on CBO's alternative fiscal scenario.

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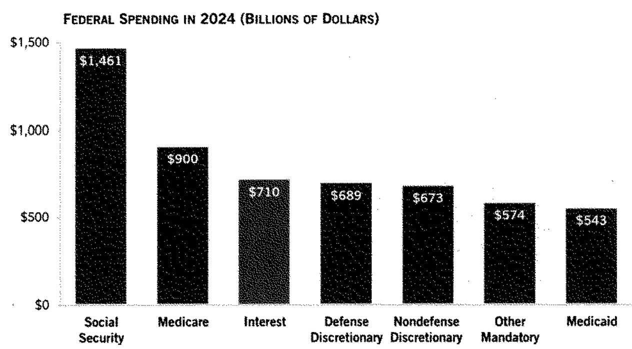
**Interest costs will be the third largest category of the budget in 2024**




SOURCE: Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2015 to 2025*, August 2015. Compiled by PGPF.
NOTE: Medicare is net of offsetting receipts.

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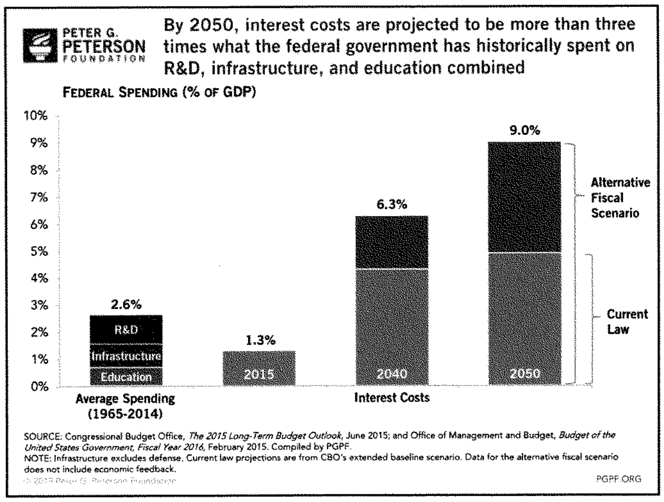
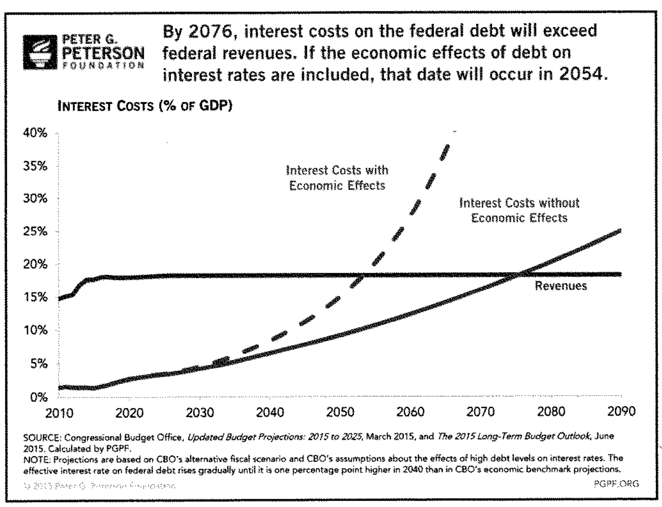

PETER G. PETERSON FOUNDATION
By 2050, interest costs are projected to be more than three times what the federal government has historically spent on R&D, infrastructure, and education combined
FEDERAL SPENDING (% OF GDP)
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
2.6%
R&D
Infrastructure
Education
1.3%
2015
6.3%
2040
9.0%
2050
Alternative Fiscal Scenario
Current Law
Average Spending (1965-2014)
Interest Costs
SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015; and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, February 2015. Compiled by PGPF.
NOTE: Infrastructure excludes defense. Current law projections are from CBO's extended baseline scenario. Data for the alternative fiscal scenario does not include economic feedback.
PGPF.ORG


PETER G. PETERSON FOUNDATION
By 2076, interest costs on the federal debt will exceed federal revenues. If the economic effects of debt on interest rates are included, that date will occur in 2054.
INTEREST COSTS (% OF GDP)
40%
35%
30%
25%
20%
15%
10%
5%
0%
Interest Costs with Economic Effects
Interest Costs without Economic Effects
Revenues
2010
2020
2030
2040
2050
2060
2070
2080
2090
SOURCE: Congressional Budget Office, *Updated Budget Projections: 2015 to 2025*, March 2015, and *The 2015 Long-Term Budget Outlook*, June 2015. Calculated by PGPF.
NOTE: Projections are based on CBO's alternative fiscal scenario and CBO's assumptions about the effects of high debt levels on interest rates. The effective interest rate on federal debt rises gradually until it is one percentage point higher in 2040 than in CBO's economic benchmark projections.
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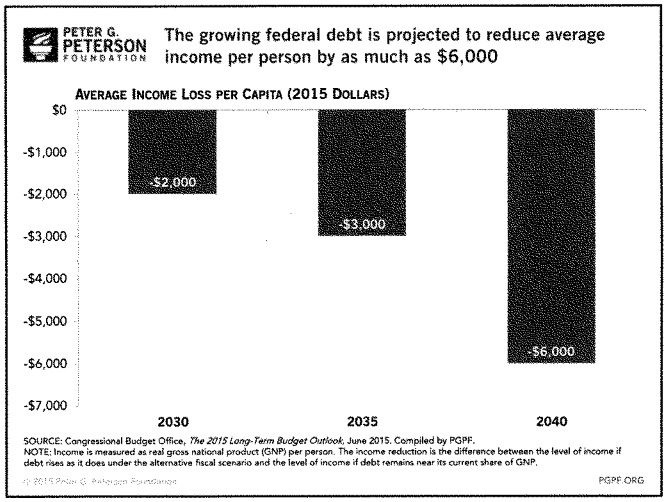

PETER G. PETERSON FOUNDATION
The growing federal debt is projected to reduce average income per person by as much as $6,000
AVERAGE INCOME LOSS PER CAPITA (2015 DOLLARS)
$0
-$1,000
-$2,000
-$3,000
-$4,000
-$5,000
-$6,000
-$7,000
-$2,000
-$3,000
-$6,000
2030
2035
2040
SOURCE: Congressional Budget Office, The 2015 Long-Term Budget Outlook, June 2015. Compiled by PGPF.
NOTE: Income is measured as real gross national product (GNP) per person. The income reduction is the difference between the level of income if debt rises as it does under the alternative fiscal scenario and the level of income if debt remains near its current share of GNP.
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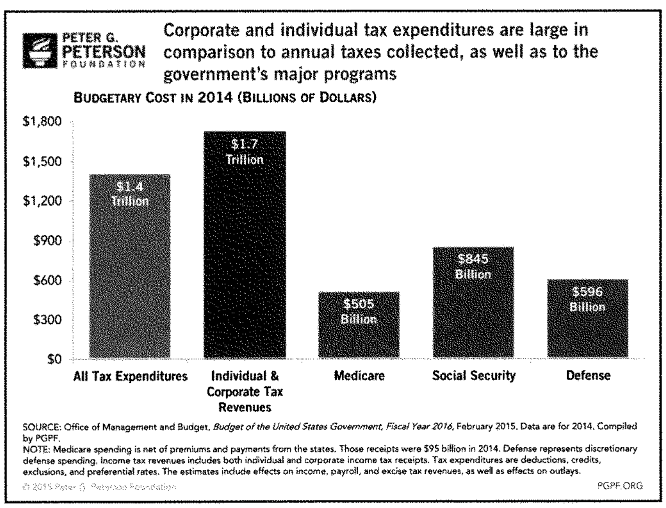

PETER G. PETERSON FOUNDATION
Corporate and individual tax expenditures are large in comparison to annual taxes collected, as well as to the government's major programs
BUDGETARY COST IN 2014 (BILLIONS OF DOLLARS)
$1,800
$1,500
$1,200
$900
$600
$300
$0
$1.4 Trillion
$1.7 Trillion
$505 Billion
$845 Billion
$596 Billion
All Tax Expenditures
Individual & Corporate Tax Revenues
Medicare
Social Security
Defense
SOURCE: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2016, February 2015. Data are for 2014. Compiled by PGPF.
NOTE: Medicare spending is net of premiums and payments from the states. Those receipts were $95 billion in 2014. Defense represents discretionary defense spending. Income tax revenues includes both individual and corporate income tax receipts. Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates include effects on income, payroll, and excise tax revenues, as well as effects on outlays.
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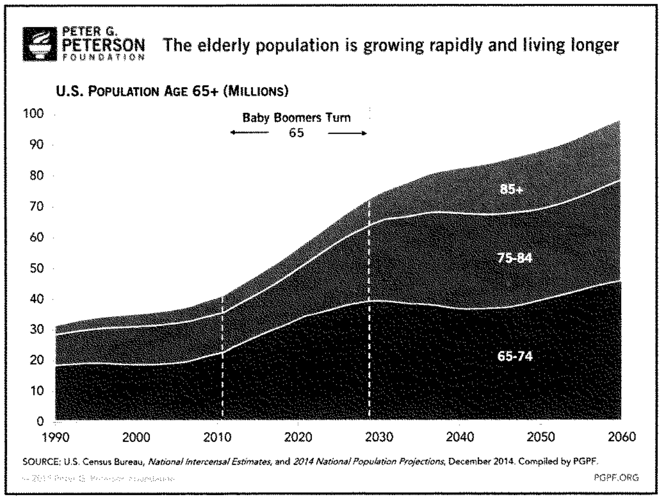
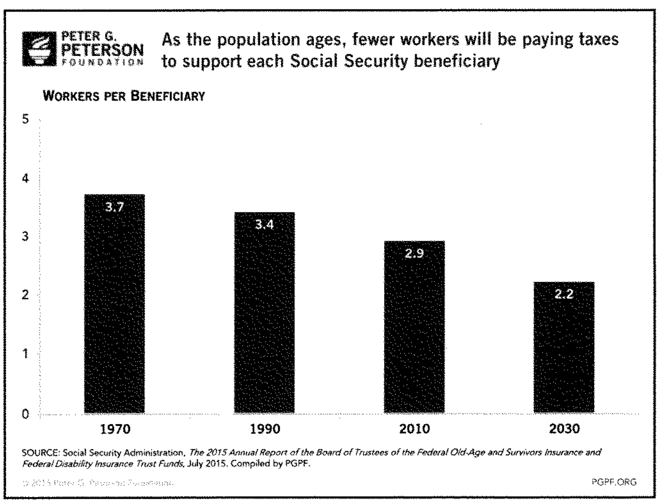

PETER G. PETERSON FOUNDATION
The elderly population is growing rapidly and living longer
U.S. Population Age 65+ (Millions)
Baby Boomers Turn 65
85+
75-84
65-74
0
10
20
30
40
50
60
70
80
90
100
1990
2000
2010
2020
2030
2040
2050
2060
SOURCE: U.S. Census Bureau, National Intercensal Estimates, and 2014 National Population Projections, December 2014. Compiled by PGPF.
PGPF.ORG


PETER G. PETERSON FOUNDATION
As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary
Workers per Beneficiary
0
1
2
3
4
5
3.7
3.4
2.9
2.2
1970
1990
2010
2030
SOURCE: Social Security Administration, The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, July 2015. Compiled by PGPF.
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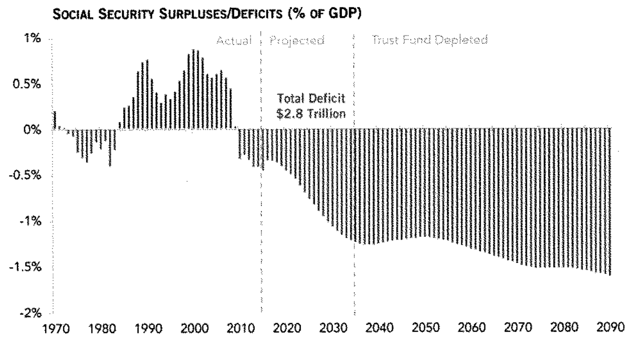
**Social Security will run a cumulative cash deficit of $2.8 trillion between now and 2034**




SOURCE: Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 2015. Compiled by PGPF.
NOTE: Surplus/deficit numbers exclude interest income. The total deficit of $2.8 trillion is the present value of the cash deficits between 2015 and 2034.

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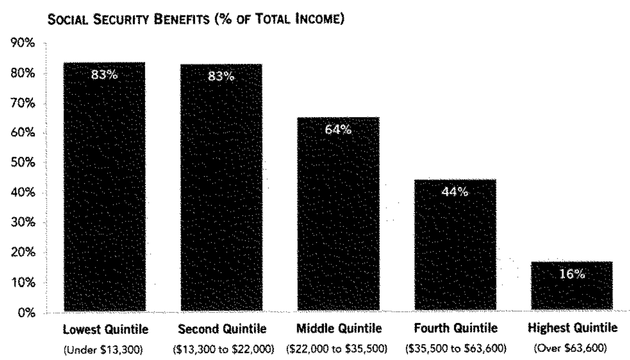
**Low-income seniors rely on Social Security benefits for a major share of their retirement income**




SOURCE: Social Security Administration, *Income of the Population 55 or Older, 2012*, April 2014. Compiled by PGPF.
NOTE: A quintile is one fifth of the distribution. The lowest quintile is the 20% of the 65+ population with the lowest income.

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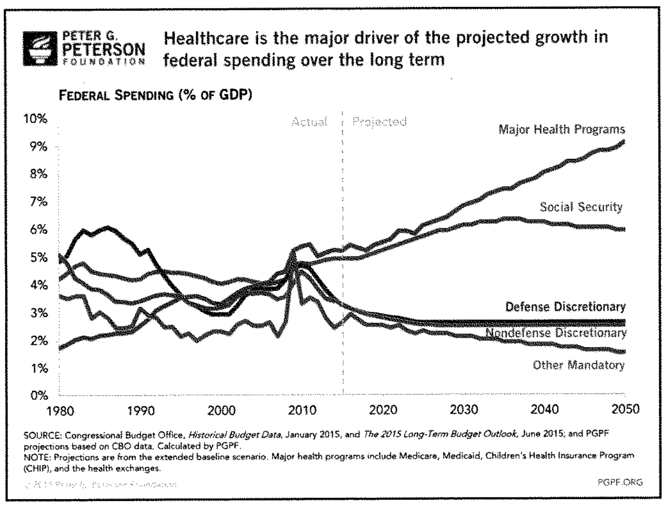
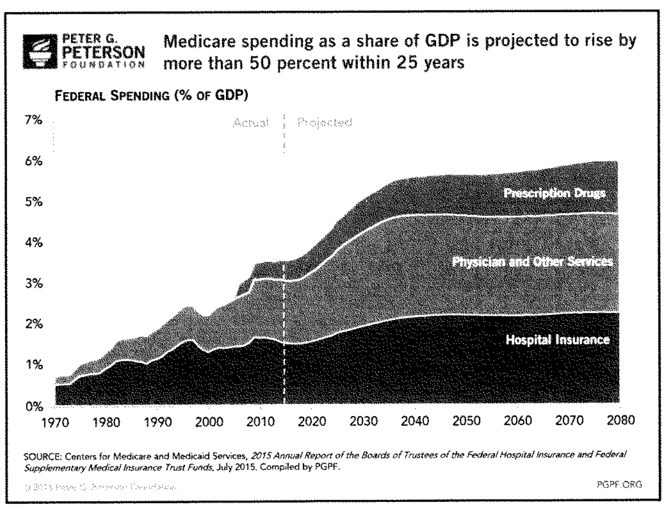
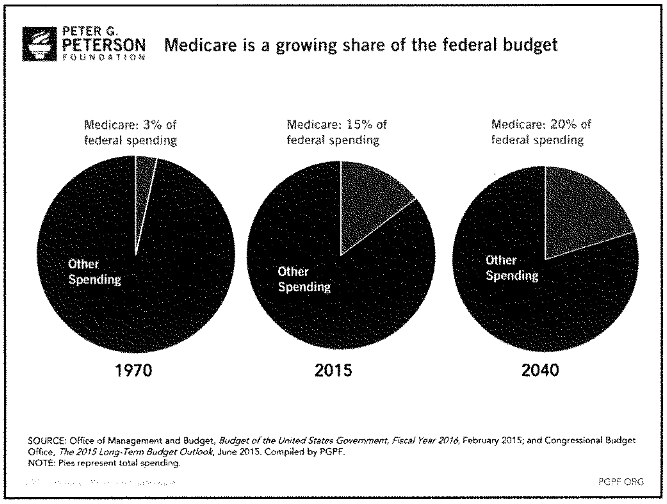
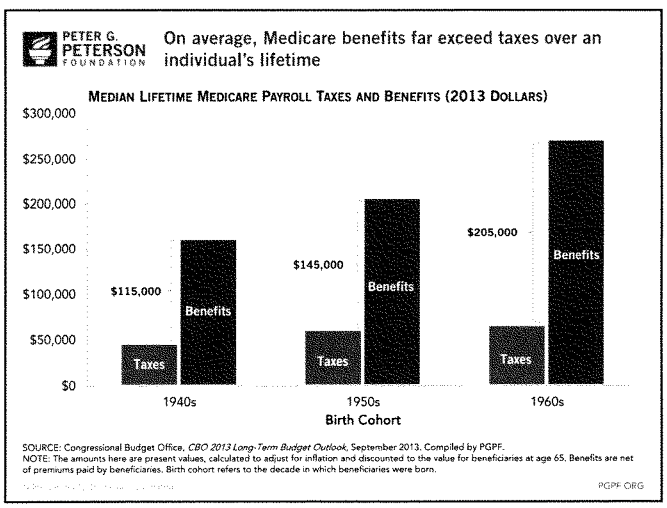

PETER G. PETERSON FOUNDATION
Healthcare is the major driver of the projected growth in federal spending over the long term
FEDERAL SPENDING (% OF GDP)
Actual
Projected
Major Health Programs
Social Security
Defense Discretionary
Nondefense Discretionary
Other Mandatory
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
1980
1990
2000
2010
2020
2030
2040
2050
SOURCE: Congressional Budget Office, *Historical Budget Data*, January 2015, and *The 2015 Long-Term Budget Outlook*, June 2015; and PGPF projections based on CBO data. Calculated by PGPF.
NOTE: Projections are from the extended baseline scenario. Major health programs include Medicare, Medicaid, Children's Health Insurance Program (CHIP), and the health exchanges.
PGPF.ORG


PETER G. PETERSON FOUNDATION
Medicare spending as a share of GDP is projected to rise by more than 50 percent within 25 years
FEDERAL SPENDING (% OF GDP)
Actual
Projected
Prescription Drugs
Physician and Other Services
Hospital Insurance
7%
6%
5%
4%
3%
2%
1%
0%
1970
1980
1990
2000
2010
2020
2030
2040
2050
2060
2070
2080
SOURCE: Centers for Medicare and Medicaid Services, *2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, July 2015. Compiled by PGPF.
PGPF.ORG

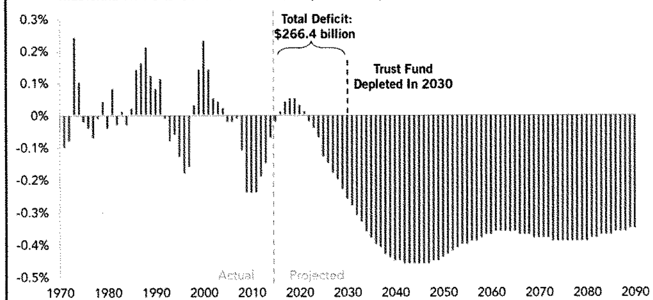

PETER G. PETERSON FOUNDATION
Medicare is a growing share of the federal budget
Medicare: 3% of federal spending
Medicare: 15% of federal spending
Medicare: 20% of federal spending
Other Spending
Other Spending
Other Spending
1970
2015
2040
SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2016*, February 2015; and Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Compiled by PGPF.
NOTE: Pies represent total spending.
PGPF.ORG


PETER G. PETERSON FOUNDATION
On average, Medicare benefits far exceed taxes over an individual's lifetime
MEDIAN LIFETIME MEDICARE PAYROLL TAXES AND BENEFITS (2013 DOLLARS)
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
$115,000
$145,000
$205,000
Taxes
Benefits
1940s
1950s
1960s
Birth Cohort
SOURCE: Congressional Budget Office, *CBO 2013 Long-Term Budget Outlook*, September 2013. Compiled by PGPF.
NOTE: The amounts here are present values, calculated to adjust for inflation and discounted to the value for beneficiaries at age 65. Benefits are net of premiums paid by beneficiaries. Birth cohort refers to the decade in which beneficiaries were born.
PGPF.ORG

PETER G. PETERSON FOUNDATION

## Medicare's Hospital Insurance will start running deficits in 2022 and its trust fund will be depleted in 2030

**MEDICARE HI FUND SURPLUSES/DEFICITS (% OF GDP)**



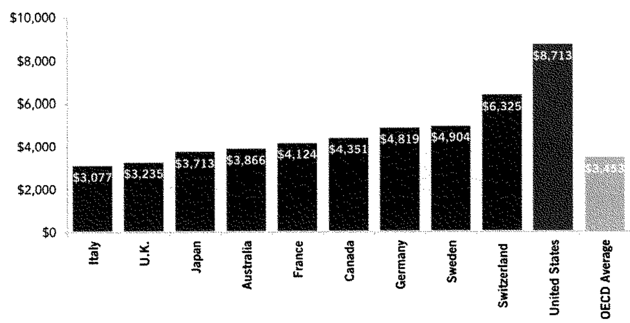

SOURCE: Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 2015; and Centers for Medicare and Medicaid Services, *2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, July 2015. Compiled by PGPF.
NOTE: Data excludes interest income. The present value of the cumulative net deficit before insolvency is equal to the current value of the HI Trust Fund.

 PGPF.ORG

PETER G. PETERSON FOUNDATION

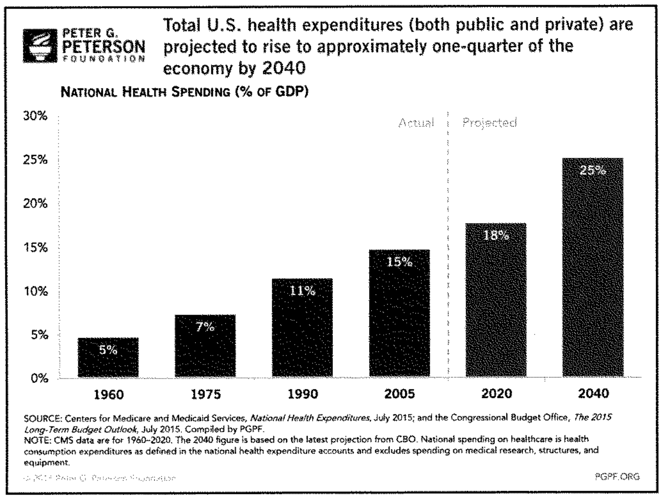
## The United States spends more than twice as much per capita on healthcare as the average developed country does

**HEALTHCARE COSTS PER CAPITA (DOLLARS)**




SOURCE: Organization for Economic Cooperation and Development, *OECD Health Statistics 2015*, July 2015. Compiled by PGPF.
NOTE: Per capita health expenditures are for 2013, except Australia for which 2012 data are the latest available. Chart uses purchasing power parities to convert data into U.S. dollars.

 PGPF.ORG


PETER G. PETERSON FOUNDATION
Total U.S. health expenditures (both public and private) are projected to rise to approximately one-quarter of the economy by 2040
NATIONAL HEALTH SPENDING (% OF GDP)
30%
25%
20%
15%
10%
5%
0%
Actual
Projected
5%
7%
11%
15%
18%
25%
1960
1975
1990
2005
2020
2040
SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures*, July 2015; and the Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, July 2015. Compiled by PGPF.
NOTE: CMS data are for 1960–2020. The 2040 figure is based on the latest projection from CBO. National spending on healthcare is health consumption expenditures as defined in the national health expenditure accounts and excludes spending on medical research, structures, and equipment.
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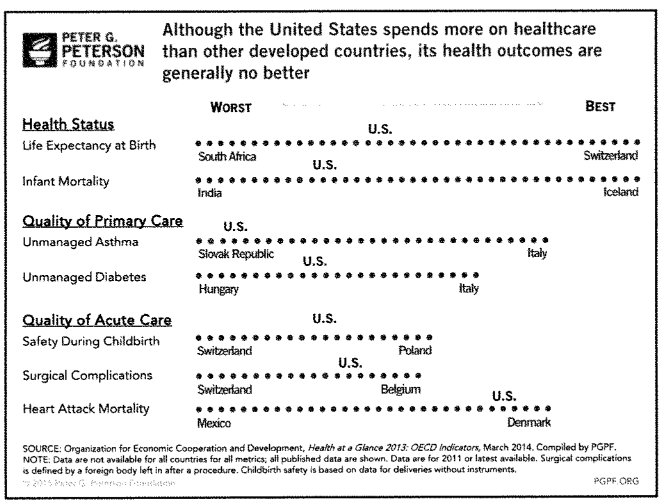
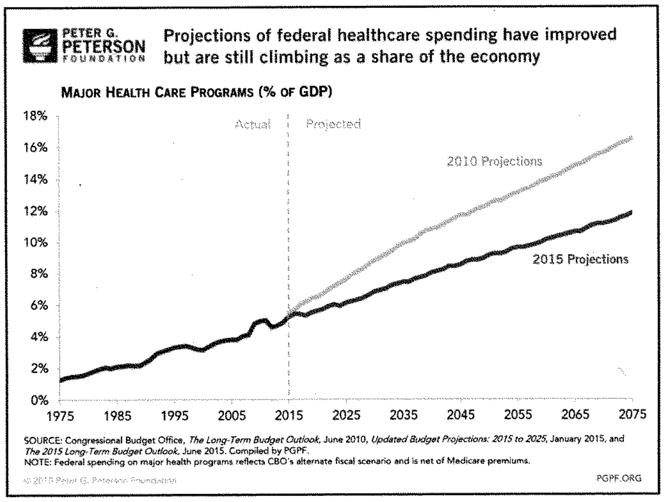

PETER G. PETERSON FOUNDATION
Although the United States spends more on healthcare than other developed countries, its health outcomes are generally no better
WORST
BEST
Health Status
Life Expectancy at Birth
U.S.
South Africa
Switzerland
Infant Mortality
U.S.
India
Iceland
Quality of Primary Care
Unmanaged Asthma
U.S.
Slovak Republic
Italy
Unmanaged Diabetes
U.S.
Hungary
Italy
Quality of Acute Care
Safety During Childbirth
U.S.
Switzerland
Poland
Surgical Complications
U.S.
Switzerland
Belgium
Heart Attack Mortality
U.S.
Mexico
Denmark
SOURCE: Organization for Economic Cooperation and Development, *Health at a Glance 2013: OECD Indicators*, March 2014. Compiled by PGPF.
NOTE: Data are not available for all countries for all metrics; all published data are shown. Data are for 2011 or latest available. Surgical complications is defined by a foreign body left in after a procedure. Childbirth safety is based on data for deliveries without instruments.
PGPF.ORG


PETER G. PETERSON FOUNDATION
Projections of federal healthcare spending have improved but are still climbing as a share of the economy
MAJOR HEALTH CARE PROGRAMS (% OF GDP)
Actual
Projected
2010 Projections
2015 Projections
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
1975
1985
1995
2005
2015
2025
2035
2045
2055
2065
2075
SOURCE: Congressional Budget Office, The Long-Term Budget Outlook, June 2010, Updated Budget Projections: 2015 to 2025, January 2015, and The 2015 Long-Term Budget Outlook, June 2015. Compiled by PGPF.
NOTE: Federal spending on major health programs reflects CBO's alternate fiscal scenario and is net of Medicare premiums.
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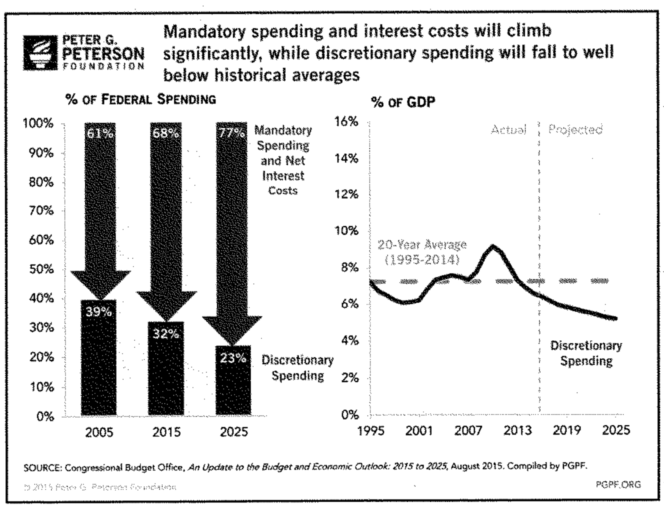
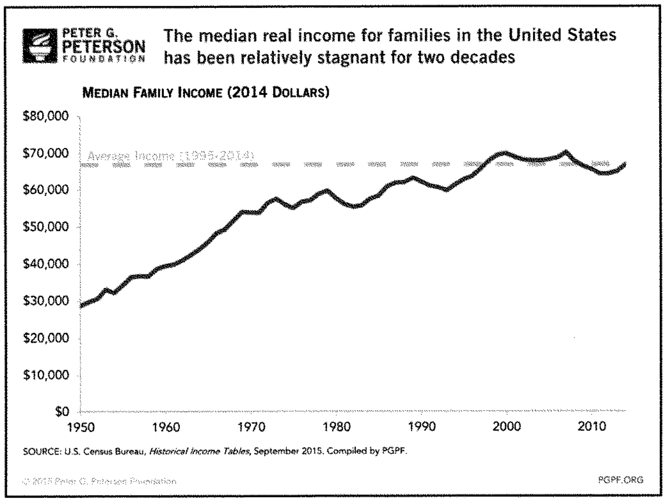
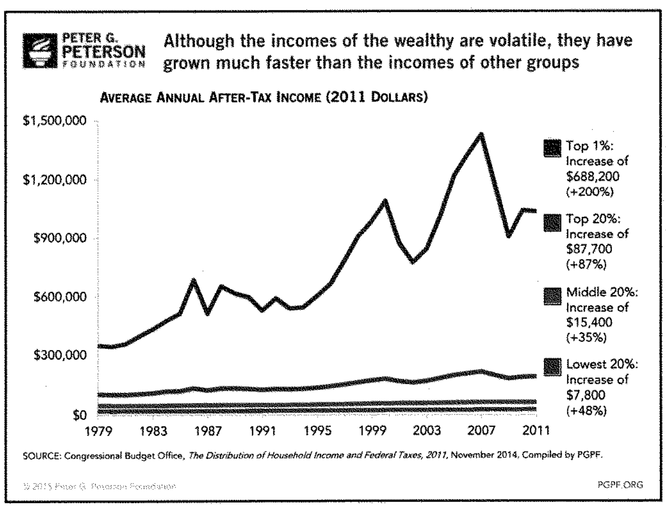
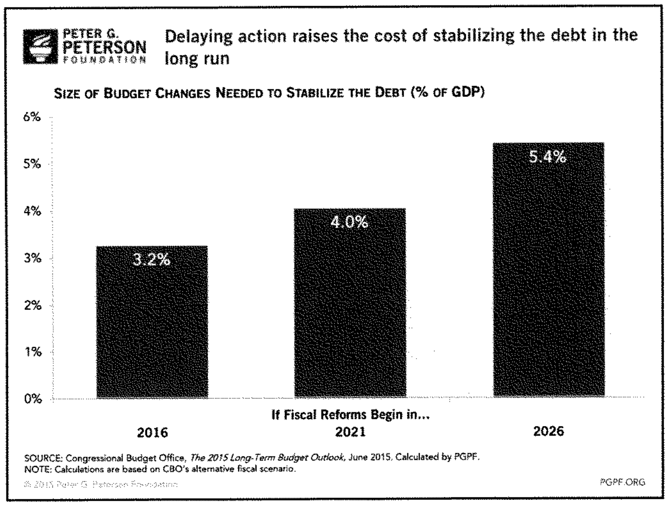
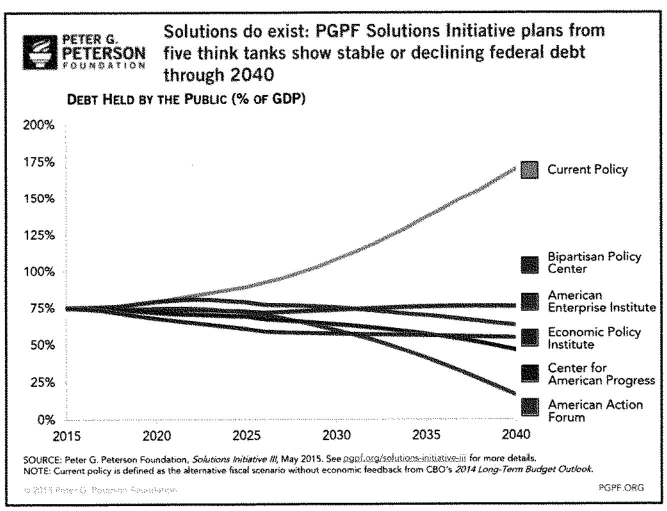

PETER G. PETERSON FOUNDATION
Mandatory spending and interest costs will climb significantly, while discretionary spending will fall to well below historical averages
% OF FEDERAL SPENDING
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
61%
68%
77%
Mandatory Spending and Net Interest Costs
39%
32%
23%
Discretionary Spending
2005
2015
2025
% OF GDP
16%
14%
12%
10%
8%
6%
4%
2%
0%
Actual
Projected
20-Year Average (1995-2014)
Discretionary Spending
1995
2001
2007
2013
2019
2025
SOURCE: Congressional Budget Office, An Update to the Budget and Economic Outlook: 2015 to 2025, August 2015. Compiled by PGPF.
PGPF.ORG


PETER G. PETERSON FOUNDATION
The median real income for families in the United States has been relatively stagnant for two decades
MEDIAN FAMILY INCOME (2014 DOLLARS)
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
Average Income (1995-2014)
1950
1960
1970
1980
1990
2000
2010
SOURCE: U.S. Census Bureau, Historical Income Tables, September 2015. Compiled by PGPF.
PGPF.ORG


PETER G. PETERSON FOUNDATION
Although the incomes of the wealthy are volatile, they have grown much faster than the incomes of other groups
AVERAGE ANNUAL AFTER-TAX INCOME (2011 DOLLARS)
$1,500,000
$1,200,000
$900,000
$600,000
$300,000
$0
1979
1983
1987
1991
1995
1999
2003
2007
2011
Top 1%: Increase of $688,200 (+200%)
Top 20%: Increase of $87,700 (+87%)
Middle 20%: Increase of $15,400 (+35%)
Lowest 20%: Increase of $7,800 (+48%)
SOURCE: Congressional Budget Office, The Distribution of Household Income and Federal Taxes, 2011, November 2014. Compiled by PGPF.
PGPF.ORG


PETER G. PETERSON FOUNDATION
Delaying action raises the cost of stabilizing the debt in the long run
SIZE OF BUDGET CHANGES NEEDED TO STABILIZE THE DEBT (% OF GDP)
6%
5%
4%
3%
2%
1%
0%
3.2%
4.0%
5.4%
If Fiscal Reforms Begin in...
2016
2021
2026
SOURCE: Congressional Budget Office, The 2015 Long-Term Budget Outlook, June 2015. Calculated by PGPF.
NOTE: Calculations are based on CBO's alternative fiscal scenario.
PGPF.ORG


PETER G. PETERSON FOUNDATION
Solutions do exist: PGPF Solutions Initiative plans from five think tanks show stable or declining federal debt through 2040
DEBT HELD BY THE PUBLIC (% OF GDP)
200%
175%
150%
125%
100%
75%
50%
25%
0%
2015
2020
2025
2030
2035
2040
Current Policy
Bipartisan Policy Center
American Enterprise Institute
Economic Policy Institute
Center for American Progress
American Action Forum
SOURCE: Peter G. Peterson Foundation, Solutions Initiative III, May 2015. See pgpf.org/solutions-initiative-iii for more details.
NOTE: Current policy is defined as the alternative fiscal scenario without economic feedback from CBO's 2014 Long-Term Budget Outlook.
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Chairman ENZI. Dr. Holtz-Eakin?

**STATEMENT OF DOUGLAS HOLTZ–EAKIN, PH.D., PRESIDENT, AMERICAN ACTION FORUM, AND CONGRESSIONAL BUDGET OFFICE DIRECTOR (2003–2005)**

Mr. HOLTZ-EAKIN. Chairman Enzi and members of the Committee, thank you for the chance to be here today. You have my written statement. Let me make three simple points, and then I look forward to answering your questions.

The first, as everyone has noted, is that the Federal budget is in serious jeopardy. There are lots of ways to characterize this, but I think one of the most telling is that if you look at the CBO baseline for 2025, 10 years from now, if we remain on autopilot, the CBO projects a deficit of $1 trillion. So we are back to $1 trillion deficits. Of that $1 trillion deficit, $755 billion is interest on previous borrowing. So we as a Nation are perilously close to borrowing solely for the purpose of paying off previous borrowing. The U.S. is entering into a debt spiral in a very predictable, mechanical fashion. It is an untenable situation for us to be in. If left on that path, the only question is when the crisis happens, not whether a crisis happens. And so that trajectory is extremely damaging and would threaten the very foundations of our economy.

At the heart of that explosive debt is the rise in mandatory spending, the large Federal health programs, Medicare, Medicaid, the Affordable Care Act, the Social Security program, and other elements of the mandatory spending, are driving these ever larger borrowing and debt and deficits.

That is bad enough, but those programs are also not functioning very well. Social Security promises a 25- percent cut across the board in 20 years. Medicare offers substandard care for the dollars that we plow into it for our seniors. The Medicaid program sends those with Medicaid to ERs at greater rates than those who are uninsured. These are all programs that should be improved so that our safety net is both financially more secure, but also delivers higher-quality service.

Now, in terms of supporting these programs and reforms of these programs, the current budget process is transparently broken. There is no single document on which the House, the Senate, and the executive branch agree on the level of revenue and the level of spending in any year. So the U.S. Government does not have a budget. It has budgetary outcomes, usually bad, and that is a piece of the record that the Chairman showed.

Often, as the Chairman outlined, the budget resolution is not done. The appropriations process is not completed. There is a heavy reliance on continuing resolutions and omnibus appropriations. And I do not think anyone can make the case that the budget process is working well.

So in thinking about budget process reforms, I would encourage the Committee to think hard about this, but also think about some fairly large reforms. As some of the research outlined in my written testimony has shown, there is a great value to fiscal rules in solving problems like this. In Sweden and the Netherlands, adopting what would effectively be constitutional rules for the maximum amount of spending as a fraction of GDP or a balanced budget amendment or a debt-to-GDP rule have effectively brought back into alignment things which were previously not working very well.

That might be a bridge too far. But if you do start looking at real changes, I think a good lesson would be to focus on the problem and make changes in the area of the biggest problem, and that is mandatory spending.

To date, we have only one piece of the budget process that focuses on mandatory spending, and that is reconciliation. Reconciliation has not done its intended job of making it easier to reform mandatory spending programs and control the growth in spending. So other approaches, whether it is capped allotments for those programs run by the States or whether it is changing the form of Medicare to be much more of a defined contribution than a defined benefit, all things which have been explored but have not been really pursued very hard, I think that should be at the center of the agenda for the Committee in thinking about process reform.

So I really appreciate the chance to be here today. I am happy to answer your questions. I think this is a topic that is of paramount importance. But it is important to remember that in the end the problem is not the process. The problem is the problem, and these programs needs to be reformed. And the budget process can help in that effort, but it will not solve it by itself.

I thank the Chairman and look forward to the questions.

[The prepared statement of Mr. Holtz-Eakin follows:]

# Federal Budget Process Reforms

Testimony to the U.S. Senate
Committee on the Budget

Douglas Holtz-Eakin, President
American Action Forum*

October 21, 2015

* The opinions expressed herein are mine alone and do not represent the position of the American Action Forum. I thank Gordon Gray for his assistance.

**Introduction**

Chairman Enzi, Ranking Member Sanders and members of the Committee, I am pleased to have the opportunity to appear today. In this testimony, I wish to make a few basic points:

- The U.S. faces a dramatic threat from the current and projected levels of federal debt, driven by ever-increasing mandatory spending;
- The current Congressional budget process is broken, and does not facilitate addressing the threats to the Nation;
- A "fiscal rule" would be a valuable step toward budgetary practice that would address the debt threat and preclude its recurrence; and
- Budget process reforms are commendable, and to the extent they can precipitate action, they should be pursued, but are no substitute for necessary underlying policy changes.

Let me discuss each in turn.

**The Threat from Federal Debt**

The federal government faces a problematic budgetary future, largely due to long-term pension, health, and other spending promises coupled with recent programmatic expansions. The core, long-term issue has been outlined in successive versions of the Congressional Budget Office's (CBO's) *Long-Term Budget Outlook*[1]. In broad terms, the inexorable dynamics of current law will raise federal outlays from an historic norm of about 20 percent of Gross Domestic Product (GDP) to anywhere from 30 to nearly 40 percent of GDP. Any attempt to keep taxes at their post-war norm of about 18 percent of GDP will generate an unmanageable federal debt spiral.

This depiction of the federal budgetary future and its diagnosis and prescription has all remained unchanged for at least a decade. Despite this, lasting action (in the right direction) has yet to achieve the force of law.

In the past several years, the outlook has worsened significantly.

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[1] Congressional Budget Office. 2015. *The Long-Term Budget Outlook.* Pub. No. 50250. https://www.cbo.gov/publication/50250

Over the next ten years, according to the Congressional Budget Office's (CBO's) analysis of the President's Budgetary Proposals for Fiscal Year 2016[2], the deficit will average nearly $600 billion over the next ten years. Ten years from now, in 2025, the deficit will be $800 billion. As a result of the spending binge, in 2025 debt held by the public will have doubled from its pre-financial crisis level in 2007 to over 70 percent of GDP and will continue its upward trajectory.

*The "Bad News" Future under Massive Debt Accumulation*. A United States fiscal crisis is now a threatening reality. It wasn't always so, even though, as noted above, the Congressional Budget Office has long published a pessimistic *Long-Term Budget Outlook*. Despite these gloomy forecasts, nobody seemed to care. Bond markets were quiescent. Voters were indifferent. And politicians were positively in denial that the "spend now, worry later" era would ever end.

Those days have passed. The world has witnessed Greece, Italy, Portugal, Spain, Ireland, and even Britain under the scrutiny of skeptical financial markets. And there are signs that the U.S. is next – as witnessed by the decision of S&P to downgrade the federal credit rating.[3] By the end of the decade 80 cents out of every borrowed dollar will be spent just to pay off debt service, an outlook that underscores the nation's financial straits.

How did this happen? First, the U.S. frittered away its time for easier action. It was widely recognized that the crunch would only arrive when the baby boomers began to retire. Guess what? The very first official baby boomer already chose to retire early at age 62, and the number of retirees will rise as the time progresses. Crunch time has arrived and nothing was done in the interim to solve the basic spending problem – indeed the passage of the Medicare prescription drug bill in 2003 made it worse.

Second, the events of the financial crisis and recession used up the federal government's cushion. In 2007, debt outstanding was only 35 percent of GDP. It has since doubled.

Third, active steps continue to make the problem worse. The Affordable Care Act "reform" added new entitlement programs for insurance subsidies and more expansive Medicaid.

Financial markets no longer can comfort themselves with the fact that the United States has time and flexibility to get its fiscal act together. Time passed, wiggle room vanished, and many actions taken thus far have made matters worse.

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[2] Congressional Budget Office. 2015. *An Analysis of the President's 2016 Budget.* https://www.cbo.gov/publication/49979
[3] http://www.standardandpoors.com/spf/upload/Events_US/US_SV71_Webcast_art4.pdf

As noted above, in 2025 public debt will have more than doubled from its 2007 level to over 70 percent of GDP and will continue its upward trajectory. Already, gross federal debt exceeds 100 percent of GDP.

Perhaps even more troubling, much of this borrowing comes from international lending sources, including sovereign lenders like China that do not share our core values. Notwithstanding geopolitical concerns, this indebtedness amounts to $94 billion in Treasury payments outside of U.S. borders a year.[4]

For Main Street America, the "bad news" version of any future fiscal crisis occurs when international lenders revolt over the outlook for debt and cut off U.S. access to international credit. In an eerie reprise of the recent financial crisis, the credit freeze would drag down business activity and household spending. The resulting deep recession would be exacerbated by the inability of the federal government's automatic stabilizers – unemployment insurance, lower taxes, etc. – to operate freely.

Worse, the crisis would arrive without the U.S. having fixed the fundamental problems. Getting spending under control in a crisis will be much more painful than a thoughtful, pro-active approach. In a crisis, there will be a greater pressure to resort to damaging tax increases. The upshot will be a threat to the ability of the United States to bequeath to future generations a standard of living greater than experienced at the present.

Future generations will find their freedoms diminished as well. The ability of the United States to project its values around the globe is fundamentally dependent upon its large, robust economy. Its diminished state will have security repercussions, as will the need to negotiate with less-than-friendly international lenders.

*The "Good News" Future under Massive Debt Accumulation.* Some will argue that it is unrealistic to anticipate a cataclysmic financial market upheaval for the United States. Perhaps so. But an alternative future that simply skirts the major crisis would likely entail piecemeal revenue increases and spending cuts – just enough to keep an explosion from occurring. Under this "good news" version, the debt would continue to edge northward – perhaps at times slowed by modest and ineffectual "reforms" – and borrowing costs in the United States would remain elevated and escalating.

Profitable innovation and investment will flow elsewhere in the global economy. As U.S. productivity growth suffers, wage growth stagnates, and standards of living stall. The combination of sluggish income growth and a very large tax burden from

[4] U.S. Bureau of Economic Analysis, "Table 3.2. Federal Government Current Receipts and Expenditures," (accessed October 14, 2015).

the debt, assures that the next generation will inherit a standard of living inferior to that bequeathed to this one.

**The Need for Action**

The federal budget problem demands fundamental reforms to major mandatory spending programs – Medicare, Medicaid, Social Security, the Affordable Care Act – and would benefit from the improved growth derived from fundamental tax reform. Despite this, successive budget proposals by the president are devoid of reform proposals and characterized at best by the type of piecemeal spending cuts and tax increases that invite stagnation.

The passage of the Budget Control Act of 2011, its caps on discretionary spending, and the formation of the Joint Select Committee on Deficit Reduction represented a commitment to move the nation's finances in a better direction.

However, the failure of the Committee to report recommendations to address our fiscal challenges has left the United States in a perilous position. Since the Committee's failure, we have seen exactly the type of piecemeal reforms that are inadequate to our fiscal challenge: anti-growth tax rate increases and poorly targeted discretionary spending cuts that harm military readiness.

However, the structural budget challenges the nation faces are so pressing and significant that they outweigh in terms of their implications for economic output even a near-term recession. Clearly something must be done to avoid a downturn, but any such undertaking must be paired with reforms to address our fiscal imbalance.

**The Broken Budget Process**

The Congressional budget process is broken and does not engender regular evaluation of the fiscal health of the federal government. Indeed, the *prima facie* evidence of its failure is that fact that the president has regularly submitted budgets that clearly display a path to a sovereign debt crisis, the U.S. Senate completed the budget process prescribed in law this year after a 6-year hiatus, while the Congress as a whole regularly operates without a binding budget resolution – all with no consequence.

The budget process is intended to facilitate a regular and disciplined evaluation of the inflow of taxpayer resources and outflow of federal spending. It should enhance the role of the Congress as a good steward of the federal credit rating. It does neither because the current process is insufficiently binding. As a result, it easily degenerates to the mere adoption of current-year discretionary spending levels, with no review of the real problem: the long-term commitments in mandatory spending.

**The Value of Fiscal Rules**

At present, the federal government does not have a fiscal "policy." Instead, it has fiscal "outcomes". The House and Senate do not reliably agree on a budget resolution, and when they do, the executive branch does not necessarily concur. Annual appropriations reflect the contemporaneous politics of conference committee compromise, and White House negotiation. Often, the annual appropriations process is in whole or part replaced with a continuing resolution. Annual discretionary spending is not coordinated in any way with the outlays from mandatory spending programs operating on autopilot. And nothing annually constrains overall spending to have *any* relationship to the fees and tax receipts flowing into the U.S. Treasury. The fiscal outcome is whatever it turns out to be – usually bad – and certainly not a policy choice.

I believe that it would be tremendously valuable for the federal government to adopt a fiscal rule. Such a rule could take the form of an overall cap on federal spending (perhaps as a share of gross domestic product (GDP)), a limit on the ratio of federal debt in the hands of the public relative to GDP, a balanced budget requirement, or many others. Committing to a fiscal rule would force the current, disjointed appropriations, mandatory spending, and tax decisions to fit coherently within the adopted fiscal rule. Accordingly, it would force lawmakers to make tough tradeoffs, especially across categories of spending.

Most importantly, it would give Congress a way to say "no." Spending proposals would not simply have to be good ideas. They would have to be *good enough* to merit cutting other spending programs or using taxes to dragoon resources from the private sector. Congress would more easily be able to say, "not good enough, sorry."

As documented by the Pew-Peterson Commission on Budget Reform other countries have benefitted from adopting fiscal rules.[5] The Dutch government established separate caps on expenditures for health care, social security and the labor market. There are also sub-caps within the core sectors.

Sweden reacted to a recession and fiscal crisis by adopting an expenditure ceiling and a target for the overall government surplus (averaged over the business cycle). Later (in 2000) a balanced budget requirement was introduced for local governments. Finally, in 2003 the public supported a constitutional amendment to limit annual federal government spending to avoid perennial deficits.

[5] http://budgetreform.org/

A lesson is that, no matter which rule is adopted, it will rise or fall based on political will to institute it and the public's support for its consequences.

**Necessary Political Will**

Process reform, no matter how well intentioned or considered is no substitute for the actual reforms needed to address the looming debt crisis fueled by federal spending. No statutory spending cap or sequester can replace the needed debate on what a realistic or fair retirement age should be, or what the proper federal role in seniors' health care delivery is. So while I commend any meaningful improvement to process reform, I would also caution this Committee's membership, as many know, the clock is ticking on the need for that broader discussion.

Thank you. I look forward to your questions.

[Applause.]

Chairman ENZI. Thank you.

Mr. HOLTZ-EAKIN. All my years, that is the first time anyone ever applauded.

[Laughter.]

Mr. HOLTZ-EAKIN. Thank you, sir.

Chairman ENZI. I think I had some notes here for what I am supposed to do if that happens, too.

[Laughter.]

Chairman ENZI. Mrs. Weinstein?

**STATEMENT OF DEBORAH WEINSTEIN, EXECUTIVE DIRECTOR, COALITION ON HUMAN NEEDS**

Ms. WEINSTEIN. Thank you, Chairman Enzi, members of the Senate Committee. Thanks very much for the opportunity to testify about ways the Federal budget can better fulfill its primary purpose: to serve as a blueprint for meeting the Nation's needs.

It should be a first principle that poor people must be protected from efforts to reduce deficits and debt. This was understood to be important by Bowles and Simpson as the Nation struggled to free itself from the Great Recession. But the impacts of the recession are long lasting.

More than 40 percent of families with children headed by young parents are living in poverty. And it would take 25 years to cut poverty in half if the recent gains continued year after year; and to get child poverty to the same point, 35 years.

A second point. Programs do work to lift people out of poverty. It is simply unacceptable for a Nation as wealthy as ours to fail to speed up poverty reduction when we know how to do it. We need to protect low-income tax credits because they lift 10 million people out of poverty. SNAP or food stamps lifts 4.7 million people; Social Security, 26 million.

We must stop the cuts to domestic appropriations, cuts that are taking all those programs—education, housing, Head Start, so many more—to their lowest share of GDP in 50 years.

Now, the sequestration cuts occurring in fiscal year 2013 hit harder, caused 57,000 children to be denied Head Start, lost rental housing vouchers to 100,000 households, reduced the number of meals provided to seniors by about 5 million. A lot of those reductions were restored as part of the agreement in fiscal years 2014 and 2015, but we still have a long way to go for rental housing vouchers and senior meals.

Cuts over the past few years have affected both discretionary and mandatory programs. Most painfully, Congress cut SNAP, the benefits per meal from $1.70 to $1.40 per person. It is important for you to know, as you construct a budget, that these kinds of reductions hurt people. Researchers found that babies and toddlers in households that experienced that cut were more likely to be at risk for bad health and education outcomes. The loss of benefits hurts, but the other side of the coin is that the presence of benefits like SNAP and WIC can set children on the path out of poverty.

Rental housing vouchers are another case in point. If the Senate Transportation, HUD appropriations bill were to become law, not only would we continue to lose 70,000 vouchers that have not been restored, we will lose another 50,000. Housing subsidies lift 2.8 million people out of poverty, and children who are in that kind of housing are more likely to go to college and raise their children out of poverty. Instead, if sequestration returns, fewer will get help. You can say the same of Head Start and other preschool programs.

But my third key point, congressional budget practices are slanted against funding for these effective programs and other programs like transportation funding which spur economic growth and jobs. If these kinds of programs need increases, Congress is resolute in requiring cuts elsewhere. Congress even changed the rules this year for the highway bill, now forcing all money taken from the general fund to be offset by other cuts or savings, and that did not used to be the case and will force competition over those offsets, those were envisioned to help pay for sequester relief. While anti-poverty programs are cut, Congress is evading caps on Pentagon spending through the use of the uncapped overseas contingency operations account.

A fourth key point: We cannot meet our people's needs and put Federal spending on a sustainable path without increased revenues. We can afford to meet our needs. Income and wealth has been increasing for decades, but most of these gains are going to the top 1 percent. Income from capital as opposed to labor is growing. We need to alter the Tax Code to capture growing income sources from those who have the most ability to pay. But Congress has been willing to deepen the deficit for tax cuts that mainly help the wealthy and corporations.

The budget is about choices. Congress ought to use hearings and reports to investigate the impact of those choices.

What should we do? End the tax loophole that provides hedge fund managers with a $1.5 billion break or expand preschool and Head Start?

We could use Senator Sanders' far-reaching tax on corporate profits sheltered overseas. That income would stop a great portion of sequestration cuts.

We do need to reduce our debt over time. We are making progress, though. The deficit is now lower as a share of the economy than at any time in President Reagan's Presidency. While it will go up, the upward trend has been significantly slowed by the Affordable Care Act, and that is a piece of very good news.

One final point: the debt limit. It is worth noting that even the threat of U.S. default can dampen economic growth. Please, we are getting close to Halloween. Do not scare us. Just raise the debt limit to pay automatically for programs that Congress has approved.

Thank you.

[The prepared statement of Ms. Weinstein follows:]

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**Reforming the Federal Budget Process: The Need for Action**

Testimony before the Senate Committee on the Budget

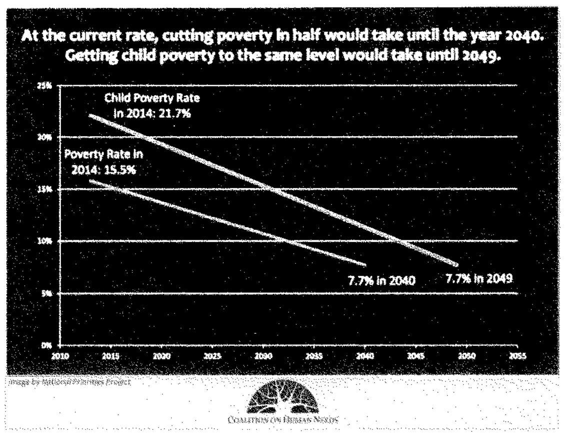
October 21, 2015

By Deborah Weinstein
Executive Director
Coalition on Human Needs
dweinstein@chn.org

Chairman Enzi, Ranking Member Sanders, and members of the Senate Committee on the Budget, thank you very much for the opportunity to testify about ways the federal budget can better fulfill its primary purpose: to serve as a blueprint for meeting the nation's needs.

The Coalition on Human Needs (CHN) is made up of more than one hundred national faith, service provider, civil rights, labor, policy experts and other advocacy organizations, with many thousands in its network nationwide, who join together to protect and improve federal programs of importance to low-income and vulnerable people. CHN is an independent nonprofit organization that does not receive government funding. We believe that the federal budget ought to chart the path towards shared and sustained prosperity. But Congress' current approach to the budget, in its practice and evasion of budget rules, does much to thwart shared economic progress.

***What needs should our budget help us address?*** First and foremost, most Americans have been experiencing stagnant incomes, with those at the median or below taking losses. From 2000 to 2014, the median income for non-elderly households dropped from $68,941 to $60,462, or 12.3 percent.[1] Even after the official end of the recession, the poorest fifth saw their average income decline from $12,279 in 2010 to $11,859 in 2014 (all in 2014 dollars).[2] Forty-eight million are poor; more than one-third of our people live near poverty.[3] Our young families in particular are struggling. They are part of the Recession Generation.[4] As predicted, coming of age in the worst downturn in decades has left many young adults far behind those who reached adulthood in better times. More than 40 percent of families with children headed by 18-24 year old parents are living in poverty.[5] We knew the Great Recession would take a lasting toll, but instead of mitigating its impact, we are drowning our young workers in underemployment and college debt. Home ownership is less attainable, and rents are rising. We are failing to prepare for our aging population – we need more well-trained caregivers and supports to enable seniors to remain in their homes and communities. There are not enough good jobs, but there is plenty of work that needs doing, and that the federal government should share in funding: caregivers for young and old and rebuilding our crumbling infrastructure, to name only a few examples.




In 2014, five years after the end of the recession, poverty declined modestly. But the pace is too slow. If we continue to see the same percentage point reduction year after year, it would take a quarter century to cut poverty in half, and 35 years to get child poverty down to the same rate.[6] We need federal investments to speed up progress. We need to build on the proven successes of programs such as low-income tax credits, which lifted 10 million people out of poverty, and SNAP/food stamps, which raised at least 4.7 million people out of poverty. To programs like these, we should add job creation measures through infrastructure repair and better funding for education, health professions, child care, and home care for seniors and people with disabilities. These investments increase incomes and reduce hardships across the generations – helping workers get jobs now, providing children with better food and health, child care and education, and helping seniors to maintain health and maximum independence.

The federal budget ought to make it possible to invest in economic growth that will reach our young families and protect our seniors. As a first principle, it ought to protect low-income people in budget and deficit reduction plans. That was, in fact, a key tenet of the Bowles-Simpson deficit reduction plan, which was a precursor to Congress' attempts to reduce the deficit.

But Congress has not adhered to this first principle in its budget proposals. The FY 2016 Congressional Budget Resolution instead targets two-thirds of its cuts[7] over the next decade at low-income programs. More immediately, plans for FY 2016 have set up structures and enshrined practices favoring cuts to domestic programs that should be expanded; that increase military spending without proper oversight; and that extend and expand tax expenditures even if they provide incentives for sheltering income offshore, not investments at home.

***Disinvestments in the Routes Out of Poverty.*** The Budget Control Act's imposition of caps has inflicted multiple rounds of damage on many programs that can help low-income people escape poverty. Even without taking the deeper round of sequestration cuts into account, cuts in many human needs programs from FYs 2010 – 2015 were deep. The Coalition on Human Needs analyzed spending on 150 discretionary programs[8] of importance to low-income people over this period, and found that about one-third were cut by at least 15 percent over the five-year period, counting inflation. That includes job training for adults and youth (cut more than 18 percent), low-income home heating or cooling (LIHEAP, cut nearly 40 percent), and juvenile justice state formula grants (cut about one-third). In addition, the number of meals provided to low-income seniors has dropped by 21.3 million since 2005, because funding has not kept pace with rising food and transportation costs. The sequestration cuts occurring in FY 2013 hit harder, causing 57,000 children to be denied Head Start, denying rental housing vouchers to 100,000 households, and reducing the number of meals provided to seniors by about 5 million. Most of the one-year reductions in Head Start placements and senior meals were restored as part of the budget agreement that lifted sequestration caps at least in part in FYs 2014 and 2015. However, only 30,000 of the rental vouchers have been restored so far and the long-term decline in senior meals has not been reversed .

If Congress allows the sequester cuts to take effect again in FY 2016, it will be a needless backwards step, further slowing the nation's modest progress in reducing poverty. If sequestration cuts return this year, spending on domestic discretionary programs will decline to their lowest level as a share of GDP over the past 50 years. Domestic programs will shrink 17 percent from FY 2010 to FY 2016, taking inflation into account.[9]

Cuts over the past few years have affected both discretionary and mandatory programs. Most painfully, Congress cut the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) in 2013. Average costs per meal were reduced from $1.70 to $1.40 per person.

These reductions hurt people. The health research project Children's HealthWatch found that households with children under age three experiencing the cutback were 23 percent more likely to be food insecure (unable at all times to be able to afford nutritious food) than before the cut. Infants and toddlers in these households are at greater risk for bad health and education outcomes.[10]

The loss of benefits hurts, but the other side of the coin is that the presence of benefits like SNAP, WIC, and school meals can set children on the path out of poverty. Sherry Brennan recently told her story to members of Congress and the Administration during a Community Voices Day of Action[11]. As a child, her family received food stamps; she ate free school meals. She did not like the stigma attached to these benefits, but she knows her health and attentiveness at school depended on this help. Now she is a senior vice president in Fox's television networks group, and, as she says, "...I've paid more in taxes over the past 25 years than my entire family got in government assistance..." Sherry embodies the anti-poverty effectiveness of SNAP and other nutrition benefits.

Rental housing vouchers are another case in point. If the Senate Transportation-HUD FY 2016 appropriations bill were to become law, not only will the 70,000 still lost vouchers not be restored, but an additional 50,000 vouchers will be lost. This means families who have in many instances been waiting for years for this help will continue to wait. Housing subsidies lifted 2.8 million people out of poverty in 2014, according to the Census Bureau's Supplemental Poverty Measure, which counts non-cash benefits such as housing assistance that are not included in the official measure. Only one in four eligible low-income renters receives a housing subsidy because funding is so low; if funding were increased, more families would be able to rise out of poverty. Instead, if sequestration returns, fewer will get help.

Rental vouchers are just one example of all the additional harm sequestration will inflict, but it is a powerful one. There is mounting evidence of the benefits of this form of housing assistance to children. Children whose families were able to move to low-poverty neighborhoods were 30 percent more likely to attend college than comparably poor children in high-poverty neighborhoods. As young adults, they paid $394 more each year in federal income taxes because of higher earnings compared to other poor children who didn't move to better neighborhoods, over time offsetting government's cost of providing the housing subsidy.[12]

Similarly, Head Start and other preschool programs improve health and employment outcomes later in life. These differences are true of siblings, when only one was a Head Start participant.[13] Low-income children who have participated in various forms of preschool programs have higher rates of employment, higher earnings and lower levels of criminal activity as adults. A Brookings Institution study judged early childhood education one of the four most cost-effective approaches for children, meriting further investment.[14]

The Obama Administration has proposed full-year, full-day programs for all children in Head Start and preschool for all four year-olds. Neither House nor Senate appropriations bills fund either of these proposals, despite the evidence of their benefits for children. The lack of Head Start funding would either deny 570,000 children the lengthened school day and year or require denying Head Start altogether to 140,000 children so those remaining could get the enhanced schedule. Staying within the sequestration caps also leads Congress to eliminate Preschool Development Grants now provided to 18 states, affecting more than 100,000 children, as well as denying another 25-33 states the opportunity to gain such grants.

Funding beyond the straitjacket sequester levels would allow extra measures to help youth and adult workers recover from the recession. Senate funding for job training and employment services fails to make such investments, leaving 2.7 million fewer workers served than the Obama Administration's above-sequestration proposal.

There are large cuts in K-12 education funding for low-income school districts. Services across government would be undermined because of staffing cutbacks and restrictions affecting Social Security, Medicare, Medicaid, CHIP, and labor protections such as recovery of back wages. Senior nutrition faces continued shortfalls, as the eligible population grows by 12,000 every day, and Meals on Wheels programs average waiting lists of 135 people each.[15]

***Current Practice Disproportionately Hits Domestic Programs and Undermines Investments for Economic Growth.*** There are several areas where Congress has chosen to set up new budget rules, or evade existing ones. They share a common impact: concentrating the burden of deficit reduction on domestic priorities that are needed to create shared prosperity.

- **Evading Caps on Pentagon Spending:** Congress, in enacting the Budget Control Act, provided that if no better deficit reduction plan could be agreed to, cuts would be evenly shared by defense and non-defense (domestic and international) discretionary programs. It was originally anticipated that a balanced plan would incorporate savings from mandatory as well as discretionary spending and would reduce the deficit through revenue increases as well. Instead, the majority of savings have occurred through cuts in discretionary programs. But Congress has been evading the requirement of equal savings from defense and non-defense programs. By increasing funding in the uncapped Overseas Contingency Operations (OCO) account, Congress is attempting to provide sequester relief to the Pentagon unavailable to domestic programs. The OCO funding is $38 billion higher than the President's request, is explicitly intended for purposes unrelated to the Iraq and Afghanistan conflicts, and the increase is not paid for.

Whether defense-related or domestic, requests for additional spending ought to be subject to scrutiny by Congress, and approved if the need is justified. Many domestic priorities can be readily justified: programs are demonstrably effective and meet a significant need. They have nevertheless been rejected because they cannot be shoehorned within the sequester cap. Congress is not applying the same standard to the military.

- **Changing the Rules to Require More Offsets for Transportation Spending:** Maintaining roads, bridges and public transportation are important engines of economic growth and jobs. Consistent with previous practice, the Congressional Budget Office counted total Highway Trust Fund spending in FY 2015 as making up the baseline for FY 2016. That is, $50.6 billion could be spent in FY 2016, or $506 billion over 10 years. That includes $336 billion projected to come from the gas tax, and $170 billion supplied from the general fund. According to CBO's definition of the baseline, only expenditures beyond this continued flat funding would have to be paid for. But this year Congress changed the rules to require that ***any*** expenditure from the general fund had to be offset with other cuts or revenue sources, even if there was no increase over the previous year. That meant that the $8 billion Congress transferred from the general fund at the end of July to extend highway spending through October 29 had to be paid for, and that the further extension about to come due will also need offsets.[16]

  This more stringent rule has problematic consequences for investments in economic growth, because it makes it difficult even to secure flat funding for transportation, while keeping pace with inflation and growth really requires increased funding. But it also deters needed investments in other domestic programs, because they all must compete for a limited set of offsets, made still more limited by Congress' refusal to consider most forms of revenue increases as means of paying for needed expansions. If the "low hanging fruit" of increased revenues from improved tax compliance or other savings that do not come from reducing services are taken to pay for baseline transportation costs, they will not be available to provide more four year olds with preschool or to prevent the loss of more rental housing vouchers.

- **Not Paying to Extend Corporate Tax Breaks:** Unlike the decision to require offsets for current spending levels for transportation costs, Congress has been willing to extend expiring corporate tax expenditures with no offsets. While the usual practice has been to extend these tax breaks for one or two years at a time, the House has passed legislation to make a number of corporate tax benefits permanent, at a cost of hundreds of billions of dollars, without offsetting the loss of revenue. Here too, Congress operates with a different set of rules for tax cuts as compared to funding programs to help low-income people move forward. Not long ago, an egregious illustration of the differing yardsticks was displayed in a House Committee on Ways and Means session. The Committee was marking up legislation to make a number of corporate tax breaks permanent, at a cost of about $300 billion over ten years. These costs were not paid for. At the same time, they were taking up legislation to assist young people aging out of foster care. Included in the bill was $1 million to allow the young people to receive birth certificates, health insurance records or other documents needed to apply for college or employment. The first reaction of the majority was to strip out this provision, because it was not paid for with cuts elsewhere. Exposing this unfortunate decision to the light of day resulted eventually in the approval of these funds months afterwards. But the different standards applied that day to $300 billion in permanent tax breaks versus $1 million in documents to allow young people leaving foster care to make their way in the world was telling.

- **Unwillingness to Invest in Shared Prosperity Through Revenues from Fair Sources:** The federal budget, as noted, is a critically important tool to direct investments in initiatives to help workers advance, children thrive, and seniors maintain independence. In budgeting, Congress chooses priorities, and investments that allow more people to participate more fully in economic growth are sound choices. Congress has been one-sided in requiring offsets to pay for expanded services, while not paying for tax cuts or Pentagon spending that exceeds the sequester cap. If it persists in requiring that investments such as education, nutrition, housing or transportation are paid for, Congress should not exclude fair revenue increases from the mix of possible offsets.

  One example of a good choice is paying for full-year, full-day Head Start by closing the tax loophole for hedge fund managers. Their costs are similar – about $1.5 billion a year for the Head Start expansion, with closing this loophole estimated at bringing in between $1.4 billion - $1.6 billion. There is bipartisan support for ending the hedge fund manager's extra break. Which makes more sense? Continuing a lower tax rate for millionaire hedge fund managers or improving early childhood education to increase its employment, earnings and other benefits?

  This is just one small example. At a time when inequality is rising, with about 30 percent of that rise fueled by changes in U.S. tax and budget policies that either favor the rich and corporations or reduce incomes for those with low incomes,[17] we can reasonably reduce spending in our tax code that benefits the rich. Those who reject incorporating such revenue increases in budget plans should acknowledge that virtually all the economic growth since the end of the Great Recession has gone to the richest Americans. There has been no trickle-down benefit. Federal spending, however, can help all Americans to share in and contribute to economic growth. In bad economic times, deficit spending has worked to revive the economy. A new analysis by Alan Blinder and Mark Zandi shows that without the federal spending enacted during the Great Recession, 17 million jobs would have been lost (twice the actual job reduction) and the unemployment rate would have jumped to nearly 16 percent.[18] When the economy is stronger, it is not unreasonable to ask those who have reaped all the gains to contribute so that more can make progress. Senator Sanders' far-reaching legislation to end the evasion of U.S. tax liability by corporations sheltering income overseas would raise close to $600 billion over 10 years. That alone could replace most of the sequestration cuts. Other sources of revenue that would redress inequality and enable investments in child care, nutrition, housing assistance, education, infrastructure, scientific research, and more, include repealing the tax break for fossil fuels ($48 billion over 10 years); raising the capital gains tax to 28 percent ($233 billion over 10 years) and imposing a small financial transactions tax (at 30 basis points, $350 billion over 10 years).[19] Congress should revisit its approach and make fair revenue increases an integral part of making the federal budget work for all Americans.

***One Change That Can Prevent an Unprecedented Self-Inflicted Wound.*** As we head uncomfortably close to exhausting the Treasury's authority to borrow, it is worth noting that even the threat of U.S. default can dampen economic growth. The solution is certainly not to dictate that the U.S. will pay only bondholders and Social Security beneficiaries, while failing to pay/delaying payment on all its other obligations. Can anyone really think it is responsible even to threaten the loss of veterans' benefits, nutrition assistance through SNAP, paychecks to federal workers, rental vouchers, grants to states for education and community development, and so much more? One budget change should be a return to automatic increases in the debt limit as needed to pay for the programs that Congress has itself approved.

***Conclusion.*** The federal budget is needed to fuel sustained economic growth that reaches all of us, not just multimillionaires. To the extent that Congress skews the process so that spending caps and other restrictions are applied rigorously to domestic programs while not applying these rules to Pentagon spending and tax cuts, budget practices will thwart progress. We know much more now about the benefits across generations of low-income tax credits, nutrition, education, housing, health care and jobs programs. These programs are cost-effective investments. Congress should stop sequestration cuts while protecting vital programs like SNAP, Medicaid, and low-income tax credits. Putting these needs first will help to mitigate the damage done to young families and retirees alike by the Great Recession. The workings of the economy plus budget and tax policies that favor the rich have resulted in economic gains felt only by a small fraction of people and corporations at the top. Changing budget policy and practice can help millions more make gains.

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Chairman ENZI. Thank you.

Now we will turn to questions, and I will take a second to explain how we do this. Each member will have 5 minutes for questions, beginning with myself, and then Senator Whitehouse has suggested—

Senator WHITEHOUSE. I will yield to the rest of the Democrats since I will be here to the end.

Chairman ENZI. Okay, yes. All members who were in attendance when the hearing began will be recognized in order of seniority. And for those who arrived after the hearing began, they will be listed in order of arrival. So we will begin with the questions.

Dr. Holtz-Eakin, I mentioned in my opening statement that the balance between discretionary and mandatory spending in the Federal budget has changed substantially, and you mentioned it in your comments as well. Given the increasing share of outlays devoted to mandatory spending, does the current budget process allow adequate legislative oversight? Does it allow review of existing mandatory spending programs? And can it allow oversight and review?

Mr. HOLTZ-EAKIN. I do not believe so. As everyone has noted, the rise in mandatory spending is squeezing out of the budget the annual discretionary appropriations. The Budget Control Act merely codified something that has been going on for a long time. I think it is important to think hard about how the Congress can essentially budget the mandatory programs. Medicaid is an appropriated entitlement, and so you have the opportunity there every year in principle to look at Medicaid and figure out how much you are going to spend on it.

I think anything that the Committee and the Congress as a whole can adopt to better regular oversight of the trajectory of these mandatory spending programs is the single biggest step toward getting things lined up correctly.

Chairman ENZI. Because we do not get a chance to actually look at the details of those programs, we do omnibuses. That runs into some problems.

Mr. Peterson, your foundation's Solutions Initiative gathered long-term budget plans from groups across the ideological spectrum with the goal of laying out some options to set the Federal budget on a sustainable path for prosperity and economic growth.

Taken together, can we provide a range of scoreable policy proposals? Can we shift focus to the true drivers of the future Federal spending and debt? Do you think the current budget process encourages Congress to think and create policy within some sort of strategic long-term framework?

Mr. PETERSON. Clearly not. I think the current budget process, as I said in my testimony, does not look enough out into the future, and that is why we recommend looking out 25 years. I think one of the best aspects of the Solutions Initiative was that we set a 25-year period. And I think the organizations enjoyed having the ability to look out longer and be more strategic and forward-thinking.

Really, there are two problems with looking at only 10 years. One is visibility. As we say, I think the greatest threat to the future of the country is not happening within the next 10 years, but it is in the next few decades. If you only look 10 years, you actually do not see the big problem. If you measure debt as a share of GDP, it is relatively stable over the next 10 years, but it really begins to skyrocket thereafter. So if you have a budget process that effectively ignores the real problem, how are you going to solve it?

And then, secondly, credit. A lot of the best long- term reforms are phased in gradually. They deal with things over time. If the budget process is so focused on 10 years that any of the latter second-decade effects are not even measured, how do you get credit for those reforms? How do you justify those reforms, et cetera? So we think that is a very important component of budget process reform.

Chairman ENZI. Thank you.

Dr. Holtz-Eakin, in recent years we have seen Government loan programs expanding significantly. Do the current budget rules understate the cost and risk of these loan programs and make them seem profitable? Do the rules encourage Congress to add and expand these types of programs without adequately disclosing the true risk to taxpayers? Perhaps you can tell us what the origins are of the scoring system and how it can be improved to incorporate modern financial concepts in our budget estimates.

Mr. HOLTZ-EAKIN. I think this is an important issue. I mean, credit market activities are a large fraction of what the Federal Government now does, and the original Federal Credit Reform Act was intended to level the budgetary playing field between direct loans, which showed an immediate outflow and then a series of receipts over time, and loan guarantees, which showed no outflow but, in the event of default or delinquency, cash flows going out of the Federal budget. Those are economically equivalent activities and should have looked the same in the budget. The Credit Reform Act did a good thing by getting those equalized and their budgetary treatment equalized.

What it did not do was treat as the same a loan that exists in the private sector and a loan that is put on the Government balance sheet. And, indeed, by leaving out the market risk associated with loans and only putting into the Credit Reform Act the credit risk of those loans, it made all of the Government loans look more valuable than they really are. And a great budgetary problem is getting rid of a private loan, putting in on the Government balance sheet, and showing that as a scoreable savings for the Federal Government when, in fact, it is exactly the same economic entity in both locations. That needs to get fixed. Fair value accounting is the way that could get fixed. And I would encourage any budget reform to take a good, hard look at getting that squared away because it is a big part of what the Federal Government does and we are misleading people in every way when we show the transactions at the moment.

Chairman ENZI. Thank you. I do have additional questions for all three of you, and I will submit those in writing, and anybody else can, too. I would appreciate it if you would provide us timely answers on those.

[The questions of Chairman Enzi follow:]

PETER G. PETERSON FOUNDATION

**Responses to Questions for the Record**
**Reforming the Federal Budget Process: The Need for Action**
Senate Budget Committee
October 21, 2015

Respectfully submitted by Michael A. Peterson
President and CEO, Peter G. Peterson Foundation

**Questions from Senator Enzi:**

**One reason why the budget process may not work as well as it should is the frequent lack of effective, coordinated support by the agencies that provide analytical assistance to the Congress. Would it be useful to bring in an outside management consulting group to assess how well the CBO, the Congressional Research Service, the Governmental Accountability Office, and other groups support the budget process?**

The agencies that provide analytical assistance to the Congress (including the Congressional Budget Office, the Congressional Research Service, and the Governmental Accountability Office) play very important roles in providing independent data and analysis to policymakers. While the work of these groups may at times overlap, taken as a whole they provide Congress and the American public with access to fiscal and budgetary information from multiple, independent sources. Whatever changes Congress might consider to improve this process, we believe it is essential to preserve the integrity and independence of each group's work.

**In your written testimony, you state that America's future debt burden will reduce personal incomes by as much as $6,000 per person. How does debt negatively affect the economy and wages generally? What organizations recognize the debt effect and how do they calculate the total effect? What socio-economic groups are most adversely impacted by an unsustainable debt burden?**

Our growing federal debt hurts economic growth and incomes in several ways. Growing debt levels reduce the amount of private capital available for investments. Budget deficits effectively lower the level of our national savings, which in turn reduces the level of investment, slows the growth of workers' productivity, and hurts economic growth and wages. In addition, rising interest costs on our debt risk crowding out federal investments that contribute to economic growth, such as education, R&D, and infrastructure. Moreover, on our current path, we are at greater risk for a fiscal crisis, which could significantly harm the economy. Lastly, high debt levels leave the government with much less fiscal flexibility to deal with future economic crises.

Senator WHITEHOUSE. Mr. Chairman, since I will be here as Ranking Member until the end of the hearing anyway, I am going to allow my colleagues to go first. And I believe Senator Baldwin was the first of those who are present.

Chairman ENZI. Correct.

Senator WHITEHOUSE. So, Senator Baldwin.

Senator BALDWIN. Thank you. I appreciate your holding this hearing.

We talk often about budgets as documents reflecting our values and our priorities, and I know I bring to the Senate Budget Committee a priority on building an economy that works for everyone and not just the wealthy few. But, also, I served on the House Budget Committee early on in my House tenure, and now I have the privilege of serving on this Committee in the Senate. So I have had the chance to see how the process has worked at various points in time, and it is interesting to sort of see this predictable path to crisis and manufactured crisis.

You know, in 2013, as a brand-new Member of the Senate and this Committee, we had one House in Democratic control, one House in Republican control. Each passed a budget that, arguably, reflected a set of priorities, partisan priorities, because they came out on pretty partisan votes. But then there was a negotiation that occurred between Senator Murray, our Chairwoman, and Paul Ryan, the House Committee Chairman, that gave us a blueprint for 2 years.

This year, as we started our process, each House is obviously controlled by a member—or by the same party, but we have a President who made it very clear that in order for the final products, the individual appropriations bills, to gain his signature, there had to be some compromise. So I think part of our challenge is how do we get compromise up front rather than on the eve of a crisis or create unnecessary ripple effects throughout the economy as we approach the brink time after time after time.

I guess I would ask the three of you, in terms of a process focus, how do you put compromise earlier in the process? If you have any brilliant ideas for all of us, let me know. Please.

Ms. WEINSTEIN. Thank you. That is a tough question, and I wish I did have a magical process answer for what is, as I think others have said, a policy dilemma, and that two things I would put out: one is when there were compromise efforts being discussed, it really did start with the premise that there needed to be multiple parts to a solution, and that that solution needs to include revenues, that there certainly have to be some spending reductions, but that—and that they should certainly not be limited to the discretionary area. Everybody understood that would be a very bad outcome.

But because we could not agree at the outset that all elements, spending and taxation, needed to be part of the solution, then things did transpire to be this kind of Government by crisis and standoff.

Senator BALDWIN. Let me make sure in the time remaining that I get to hear from each of you. But if I were not using up all my time, my next question would have been about a revenue proposal, my bill to close the carried interest loophole, which you talked about in your testimony, Ms. Weinstein.

Douglas?

Mr. HOLTZ-EAKIN. In terms of process proposals that are in the spirit of what you asked, probably the most prominent is to change the budget resolution from a congressional resolution into a law and force the House, Senate, and President to agree at the outset on the broad outlines of—

Senator BALDWIN. Which the Murray-Ryan proposal ultimately had as an impact because it amended the sequestration Budget Control Act language.

Mr. HOLTZ-EAKIN. Right. I think the lessons of Murray-Ryan are:

Number one, the discretionary caps are a great budget gimmick, but they do not reflect real policy. And so until you have got a policy underneath those caps that people are willing to live with, they do not really mean much.

The second is the Murray-Ryan deal raised discretionary spending and cut mandatory spending. That is the fundamental need in the Federal budget going forward, and repeating those steps again and again would be a good idea.

Mr. PETERSON. I would just simply add, back to the point I made earlier about setting fiscal goals, I think if you are looking to get compromise and cooperation earlier in the process, I think it would be easier to agree on a goal than some of the other measures of the budget. So putting something forward in the beginning of the process, like what is our fiscal goal in general, to me would start the process off better.

If you look at our Solutions Initiative, all of the organizations, despite being very different, all came out pretty similar in terms of the long-term debt as a share of the economy. So setting fiscal targets, fiscal goals, to me is an essential part of the budget process anyway. But if you are looking for more cooperation, I think it is easier to come around a goal first and then move toward the policy second.

Chairman ENZI. Senator Perdue.

Senator PERDUE. Thank you, Mr. Chairman. I do have some questions that I will submit for the record. I just have a couple of comments, and I hope I have time to get to a question on the 25-year planning horizon. But I want to give a little context, just as the Ranking Member did.

First, in the last 100 years, we have had three super majorities, all Democratic: the first gave us the New Deal, the second gave us the Great Society, and the third gave us Dodd-Frank and the Affordable Care Act. I am new to this process, but I am a business guy, and I am looking at this thing, and I can—a lot of the responsibility for this current financial catastrophe we can lay at the feet of those three super majorities.

But I will tell you the irony is that they have not achieved a lot of the goals that we had set for them even when they were imagined many years ago, and that is, to help the people who need help the most. And those are the people—Ms. Weinstein, I agree with you. One of my first jobs was in the Head Start program. The people in most jeopardy because of our intransigence in Congress are the people who need help from the safety net

However, what we have got right now is a system where today the poverty rate is the same as it was when the Great Society was signed into law. In the last 6 years, we have spent $21.5 trillion running our Federal Government. That is so large, Mr. Chairman, it is hard to relate to that. What I can relate to is the fact that of that $21.5 trillion, we have borrowed $8 trillion of that.

Now, in the year 2000, we had $6 trillion—$5.5 trillion of debt. By 2008, we had $10 trillion, as the Ranking Member rightly pointed out, probably largely due to two wars. However, since then we are on track since 2010 to more than double the debt by the time this administration leaves office.

The budget process does not produce a budget, as we in the business community know it. Dr. Holtz-Eakin, I agree with you, the reason I applauded is that you called that out. This is not a budget process. We have got a situation right now literally today where we have passed a budget this year, as we call it, we have gone through an authorization process, and here we are in the appropriations process, and yet one side in a partisan way is blocking those very bills which 11 of the 12 appropriations bills were passed in a bipartisan way in Committee. One party is deciding that we are going to block those from even getting to the floor to have debate. This process does not work. The people back home know that, and it is time to do something about it.

But let me just remind everybody. When this budget process was put in place in 1974, the debt was 32 percent of our GDP, full debt. In 2000, it was 55 percent. Right now, it is a little over 100 percent if you include the $4 trillion that is owed to various parts of the Government.

It seems to me that with a system that has only worked four times in the last 40 years, Mr. Chairman, we have got to change the process. I think all three people here with different perspectives are saying the same thing, and I applaud your testimony today.

Mr. Peterson, I am going to run out of time, but I really want to ask you—the 25-year planning horizon is very intriguing to me. On the one hand, I agree 100 percent, because if you look at the mandatory expenditures over the next 10 years they double; over the following 10 years they quadruple. It runs away from us. So while I hear one side beating their chests about our deficits are at an all-time low, well, I understand what the math is, but the debt continues to spiral out of control.

My only problem with the 25-year planning horizon is it seems to me we need to have two things. If you have a 25- year planning horizon that allows us to spend money now and save it later in the 25-year planning horizon, that is a problem. I see it even in the 10-year horizon. So it seems to me we need to do what most corporations do in the world, and that is, look much shorter term in terms of the expenditure planning with a 3-year budget and a 25-year strategic plan to look at these important dynamics as they come at us, particularly in our crisis here with the mandatory spending and the people we are putting in jeopardy.

Would you respond to that?

Mr. PETERSON. Well, listen, I think looking out 25 years does not mean you only look at the 25th year. You have got to look at the path from here to there, clearly. And as I said also, setting medium- and long-term goals would be part of the process. So if you have been in business, you know you do not just look at the fifth year. You look at every year, for example, in a 5-year plan.

And, lastly, I would say budget enforcement—

Senator PERDUE. But we do not really do that. This budget does not do that. I agree with you 100 percent. If we did it properly, it would not be a problem. We do not do that. A lot of what we do is we will spend the money in the first few years, but we will save it in the last few. Then the problem is we roll into the next year, and now everything is forgotten. All bets are off, and here we go again.

I agree with you we need a longer-term perspective but address the shortfall in—

Mr. PETERSON. Well, I think it comes to the third point I was making about budget enforcement. We have got to make sure we are staying on that path. So if agree on a long-term path and you agree on a set of goals and objectives, you have got to make sure you are meeting them along the way. And I think we cannot have the dessert before the vegetables, so to speak, and have all the easier things to do and delay that and then delay that further. So we have seen kicking the can down the road for a long time, and we need enforcement measures to make sure we stay on that path.

Senator PERDUE. I am out of time. I have got other questions. I am going to hang around, Mr. Chairman. I hope to be able to ask Dr. Holtz-Eakin and Ms. Weinstein a couple questions as well. Thank you.

Chairman ENZI. Thank you.

Senator Kaine?

Senator KAINE. Thank you, Mr. Chair, and thanks to the witnesses. My time running a law firm and being a mayor and being a Governor has made me a certainty fanatic. I think both internal to the organization of a government—State, local, Federal—external, you know, the nonprofits that are out there doing work, universities, citizens making their plans, companies trying to decide what they want to do, certainty has only an upside and no downside. And where we have really failed here is we have not provided certainty to anybody, internally or externally.

Senator King and I were just coming from an Armed Services hearing with former Secretary Gates talking about defense reform, and he said the biggest threat to the United States is not the deficit. He said the biggest national security threat to the United States is dysfunction and indecision within the 2 square miles encompassing the White House and Capitol Hill.

He talked about the fact that over the last 10 years, only twice has a fiscal year started with the Defense Department or any other unit of Government having an appropriations bill that gave them certainty about what they could do, how they could plan to use their funds. He talked about 2013 when mid-year suddenly, because of the sequester going into effect, they had to achieve a whole bunch of savings during a partial fiscal year or CRs that then there is later appropriations where then they have to spend money that they did not necessarily know they would have.

So, Mr. Chair, I applaud you having this as the first of a series of hearings about budget reform, and I am going to be pro-budget reforms that promote certainty and that force us to do what we are supposed to do. Even if I do not like a line item, I would much rather have a line item than have a question mark. And we should not be getting to October 1 of every year, if we are going to say that is the start of a fiscal year, and have everybody just have question marks and not know what we are going to do.

So I guess I would like—you know, I do not know who it was that said that consistency is the hobgoblin of small minds. Is a desire for certainty a hobgoblin of small minds? Or would you all agree that the more certainty we could put into a budget process that Congress would actually do the job and have appropriations bills by October 1 the better?

Ms. WEINSTEIN. Well, I completely agree that if you are a social service agency wondering what allocation you are going to get or a Federal agency trying to figure out how to plan, it sure does help if you know what you are going to get. You are absolutely right. I would say that kind of certainty is something that we need to work towards. The way we are going to get there, though, is to have that agreement on goals and be assessing what works, and that will help us to be able to have the agreement that you are looking for.

I would say on the long term we need a little humility in terms of, you know, right, it would be nice to be able to predict 25 years out, but at least we need to understand that we have got to keep reassessing because we can be wrong, and small wrongness creates a gigantic problem down the road, so a little humility in recognizing where we cannot be totally certain.

Senator KAINE. Thank you.

Mr. HOLTZ-EAKIN. There has been some very good work done by Steve Davis at the University of Chicago and some of his co-authors on the impact of product uncertainty on economic performance, literally how will we grow and create jobs. And those impacts are dramatic, and this is a period of very high uncertainty with big negative impacts on the economy.

So there is no question that diminishing that uncertainty would be beneficial not just to the process but to the economy as a whole. So I would applaud that.

The one certainty we do have, I will point out, is that we are going to have a crisis. We do not know what day yet, but let us not confuse the short-term uncertainty with long- term uncertainty. We know what is going to happen in the long term. We are off track, period.

And I just want to, you know, as someone who has sat at this table and tried to explain how we made $7 trillion misses in the 10-year window, forecasting 25 years is not an easy task. Enforcing a 25-year budget, when some of the reasons it changed are not policy decisions but, in fact, forecasting changes by people like the Congressional Budget Office becomes a very difficult thing to actually do.

So I like the idea of knowing what is going on over 25 years. But you know. You can look at the CBO's long-term budget outlook right now, and that is very different than doing something about it. And I do not think the process is going to get you to do something about it. That is a policy decision that you should make.

Senator KAINE. Mr. Chair, could I ask Mr. Peterson just to respond to my certainty point? I am at my time, but if he could?

Chairman ENZI. Yes, briefly.

Mr. PETERSON. I would agree with Doug. Certainly it is very important for the economy for businesses to make decisions. When you delay important policy decisions that are designed to create a positive economic environment and no one knows what the policy is, that certainly is a strong negative. In particular, sometimes tax credits are not dealt with until the end of the year in which the behavior that was supposed to—or in the tax credit that has already happened. So that is probably the worst example of that. But I think it is very important to focus on certainty.

Senator KAINE. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Corker?

Senator CORKER. Thank you, and thanks for having this type of hearing, and I want to thank all three of you for your testimony.

I could not agree more that the budget document ought to be a law. I think the American people are fooled by the budget. They believe that we actually have a budget process, and they do not understand that it is not really a law. And so what it becomes is a political document that, at best, sets 1-year spending caps. But because we do it in a totally partisan way, it ends up leading to the type of situation that we have right now. So I could not agree more that it should be a law that is signed by the President and something that we go forward with.

Now, let me ask you this question: To make it a law that works, we would have to also put in place all the policy assumptions, it seems, that we make that we know we totally make them up. It is unfortunate. It is never going to happen. Our 10-year budget is never going to happen, the policy assumptions that we make.

What would be a forcing mechanism—you have been here inside Government, Douglas. What would be a forcing mechanism not just to set the spending levels but to force us to actually put the policies in place so you would actually achieve those levels?

Mr. HOLTZ-EAKIN. So I think there are two different answers. On the discretionary side, I would not try to solve that problem, and the reason I would not try to solve it is I think a future Congress—

Senator CORKER. On the mandatory piece.

Mr. HOLTZ-EAKIN. That is the piece. That is where the big money is, and that is where—

Senator CORKER. Okay. But how do we make—how do we create a forcing mechanism so instead of laying out these things that we know are never going to happen, it forces us to deal with these issues?

Mr. HOLTZ-EAKIN. So if you go down—you sign a law, then that law should contain language that would be quite similar to the reconciliation instructions, that says to hit these targets, we will give to the Ways and Means, the Senate Finance Committee, you know, the committees of jurisdiction, the responsibility of delivering policy that hits that target. If they do not, the Budget Committee can draw it up, and we have an actual procedure that has been used. That would force it to happen. And if they choose not to do it, since it is a law, it would then go to the executive branch. So if Congress decides to punt entirely, you live with the consequences.

Senator CORKER. Mr. Peterson, I love what your organization does, and I thank you for your testimony, and the 25-year issue is interesting to me. The problem with it is, because we do not have forcing mechanisms to actually change policies on the mandatory piece, it would be just as irrelevant as the 10-year budget that we have right now. Again, all we have done is established a 1-year spending level that now we are not even going to adhere to.

Let me come to another point. What about the process we go through here where we spend money like we are doing this year on the highway bill; we spend it over 3 years, and we act like we are paying for it over 10. Now, that is not part of the budget process. It is unfortunately the character of this body. What is it we can do to affect that so that we are not making up—I mean, for instance, in this highway thing, it is unbelievable. The Republicans are doing this, by the way. Fiscal hawks. Republicans. We are going to spend money over a 10-year period, only 9 percent of the offset—we are going to spend money over 3 years, pay for it over 10, only 9 percent of the offsets occur during the years we are spending the money.

And, by the way, we are making up stuff, like oil is going to sell for $89 a barrel at some point.

So how do we cause there to be some integrity—there is none in this bill, in my opinion, but some integrity in how we pay for things?

Mr. HOLTZ-EAKIN. I am not usually a source of integrity.

[Laughter.]

Mr. HOLTZ-EAKIN. So the highway bill is probably the biggest example of something that is all wrong, I mean, because it is part discretionary, part mandatory, the easiest place to evade anything. So do not create more things like the Highway Trust Fund, okay? Be honest about what is coming in and what is going out and put it in there, force—you can in some cases force offsets to lie within the same area and, thus, not get into this business. Or you can have points of order for any time you increase the out-year, meaning the second year, third year, fourth year. But in the end, if you allow for this time shifting that Senator Perdue mentioned and which is common congressional practice, there will be the temptation to defer the pain and take the spending up front. It has been true for a long time.

Senator CORKER. Well, look, we have got—the budget document should be something that has integrity and means something. And a way for that to happen is for it to be a law and for us to force the policy changes that it takes to meet those numbers.

Now, this is probably far-fetched, but one of the things we could do without changing the law is decide we are not passing any more budgets unless they pass with strong bipartisan support. If we do that and we move away from them becoming political documents, then we actually have something that we have a much greater chance of adhering to.

But with that, Mr. Chairman, I thank you for the time.

Chairman ENZI. Thank you.

Senator King?

Senator KING. Thank you, Mr. Chair.

Taking off on what Senator Corker just said, I am all for looking at process. I think it is important. I think there are things we can do, perhaps a 2-year budget, a capital budget. I think there are lots of process. But, come on, the problem is us. It is not the process. We could have any kind of process. This is perfectly good process: pass a budget bill, pass appropriations bills, and vote on them before October 1st. I mean, that is where the problem is.

I would say, you know, changing the process is like rearranging the deck chairs on the Titanic, except that would be an insult to the Titanic. I mean, we—there is no process change that is going to fix this. It is that Congress has to do its job, which it is not doing.

I am sort of speechless, which is very uncommon for me, but—and here is another example. If a terrorist group—I am on the Intelligence Committee. If we went to a meeting this afternoon and found out that a terrorist group was going to attack our financial system in 2 weeks, raise our interest rates, disrupt our economy, cost us jobs, and devalue the dollar around the world, we would be bombing them. Oh, wait a minute. That is the debt ceiling debate. We are doing that to ourselves.

It is just completely—to the man in the street, to our citizens, they do not get this. You know, this is not nuclear science. This is making numbers balance. Every household does it. Every business does it. And we are just kidding ourselves.

One of the things that surprised me when I came here is nobody ever heard of net present value. We are using 25- cent dollars 25 years from now to offset real dollars today. I mean, that is a just a minor example.

If you can find a question in there, you are welcome to it.

[Laughter.]

Senator KING. But, seriously, do any of you want to— now is your chance to take a shot at this really—well, I will save the adjectives. "Poorly performing institution," how is that?

Ms. WEINSTEIN. I guess here is the question I will glean out of that. Congress does understand really that they are doing the budget for a purpose. Everybody may not agree on the primary purpose, but they know that there are important things and needs that our Nation has that the budget should enable us to meet. And where we get so snarled up or you get so snarled up in, you know, budgetary tricks that pay for things in odd ways, it is because you really want to meet some of those needs. We absolutely—

Senator KING. We want to meet the needs, but we do not want to necessarily pay for them. That is the problem. The Highway Fund is a perfect example. Everybody says, you know, we need to do something about our infrastructure, and we are using this Rube Goldberg scheme about foreign taxes and everything else that has nothing to do with highways because nobody around here wants to say we have got to pay to fix the highways.

Ms. WEINSTEIN. And if you—

Senator KING. The one thing this institution does really well is avoidance, and that is the pattern, whether it is the Highway Fund or the overall budget.

Sir?

Mr. HOLTZ-EAKIN. I would say two things. Just to repeat, the problem is not the process. The problem is the problem. I think we recognize that, and you have to deal with the problem.

The second is, you know, I mentioned fiscal rules in my written and my oral remarks. One of the reasons those have worked is it gives the legislatures, who have a rule that says you cannot do more X, Y, or Z, a way to say no. You have no good way to say no to a constituent right now, because there is no boundary. There is nothing you really cannot do. And so it empowers lawmakers in ways, and I think looking at those rules is important. And, you know, all I can say is what the current process has accomplished in 40 years, you know, if you look back 40 years at the Congressional Budget Act, I think now the budget is, you know, performing poorly and Congress is more embarrassed than it used to be, and that is all we have really accomplished.

Senator KING. Thank you, Mr. Chair—oh, I am sorry.

Mr. PETERSON. I was just going to add briefly, I agree with Doug that the process is not a substitute for the policy. And one of the challenges here it is very easy to defer difficult decisions. But if you need additional incentive, one of the charts we have in here talks about, if we keep waiting, how much harder it is.

Senator KING. Oh, yeah.

Mr. PETERSON. The current fiscal gap is 3.2 percent of GDP, so that is the sum total of all the changes, revenue or spending, we need to make to solve this problem. If we wait just 5 years, that amount goes up by 24 percent. So the problem is 24 percent more difficult 5 years from now. Ten years from now, the problem is 66 percent more difficult.

So, yes, in the moment, it is easy to postpone these things, but you are actually—you know, the more we wait, the harder it gets.

Senator KING. But we are not going to be able to solve them as long as both sides of the political equation adhere to almost theological positions that make it impossible.

Thank you.

Mr. PETERSON. It requires compromise.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you.

First, I want to thank Chairman Enzi for holding this hearing. This is a really important issue, and I think that the selection of the panel has reflected the sincerity of his views about getting something done. This is a very helpful, thoughtful, honorable panel.

You say you do not represent integrity, Mr. Holtz- Eakin, but I think you do. And I appreciate your views, even though we do not always agree.

As a member of the Budget Committee, it pains me to say this, but the budget process has become meaningless, and I am sick of it. Partly it has become meaningless because the penalty to the Senate for violating the budget process always was that you had to get all the way to 60 votes if spending violated what this Committee had authorized.

Now that we are at a place where you have to get 60 votes for anything and everything, we have mooted any effect that this Committee has. The appropriations folks know they have to get 60 votes for their stuff. Once they have got 60, who cares what the Budget Committee did?

Also, given the size of things, I think we need to look beyond a 1-year budget. It just does not make sense to me to be putting all that effort in to only get 1 year of return out of it, particularly when ultimately it does not matter and the appropriators can completely ignore this Committee because they have played the 60-vote target already.

The result has been, I think, really a pretty embarrassing process. The most embarrassing day in the Senate is vote-a-rama. Most of the amendments are preposterous. Only slightly less embarrassing is the Budget Committee process when we go through hours after hours of these deficit-neutral budget reserve fund things, which never have any effect but occupy the day, and when the dust really settles, what happens is one party produces a budget that I think in the case of the last one—I have said this before. I do not think the Republicans actually would have lived with the budget they passed. I think they passed a budget knowing that Democrats, thank God, would be there to stop them from what they passed, because if they had passed it and had to go home and sell it with its outcomes in regular families' lives, people would have said, "What did you maniacs do? What is going on here?"

So that whole process, I think—and that was the last one, but I think it happens on both sides. We do not get to the process of it. I think the best comment that has been made today was Senator Corker's. Either do it bipartisan or do not do it at all. And I hope that if I ever become Chairman of this I can get an agreement real early on that the budget vote-a-rama process is of fixed duration, and at some point if you want to hang around for voice votes, that is your business. But these votes that have nothing to do with budgeting, that are targeting individual Senators for political campaigns, I mean, it is—we have become preposterous, and it is a shame because there was a good intent behind this Budget Committee. But I am tired of being on a Committee that is preposterous and meaningless. So we need to change

So thank you, Chairman Enzi. I think your desire to do this is very sincere, and I think this has been very helpful.

The second point I will make is that if we are going to do this, right behind the question of the budget reforms is the question of what you do. And if we are going to do this—and I agree that the debt has got to come down, but everybody who has looked seriously at this has looked at it and played multiple cards. We cannot do this just with cuts. This is not where you only get to play the drums, you know? There is also a horn section. There is strings. We have got to work on all of it. And from our point of view on our side of the aisle, we have seen discretionary spending go from over 9 percent to under 7 percent. We believe we kind of have given at the office on spending. And yet we see out there the most wealthy and heavy-earning corporations in the history of the planet getting completely unnecessary and ridiculous subsidies for oil drilling, and people defend that as if it were essential to the survival of the Republic. It is not. It is ridiculous. It is unnecessary.

Hedge fund folks who earn more money in a year than their grandchildren could spend pay lower tax rates than hospital order-lies and truck drivers, and we cannot get any movement on that to add revenues to the equation?

The Social Security problem, one easy way to solve it is there is no reason somebody making $118 million should make the exact same contribution to Social Security as somebody making $118,000. And that is the silly rule that we have, and people defend it as if it was essential to the continuation of the Republic.

We have to have a longer-term conversation, I believe, and my time has expired, but I want to thank *** pages 8 to 11 about what health care costs mean. We can have a sensible conversation, but not if the only thing we can say in this building is, “Repeal Obamacare,” “Oh, do not,” “Repeal Obamacare,” “Oh, do not.” We absolutely have to have a sensible conversation because it is preposterous for us to be spending 50 percent more than our least efficient international competitor and delivering health care outcomes that Croatia matches us on. We can do a lot better, and I will yield. I see Senator Ayotte has come for her time, so I will silence myself.

Chairman ENZI. Senator Ayotte.

Senator AYOTTE. We are not asking you to silence yourself. Well, thank you very much. I appreciate it. And I thank all of you for being here.

I wanted to ask about a couple of different issues. I first wanted to get your thoughts on baseline budgeting. We have this process that, under the current process, I know that Dr. Holtz-Eakin is quite familiar, given his prior positions, with the baseline budget practice that automatically builds in increased spending based on inflation into the Federal budget. And there has been discussion about the potential of eliminating that so we can compare apples to apples, and I wanted to get your thoughts on that.

Mr. HOLTZ-EAKIN. I think this is one of the top things for the Committee to look at. I actually do not have a strong position on where you end up, but the current asymmetries do not make any sense.

Senator AYOTTE. Right.

Mr. HOLTZ-EAKIN. On the spending side, the inflation of discretionary accounts over the 10 years, the continuation in the baseline of any spending program over $50 million, but on the tax side, things following current law exactly in the moment—

Senator AYOTTE. Right. We have got to disconnect, right?

Mr. HOLTZ-EAKIN. It ought to be the same.

Senator AYOTTE. Right. On one side we are building in the automatic inflationary increase.

Mr. HOLTZ-EAKIN. Yes.

Senator AYOTTE. The other side, we cannot do any dynamic scoring, so they are inconsistent.

Mr. HOLTZ-EAKIN. So, you know, if you want to do current law both sides, fine. But that means the discretionary goes away. At the end of the year it is gone. Or you can essentially do current policy, extend everything that is going on for 10 years. But, number one, make it symmetric so that you are at least dealing on a level playing field. That seems like a minimum requirement for a budgetary document.

Senator AYOTTE. Make it consistent.

Any other thoughts on the panel about this?

Mr. WEINSTEIN. Well, just very important to recognize that if you are trying to assess what it actually costs to provide a service and you do not factor in inflation over the years, you will ratchet down these programs, and we know that discretionary domestic programs have already, as everyone has said, been ratcheted down hugely. So you want to watch out for making that worse.

Senator AYOTTE. No, I appreciate the role of inflation, and I think the idea—one thing that gets frustrating is a lot of times we have these fights about, okay, we are cutting spending, but, you know, it is not— your average person thinks like, okay, I have got $25 and if, you know, I am cutting spending, I am going to $20, right? So I just want to make sure that we have an honest conversation on both the revenue side and also on the spending side, which is—I hope this is something we could think about as a group on a bipartisan basis, how are we going to judge this. There is no doubt that we have to look at what things currently cost, but I think we also need to make sure that we are consistent in how we are doing that and have an honest conversation about it.

The other issue that I wanted to ask about briefly is biennial budgeting. There has been a lot of discussion about biennial budgeting here, and that is how it is done in New Hampshire. And in conjunction with that, I want to ask about something that is probably a little controversial, but—and that is this, because at the State budget level, it is a biennial budget where you pass the budget for 2 years.

The second—what we would do in this Committee on the second year is we would actually have oversight of how it is going, the numbers that we put together, and make sure that we would actually look at is it working, did we make the right conclusion, and have much greater time for oversight.

So I wanted to get your thoughts on the idea of a biennial budget, and then, so my time does not expire, I also wanted to get your thoughts on—many of us serve on authorizing committees, and then there is the Appropriations Committee. And a lot of times at the State level, there are not two separate entities. In other words, you actually have to make a decision on the policy basis for the numbers which you are enacting. And it seems like we have this very divided process that makes it very difficult to actually put together a real budget, which is we have got one committee over here who tends to be an expert in a certain area—I serve on the Armed Services Committee, so I have seen this experience time and time again, and some of my colleagues who are here as well do that. And then you have got a separate committee doing the same thing, and it seems to me to be a very divided way to do things and not how it has been done at the State level.

So I wanted to get your thoughts on the two things: biennial budget and this process of—I know it is controversial to suggest that, but this divided authorization versus appropriation process.

Mr. PETERSON. Okay. In terms of biennial budgeting, I think there are some key advantages. I think budgeting in non-election years must somewhat help it be less political. If you are a little further away from an election, that should help. It obviously makes things more efficient if you are doing it less often, and it provides more time for other things.

And back to Senator Kaine's point about certainty, I think you would have additional certainty knowing that we have 2 years of budgeting. I tend to think more about trying to go 25 years than 2, but I see advantages to that, and these are really separate issues, anyway.

Then in terms of process, I would really defer to the rest of you on how to go along to get along a little bit better. But I am sure there are efficiencies that can work throughout that process.

Mr. HOLTZ-EAKIN. I would point out that you are doing biennial budgeting. When was the last time you did a budget resolution in an election year? You are doing it already without the structure and the oversight, so you might as well acknowledge the reality and do it better. So that seems reasonable to me.

And on authorizing versus appropriations, I could happily lose one or the other, but it is easy to suggest congressional reform from this side of the table.

[Laughter.]

Senator WHITEHOUSE. Prudently said, Mr. Holtz-Eakin.

Senator AYOTTE. I did not say that was without controversy why I asked the question.

Ms. Weinstein?

Ms. WEINSTEIN. Well, as somebody who worked in Massachusetts for many years, when I came here I was very perplexed by the distinction between authorizing and appropriating. I guess I would only say that whatever process is revised, it needs to be able to take continued reassessments of what is actually happening to people. And so longer-term processes where you cannot go back and adjust when you see that people are being harmed would be a worry. But I have to admit that right now the logjams mean that things are not being decided in a very timely basis, anyway.

We do need to get back to the certainty that Senator Kaine was talking about, and longer time periods where all we are doing is, you know, sort of stopgap measures, that is the worst.

Senator AYOTTE. Thank you,

Chairman ENZI. Well, the purpose of this hearing, of course, was to see if there was a need for budget reform, and I have not heard anybody disagree with that. So I am going to schedule two more hearings for solutions, because we are starting to get into solutions at this point, and we need to get into solutions, and we need to do something about this.

When I became the Budget Chairman, I did not have time to change the process. There were certain set schedules, April 15th being a key one that we have to meet. We recognize difficulties with it. I have been on the Budget Committee almost since I got here, and it has always worked the same. And by "the same," I mean the majority party has us do the opening statements on the budget and then lets us see the budget. I changed that this year so that you got to see it before we did the opening statements. I offered to allow it much earlier than that and hopefully have more interaction. But I wanted to do that in exchange for having a limited—not a limited number of amendments, but amendments submitted before the actual day of the markup. That is what is done in all of the other committees, and that gives the Chairman and the Ranking Member a chance to go through the amendments and see which ones are similar and see if they cannot be put together so that there are less amendments and so that the amendments are more effective.

So there are a lot of things that we could do, and I hope we will be thinking about what some of those are so that we can change the process, get it to work, have more oversight, and maybe make the authorizing committees do a little more work. I mentioned that there are 260 authorizations that are out of date, but we are still spending money on them. That means that those committees have not looked at their authorization again and brought it to the group with a solution for how it really ought to work. If you have got a program that goes back to 1983 when it expired, we are probably not doing our work.

So there are a lot of things that we can do, and I am going to schedule two more hearings for doing that. And I appreciate Senator Perdue being the first on my side to show up and wanting some additional questions. But I am hoping that he will be willing to submit those in writing, along with everybody else that might have additional questions, so that we can move on to the—and I hope you will share with me any suggestions that you have for solutions, and we will be sharing with you the people selected for the next panels on solutions on what we can do. I think we have a chance to make a real difference, and I want to do that. So thank you all for attending.

Senator Whitehouse, did you have a comment?

Senator WHITEHOUSE. May I ask one question of Mr. Peterson and Mr. Holtz-Eakin before we leave?

Chairman ENZI. If Senator Perdue gets to ask his questions, yes.

Senator WHITEHOUSE. Let us do it.

Senator PERDUE. No. I will waive my time to Senator Whitehouse.

Senator WHITEHOUSE. I just wanted to ask this: Mr. Peterson, you have talked about extending our budget horizon into the second decade. Mr. Holtz-Eakin, you have talked about extending it 25 years. If you do look out into a second decade and if you do look out 25 years, how do each of you anticipate that the effects of climate change would roll into the budget and the costs of the country?

Mr. HOLTZ-EAKIN. So just for the record, I am in favor of having the information, but I am less enthusiastic about putting it into the formal budget process because of the uncertainties that come with this kind of an exercise. You know, if you look at revisions to 1-year CBO projections of the deficit, they could be quite large, especially in percentage terms. So, you know, if you asked me to roll into it all of the impacts of climate change, economic uncertainty, what happens with international relations, potential for war, you are getting into some very difficult territory. And that is why I am nervous about formally embedding that.

Senator WHITEHOUSE. Looking out, do you think the effects of climate change within that kind of a period would be small, moderate, or large?

Mr. HOLTZ-EAKIN. I do not know enough to say, but, you know, one would have to look.

Senator WHITEHOUSE. Mr. Peterson?

Mr. PETERSON. I am not an expert on that either. I know the CBO has started to roll climate change estimates into its forward-looking projections.

Just to clarify, I think at a minimum we need to look out at that period in some fashion. It does not necessarily have to be the exact same as the 10-year budget window. But bringing that dialogue into the conversation more directly, in a more focused way, again, gives us better visibility over the real problems and gives us a chance at implementing solutions that address that. I think without even looking, it is just hard to imagine we would solve this problem.

Senator WHITEHOUSE. Understood. And you would both support a carbon fee if it reduced taxes on other productive effort?

Mr. HOLTZ-EAKIN. I could imagine eliminating the corporation income tax and replacing the revenue with a carbon fee, yeah.

Senator WHITEHOUSE. That would be good for the economy?

Mr. HOLTZ-EAKIN. Yeah.

Senator WHITEHOUSE. Very good. Thank you.

Chairman ENZI. Senator Perdue.

Senator PERDUE. I will waive my time, Mr. Chairman. Thank you.

Chairman ENZI. I want to thank the panel for their participation, a difficult topic to stay to topic, but I think we got a lot of guidance on some things that we can do and things that need to be done and ways that the Budget Committee can maybe get them started for doing. So thank you for being here, and I think everybody has until 6 o'clock tonight to submit any questions in hard copy in Dirksen 624, and we would hope the witnesses would answer those within 7 days of the receipt of the questions.

So if there is no further business, the hearing is adjourned.

[Whereupon, at 12:00 p.m., the Committee was adjourned.]

# REFORMING THE FEDERAL BUDGET PROCESS: A BIENNIAL APPROACH TO BETTER BUDGETING

**WEDNESDAY, NOVEMBER 4, 2015**

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
*Washington, D.C.*

The Committee met, pursuant to notice, at 10:31 a.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Sessions, Crapo, Portman, Ayotte, Perdue, Whitehouse, Warner, Kaine, and King.

Staff Present: Eric Ueland, Majority Staff Director; and Warren Gunnels, Minority Staff Director.

## OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Since it is 10:30, I will call to order the Senate Budget Committee for the hearing on "Reforming the Federal Budget Process: A Biennial Approach to Better Budgeting." Good morning and welcome to the second hearing in a series this Committee is holding on reforming the Federal budget process.

In our last hearing, we discussed the serious budget challenges our country faces. We all agreed that the current budget process is broken and not adequate for the task before us. In today's hearing, we will move from defining the problem to identifying solutions. We know that an effective budget process should follow regular order to provide predictability and stability. It should also encourage legislative oversight of the entire Federal budget and promote reduced spending and increased savings. Moving to a biennial budget cycle would improve the current process on all of these fronts.

The worst-kept secret in Washington is we essentially operate on a 2-year budget already. In 2011, 2013, and now in 2015, Congress has set spending limits for the following two fiscal years, but these deals have been negotiated without the transparency and predictability that regular order provides.

True reform of the Federal budget process would formalize biennial budgeting and move spending decisions from the shadows and into the light where they belong. They would also have many other benefits beyond increased transparency.

A biennial process would create more stability and predictability for agencies, for the States, and for local governments, and for American citizens that rely on Federal funding. They would know and be able to plan for 2 years of funding. Under the current process, spending bills are nearly always late. We have completed all appropriation bills on time in only 4 of the last 40 years. In 15 of those years, we did not pass one appropriations bill on time. Instead of well-considered funding decisions, the Government operates on short-term spending bills or continuing resolutions. We have had 173 short-term spending bills since 1977. Biennial budgeting would help Congress return to regular order. The legislative floor time required to complete the appropriations process would be cut in half. Politically difficult spending decisions could be made in non-election years, avoiding partisan disputes that might otherwise derail full consideration and passage. And appropriations would last for 2 years, preventing the annual expiration and renegotiation that encourages and delays and causes fiscal cliffs. It would also allow agencies and States and local governments 2 years of stable planning and spending.

As appropriation bills are enacted on time and for 2- year terms, agency management and efficiency will improve. Under habitually late appropriations bills, agency managers must submit requests to the OMB for the next fiscal year at the same time Congress is still deciding what they will get for the current fiscal year. That does not make any sense. And then also with the delays, sometimes the cuts that are made in that period of time have to be condensed into a shorter period of time, which makes them more drastic.

Two-year appropriations would give managers more certainty concerning current funding and a longer timeline to implement strategic decisions rather than having to resort to short-term reactionary policies. A biennial process would also improve Congress' management and oversight of Federal spending. If less legislative time were devoted to setting budget targets for the next year, more time could be spent on reviewing program management. Under an annual cycle, authorizing and appropriating committees only have time to assess how much money is needed in relation to the previous year rather than conducting a systematic review of Federal programs in their jurisdiction. This oversight would help make Government more accountable by allowing additional time to consider whether taxpayer dollars are being spent effectively.

Congress' energy and attention could also be redirected to reviewing all Federal spending. Despite the two-thirds of our budget devoted to mandatory spending, the current budget process still forces Congress to spend the majority of its time each year worrying about annual appropriations that now account for one-third of Federal spending.

While each of the appropriations bills must travel through the normal legislative process annually, mandatory programs continue to spend and grow unless Congress votes otherwise, which we do not have time to do. By taking up less of Congress' time with annual appropriations bills, it will have more time to focus on the true drivers of spending and debt.

Despite these benefits and nearly 40 years of strong bipartisan support, not one biennial proposal has been enacted into law at the Federal level. Today there are few different legislative options that would implement a biennial process. In just a moment, Senator Isakson will tell us about his proposal to require a biennial budget and all biennial appropriations bills to be adopted in non- election years. This is a good proposal that would go a long way in fixing our broken budget process, and I have cosponsored the legislation to show my support.

I have also introduced legislation to establish biennial appropriations. When you are dealing with $1 trillion, you ought to have more time to consider the actual spending than what the current process allows. It is hard to grasp the magnitude of millions or billions of dollars let alone trillions. Amendments dealing with a million dollars should be a big deal. But when framed with the debate over a trillion dollar, or as I prefer to call it, a thousand billion dollars of annual funding, there really is not enough time to work on that level of detail.

People have become frustrated because of the time it takes to fully consider and review all 12 of these huge appropriations bills every year. And the level of detail that they are able to get into has frustrated me for a long time. When I first got here, I was curious about Yellowstone Park and why they were running out of money in August. So I asked to see what they were spending it on. You cannot get that. Unless you now go to the current superintendent, who is superb and has an accountant doing the work for the park, you can get that.

So I am not sure how many different agencies really do not have good information for appropriators to make their decisions. My legislation would split the appropriations process in two parts. In nonelection years, we would consider biennial appropriations for the more controversial bills. In election years, we would consider the less controversial biennial bills. This would give Congress more time to review where tax dollars are going and make it more likely that the process is completed before the start of the fiscal year.

Support for a biennial budget cycle is broad and it is bipartisan. Presidents from both parties have supported the concept. Organizations like Third Way, Americans for Tax Reform, Bipartisan Policy Center, the Committee for a Responsible Federal Budget, and the Partnership for Public Service have also endorsed this idea.

In the House of Representatives, a majority of Members, both Democrats and Republicans, are currently cosponsoring biennial legislation, and a 2013 Senate amendment calling for adoption of biennial budgeting received 68 votes in support. That is a super majority of Senators in favor of a 2-year process.

Biennial budgeting has also gained support at the State level. In Iowa, Governor Terry Branstad moved the State from an annual to a biennial process by demanding that the legislature send him spending bills. The Governor credits this move with restoring predictability and stability to a budget process that is in the midst of crisis. He also noted that it removed the incremental cost increases that were creeping into the State's base budgets. A witness on our second panel will discuss similar successes in Ohio. Twenty States have adopted biennial budgeting, and 12 of the Senators of this Committee represent biennial States. Such widespread support at the Federal and State level proves what we have been saying for decades. Our annual appropriations system is broken and incapable of providing predictability and proper legislative oversight at the Federal level.

Moving to a biennial process is well vetted, it is nonpartisan, and it is a solution that will make our Government more accountable and ensure taxpayer dollars are spent effectively.

Since the Ranking Member is not here, we will allow a statement from the minority side whenever someone is here for them.

## OPENING STATEMENT OF SENATOR KING

Senator KING. Speaking as the Ranking Member on this—

[Laughter.]

Senator KING. That was a fast ascent, Mr. Chairman. I would just echo your comments. I am a former Governor of a State with a biennial budget, and it has always struck me as sensible for our Federal Government to adopt a similar method, which would both give more stability to the funding process but also allow the Congress to do more vigorous oversight, which I think everyone believes would be in the best interests of the country. So I look forward to hearing the witnesses and am certainly receptive to their position.

Thank you.

Chairman ENZI. And thank you for being here.

We will now move to the introduction of the witnesses, but before I do that, I will mention that it is the tradition in the Senate that when colleagues either from the Senate or the House are testifying, they are not asked questions following their testimony.

Senator KING. Oh, come on, Mr. Chairman.

[Laughter.]

Chairman ENZI. However, if you want to submit written questions for them, we will pass those on and then circulate the answers.

I want to congratulate the witnesses on something else that often does not happen, which is we do have the testimony in advance from each of the witnesses so that members of the Committee could review those. And I really appreciate that extra effort that you went to.

Senator Isakson is the Chairman of the Veterans' Affairs Committee. He is a long-time champion of biennial budgeting and the lead sponsor of the Biennial Budgeting and Appropriations Act here in the Senate. There are few Senators who have fought harder for biennial budgeting, and I am happy to be a cosponsor of his legislation.

Senator Carper is the Ranking Member of the Homeland Security and Governmental Affairs Committee and a former Governor of Delaware, so he knows how important a predictable, stable budget is to effective Government. He is also a cosponsor of legislation I have introduced called the "Biennial Appropriations Act," and I appreciate his support on that.

Congressman David Price represents North Carolina's 4th District in the House of Representatives. He currently serves on the House Appropriations Committee and is the Ranking Member of the Transportation, Housing, and Urban Development Appropriations Subcommittee. He is also a member of the Appropriations Subcommittee covering homeland security, military construction, and veterans' affairs.

I would mention that Senator Cochran, the Chairman of the Senate Appropriations Committee, has submitted testimony, which is available to everyone as well.

So, with that, Senator Isakson?

**STATEMENT OF THE HONORABLE JOHNNY ISAKSON, A UNITED STATES SENATOR FROM THE STATE OF GEORGIA**

Senator ISAKSON. Well, Chairman Enzi, thank you very much for calling this hearing today, and thank you very much for your introduction and testimony because you made all the points that all of us who look to support biennial budgeting

have tried to make for years in the United States Senate.

This is my 34th year in elected office, 17 in the State

legislature and 17 in Washington, D.C. In the State of Georgia, in the legislature where I was an appropriator, we had a constitutional prohibition on meeting for longer than 40 days. We had a constitutional prohibition on deficit spending, and bonded indebtedness and debt service could not exceed 10 percent of the budget. Therefore, we had a good fiscal policy. We did not waste time when we were in session, and we did not overspend.

I would submit to you Congress needs the same type of imposed self-restraint to begin to handle the money of the people of the United States of America in a more responsive manner. If we were hired rather than elected, we would have all been fired for the way in which we handle the money of the people of this country, and I think it is time we changed our discipline and changed our restrictions.

As the Chairman noted, he is a cosponsor of my bill, and I am a cosponsor of his. We have 25 cosponsors of S. 150, and I appreciate Jeanne Shaheen from New Hampshire being my cosponsor as a Democrat on that legislation.

Sixty-eight Members of the Senate 2 years ago in the budget debate adopted this concept as a concept the Senate would like to go to. I can tell you from having gone to

every Member of the United States Senate and talked one on one about this bill, almost everybody on the Budget Committee favors it, almost every rank-and-file member that is not an appropriator favors it, and almost every appropriator does not. And it is the fear of the appropriators of giving up something by going to a 2-year cycle.

I want to submit early on in my testimony they are giving up absolutely nothing, except to appropriate on a supplemental basis when there is a crisis in need in between the 2 years of budgeting and appropriating. That is all the appropriators give up. And, in fact, if we have a crisis and they need to appropriate, it is important that it only be on one subject rather than redoing the entire budget or the entire appropriations act.

This idea's concept is based on exactly what the Chairman said. If we appropriate in odd-numbered years when we are not running for reelection and do oversight in even- numbered years, then instead of bragging about how much bacon we are bringing home when we go back to campaign, we brag about how much money we saved because of quality oversight. Every one of us in the Senate knows this fact to be true. There is little, if any, oversight of the spending of Federal money in the Congress of the United States of America. We cannot even get our appropriations acts passed within time, much less get an oversight bill done in time.

It is time we change the rules by which we govern ourselves to see to it we do the oversight that is necessary to efficiently and effectively spend the $3.7 trillion taxpayer dollars we spend every year. And as the Chairman said, that oversight does not just mean discretionary spending. It means mandatory spending as well, because we all know the way to reduce our debt and our deficit over time is to reduce our mandated spending by reforming Social Security, reforming Medicare, and reforming a lot of other programs which we will best do if we dedicate ourselves to oversight.

So I will just simply say this: I have been elected to office for 30 years. I have operated under rules. I have operated where there are no rules in the United States. And I personally prefer having the rules that make me do what I am supposed to do rather than leaving me to my own devices. After all, it is our people's money. It is not our money. It is our country. It is not anybody else's country. And if we will begin to put in place the disciplines we need to put in that you did in your shoe store and I did in my real estate company when we ran a business and had to balance budgets, we would be a lot better off. And I submit to you the biennial budget is the best process to move America forward to better fiscal accountability, less deficit spending, and a richer, more robust future for our children and our grandchildren. And I thank the Committee for its time and its willingness to allow us to testify today.

[The prepared statement of Senator Isakson follows:]

# Testimony of Senator Johnny Isakson

## Senate Budget Committee Hearing on Biennial Budgeting
## November 4, 2015

- Chairman Enzi, thank you for the opportunity to testify on the Biennial Budgeting and Appropriations Act, S.150.

- This is bipartisan, commonsense legislation that would change the paradigm of Washington's broken budget system by moving to a system where we pass a two-year budget and appropriations bills, leaving more time to conduct oversight of federal programs.

- With our national debt surpassing $18 trillion and growing, it is imperative that we rethink the way that we do things in Congress.

- If we continue with the current crisis-driven process – more continuing resolutions, government shutdown threats, and massive omnibus bills that get dropped in front of us at the last minute with no opportunity for amendment – nothing is going to change.

- We need to do what American taxpayers do back at home – they sit around the kitchen table, set their priorities, make their funding predictable, and from time to time, they go back and look at where they're spending the money and see if they can improve it.

- We need to get back to the business of spending within our means. We need to focus on saving, rather than spending.

- We also need to conduct more vigorous oversight of the programs we already have. In a crisis-driven budget and appropriations process, oversight often gets left out.

- Time and time again, oversight allows us find dollars that we didn't realize that we had. For example, I serve as Chairman of the Veterans' Affairs Committee and we faced a cost overrun of more than 400 percent of the Denver hospital. I led the effort to make sure that every dollar of the cost overrun was paid for out of existing VA funds. At first, VA said they couldn't possibly do this, but in the end, we were able to work with them to find the money.

- Oversight is especially important for the three out of every five federal dollars that now go to mandatory programs. In fact, only about one third of the federal budget goes through the current appropriations process.

- Some of the things we've been funding for 40 or 50 years, we probably don't need to be doing anymore. And some things we are not doing, we probably need to be doing. Oversight brings this to light.

- There are several approaches to biennial budgeting. All of them would be a major improvement over our current system.

- My bill, S.150, directs Congress to do appropriations in the odd-numbered years and oversight in the even-numbered years. I like this idea because it means that when members of Congress are running for re-election, we are focusing more on what we're saving the American taxpayer, and less on what we spend to try to impress them to get their vote one more time.

- Some have suggested that a 2-year budget cycle is too long to plan for. If things change, however, we can always do a supplemental appropriation. Also, S.150 preserves the option of a revised budget resolution that could provide further reconciliation instructions.

- When you look at the record of the last few years, I think it is increasingly clear that the current budget process is not serving the interest of the Senate or of American taxpayers.

- I've pushed biennial budgeting every year I've been in the Senate since 2005. Two years ago, we had a vote in which 68 members of the Senate endorsed this concept.

- I'm pleased to be able to say that a quarter of the Senate is cosponsoring S. 150, including the Chairman and nine other bipartisan members of this Committee.

- I believe budget reform is an idea whose time has come. It's time we ran our country like you run your home. It's time our agencies are held accountable. It's time our appropriations weren't just idle promises. It's time oversight was the rule of law in the U.S. Senate.

- I thank the Committee for hearing my testimony and I look forward to working with you to build a better budget process.

Chairman ENZI. Thank you for your testimony, both oral, which is well prepared, and the written, which is well prepared.

Senator Carper?

**STATEMENT OF THE HONORABLE THOMAS R. CARPER, A UNITED STATES SENATOR FROM THE STATE OF DELAWARE**

Senator CARPER. Thanks, Mr. Chairman, and thanks to you and to your colleagues, our colleagues on the Budget Committee. It is nice to be with all of you today. And it is great to be with Senator Isakson and my former compadre in the U.S. House of Representatives, David Price. I have known David for over 30 years. He has never changed. He looks just the same. I do not know how. Either he got old early or he is just well preserved.

[Laughter.]

Senator CARPER. It is great to see you, David.

I want to go back in time a little. Sometimes, as Angus knows, I call myself, I refer to myself as a "recovering Governor." And we have a support group for recovering Governors around here that meets pretty often. But before I was a recovering Governor, I was a recovering State treasurer, and I got elected State treasurer when I was 29 in Delaware. And at the time, Pete du Pont was elected Governor that same year, in 1976. He turned out to be a terrific Governor. But we had the worst credit rating in America. We were ranked dead last, Baa1. We were tied with Puerto Rico. The folks in Puerto Rico were embarrassed to be in the same company with us. We were the best in the country among the 50 States in overestimating revenues and underestimating spending. That is how we got the worst credit rating. We had no cash management system. We had nothing in the pension fund. We had a 19.6 percent marginal personal income tax rate. We had the lowest startup of new businesses of any State in the country. We paid our bills by issuing tax-exempt revenue anticipation notes. Imagine that. That is how we met payroll. That is how we met our pension payments on a monthly basis until the revenues actually came in in the spring.

We did not move to a biennial budget process, but what we did under the leadership of Pete du Pont—and we had Democrats and Republicans in the legislature who were part of this. I hope that I helped a little bit as State treasurer. But we did move to a number of changes in our budget process. We could only appropriate three-fifths of the revenues that we anticipated. We put together actually a sound revenue forecasting system, not one that was jury-rigged by us and those in the legislature.

In order to raise revenues, when we raised taxes, you needed a three-fifths vote. We created a rainy day fund that could not be violated or used for just any old reason. We have never taken a dime out of that rainy day fund since that time.

So I say all this in order to say that we can have sound budgeting in a State without having a biennial budgeting process. But a lot of States have done it, and a lot of States have done it to good effect. I think the key is to find out what works and do more of that. And around here, the system we have does not work.

I was a House Member—I do not know if David and I were House Members were together, but Jim Wright was elected Speaker of the House, and when he became Speaker of the House, he said, "We are going to pass every single appropriations bill next year." Every one, on time, signed by the President, Democratic Senate, Democratic House, and a Republican Governor. And you know what? We did. We did.

So I would just suggest to all of us, one of the keys to getting things done like this is to have the kind of leadership that is committed and you have folks who work together in the House and the Senate toward a mutual purpose, and hopefully with the Chief Executive.

I was just downstairs having a hearing in the Homeland

Security Committee on a voucher program here in the D.C. area, looking at it and seeing how it is working with Federal money. And I reminded my colleagues of a hearing that you and I, Mr. Chairman, were in a couple of years ago in the Finance Committee where Alan Blinder was our witness. The subject of the hearing was what to do about our fiscal mess in the Federal Government. Alan Blinder now teaches economics at Princeton. He used to be Vice Chairman of the Federal Reserve when Alan Greenspan was Chairman. He testified that unless we get our arms around the health care costs in this country, we are doomed. He talked about Medicare, Medicaid, and other aspects of that, and he said that was the biggest challenge. When I asked my question of him, I asked him what should we do about it. What should we do about that? He said—here is what he said. He said, "I am not a health economist. I do not pretend to be an expert about this. But if I were you, here is what I would do. I would find out what works and do more of that." That is all he said. And I said, "Do you mean find out what does not work and do less of that?" He said, "Yes."

Well, we can look at the States, which are the laboratories of democracy, and find out what seems to be working pretty well for them. I applaud Senator Enzi and Senator Isakson and others for providing the leadership to say let us look at those things, let us look at those laboratories of democracy and see if there are other things, whether it is from Delaware, North Carolina, whether it is from Maine or Virginia or whatever State it is from, and find out what is working and do more of that. A longer budget cycle does allow for greater long-term strategic planning for both legislatures and Federal agencies. It also encourages and ensures greater certainty and predictability for agency officials who are tasked with implementing legislative decisions. And, in addition, a 2- year appropriations process allows for more time, for more thorough program evaluation and oversight during the second year, ensuring better informed decisions about program spending in the budget cycle that follows.

I am proud to be a cosponsor of your bill, and I would be proud to be a cosponsor of your bill, Senator Isakson, if I am not already. And I would call on us in Congress to see what we can learn from both of you and other efforts to improve this process.

Again, find out what works and do more of that. Find out what does not work and do less of that.

What did Einstein used to say? Einstein said a lot of things that are memorable. But my favorite was the definition of insanity? Do you remember that one? Doing the same thing over and over again and getting a different result. He was right, and still is.

Thanks so much for the chance to come by and put a spotlight on the way our appropriations process could be made more effective, and my hope is that we will be in a position to give it a shot. Thank you.

[The prepared statement of Senator Carper follows:]

**Testimony of Senator Tom Carper**
**Before the United States Senate Committee on the Budget**
**Hearing on "Reforming the Federal Budget Process:**
**A Biennial Approach to Better Budgeting"**
**November 4, 2015**

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Mr. Chairman, fellow senators, I would like to thank you for giving me the opportunity to testify at today's hearing. A great man named Albert Einstein once said, "The definition of insanity is doing the same thing over and over again, but expecting different results." Unfortunately, we in Congress seem to struggle with embracing the logic of Mr. Einstein.

We talk a great deal about making government more efficient and better able to serve the people of this country. Yet, in the past two decades, we have completed all the required actions to fund the government by the end of the fiscal year—September 30—exactly once. We can't expect better results until we address our inability to get the job done—on time.

Passing twelve appropriations bills every year is something that Congress is simply unable to accomplish, particularly in light of all the other work that fills up the calendar—including passing other crucial legislation, enacting authorization bills, conducting oversight, and so forth. At the same time, *annual* appropriations do little to foster longer-term planning either in Congress or among the agency decision-makers that make use of appropriated funds.

Fortunately, Chairman Enzi—and other senators, particularly my colleague Senator Isakson—have championed a common-sense solution that will help address these problems: a biennial appropriations process.

I've often referred to myself as a "recovering governor." You might not know that I'm a "recovering state treasurer," too. And while my home state of Delaware doesn't use the biennial appropriations model, nearly half the states do.

Our states are true "laboratories of democracy," and their experiences on this issue can be instructive. What I've heard from state officials makes a powerful case for adopting biennial appropriations at the congressional level.

A longer budget cycle allows for greater long-term strategic planning both in the legislature and Federal agencies. It also ensures greater certainty and predictability for agency officials who are tasked with implementing legislative decisions. In addition, a two-year appropriation allows for more time for thorough program evaluation and oversight during the second year—ensuring better-informed decisions about program spending in the budget cycle that follows.

I'm proud to be a cosponsor of Senator Enzi's *Biennial Appropriations Act*—which, each year, would call upon Congress to enact about half of the prescribed twelve appropriations bills.

This proposal would not only lighten the congressional appropriations workload—allowing greater time for other crucial legislative and oversight activity—but would also help reduce partisanship. That's because, under Senator Enzi's bill, Congress would take up the more "uncontroversial" two-year appropriations bills in even-numbered (election) years.

And then, we would take up the more "controversial" bills in odd-numbered years, which has the advantage of separating tough spending choices from partisan disputes that could derail full consideration and passage of these bills.

I'm grateful to Chairman Enzi for advancing this issue and holding this hearing to shine a spotlight on ways to make our appropriations process more effective. Again, I'd like to express my thanks to you for inviting me to testify, and I look forward to hearing what the witnesses to follow have to say on this crucially important subject.

Chairman ENZI. Thank you for coming and for leaving the other Committee, which you are the Ranking Member of. I appreciate that.

Congressman Price?

**STATEMENT OF THE HONORABLE DAVID E. PRICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. PRICE. Thank you, Mr. Chairman. It is a pleasure to be here with you and your colleagues and with these two renegade House Members. Mr. Isakson and Mr. Carper are both good friends.

I would like to request that my full statement be put in the record. I will give an abbreviated account.

Chairman ENZI. Without objection.

Mr. PRICE. I remember first testifying about biennial budgeting something like 15 years ago before the House Rules Committee, and we were considering legislation to transition Congress to a biennial appropriations process. Then our Nation's fiscal situation was quite different than it is now. We had had multi-year budget agreements in 1990, 1993, 1997, coupled with a growing economy that had produced several years of balanced budgets. It allowed us to pay down more than $400 billion of the national debt.

Well, needless to say, we are now in a very different situation. Since the 1990s, we have had trillions of dollars in lost tax revenue, two unpaid-for wars, a necessary but expensive countercyclical response to the Great Recession, and most recently 5 years of extremely partisan and largely dysfunctional congressional budget politics. So it is understandable that the idea of biennial budgeting would once again hold some appeal for members in search of solutions to our current woes. But my position here today is that this is a case where we better be careful. The remedy might well be worse than the disease.

Now, I am the first to agree that the congressional budget and appropriations processes have eroded significantly in recent years. The pressures of divided Government and a polarized electorate, the general subjugation of Congress' "power of the purse" to partisan political forces, all this has greatly delayed the enactment of our annual spending bills, increased our reliance on continuing resolutions and omnibus packages, not to mention the damage that has been done by the consolidation of power within leadership circles at the expense of Appropriations and other committees.

But biennial budgeting, by which I mean biennial appropriations, would do nothing to address the underlying causes of this dysfunction and would likely make matters worse by weakening congressional oversight of the executive, jacking up even more decisions to the leadership of both parties, and increasing our reliance on supplemental appropriations bills considered outside the regular order.

I should stress that the same argument does not necessarily apply to a multi-year budget agreement or to a 2-year budget resolution of the sort that we passed last week. My argument this morning applies to the 12 appropriations bills that must be passed under any budget agreement regardless of its duration.

Now, proponents of biennial budgeting claim that it would free up Congress to conduct oversight in the off-year. That is a supremely ironic claim because the most careful and effective oversight Congress conducts is through the annual appropriations process. When an agency's performance and needs are reviewed program by program, line by line, off-year oversight would be less effective, not more effective, because it would be further removed from actual funding decisions. Congress' leverage would be far, far less.

Supporters sometimes note that four recent Presidents— both Bushes, Bill Clinton, and Ronald Reagan—all favored biennial appropriations. Why should that surprise anybody? If this suggests that the proposal is not a partisan issue, it should warn us that it is definitely an institutional issue. It should be obvious why Presidents would support a free pass every other year from a legislative process that could make or break an administration's agenda—for the same reason they support the line-item veto, they support a ban on congressional earmarks. Republican and Democratic Presidents support all those things because they weaken Congress' authority vis-a-vis the executive branch.

Now, it is often asserted that opponents of biennial budgeting are merely defenders of Appropriations Committees' turf. I am a senior appropriator, so I am sensitive to those charges. But the annual work of appropriations serves the entire institution and its place in the constitutional balance of power, regardless of who is President. I agree that the appropriations process must be held accountable to Congress and the country. But here, too, I fail to see why biennial budgeting would deliver that result.

Asking agencies to put forward a budget request for the second year of a 2-year cycle as many as 28 months in advance would require a level of advance planning and foresight that may not be possible or realistic, especially given the uncertainty of revenue and expenditure projections and the constantly evolving challenges the Federal Government must tackle.

So faced with outdated and unworkable funding levels for individual programs in the second year of a biennial appropriation, each Federal department would be forced to present the Appropriations Committees with countless requests to reallocate, or "reprogram," their annual budgets. Typically, these requests are granted or denied solely by the Appropriations Subcommittee Chairman and Ranking Member. There is no debate, there are no amendments, there are no votes, there is no public scrutiny.

Off-year budget problems that could not be handled through reprogramming would necessitate supplemental appropriations bills. We already enact supplemental bills when unforeseen needs crop up. Budgeting 2 years in advance would only lead to a greater mismatch between the country's needs and agency budgets. In fact, the whole purpose of a biennial budget could be undermined by the proliferation of supplementals in the off-year.

So, perversely, we would have replaced the deliberative and democratic process of annual appropriations with supplemental bills that are sporadic, rushed, and heavily controlled by leadership.

So for reasons practical as well as institutional, biennial budgeting is not really any better an idea today than it was 15 years ago. It would be a mistake to allow recent budget disagreements to lure us toward a supposed "remedy" that would make the appropriations process less systematic, less flexible, and less potent.

Finally, Mr. Chairman, we all know that the congressional budget process has broken down. For years, we have passed unrealistic, ideologically driven budget resolutions that not only make bipartisanship impossible; they sometimes make appropriations itself impossible. This year, once again, it is only in the face of a Government shutdown that we have revised our budget resolution to enable us to stitch these 12 appropriations bills together into an omnibus bill 3 months into the fiscal year. And that is currently our best-case scenario.

But, tell me, what of any of this would biennial budgeting fix? It might make it worse. What we have got to do is muster the political will to make difficult and politically costly decisions, including a comprehensive budget plan that addresses the main drivers—the main drivers—of our deficits and debt, namely, tax expenditures and entitlement spending. So I urge colleagues to reject the siren song of biennial budgeting. We should all redouble our efforts to address instead the underlying causes of our long-term fiscal challenges.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Price follows:]

**Congressman David E. Price**
**Testimony as Prepared for Delivery**
**Senate Budget Committee Hearing on Biennial Budgeting**
**November 4, 2015**

Good morning Chairman Enzi, Ranking Member Sanders, and other Members of the Committee. Thank you for inviting me to testify today.

I first testified about biennial budgeting more than 15 years ago before the House Rules Committee, which was considering legislation to transition Congress to a biennial budget and appropriations process. Then, our nation's fiscal situation was quite different: the enactment of multi-year budget agreements in 1990, 1993, and 1997, coupled with a growing economy, had produced several years of balanced budgets and allowed us to pay down more than $400 billion of the national debt. The consequences of the George W. Bush Administration's fiscal policies—which plunged us back into deficit financing—were not yet foreseen.

Today, following trillions of dollars in lost tax revenue, two unpaid-for wars, and a necessary but expensive countercyclical response to the Great Recession—and after five years of extremely partisan and largely dysfunctional congressional budget politics—it is understandable that that the idea of biennial budgeting would once again hold some appeal for Members in search of solutions to our current woes. But this is truly a case in which the remedy is worse than the disease.

I am the first to agree that the congressional budget and appropriations processes have eroded significantly in recent years. The pressures of divided government and a polarized electorate, the increased use of the Senate filibuster, and the general subjugation of Congress's constitutional "power of the purse" to partisan political considerations have greatly delayed the enactment of our annual spending bills and have increased our reliance on continuing resolutions and omnibus packages. Not to mention the damage that has been done by the consolidation of power within leadership circles at the expense of Appropriations and other committees.

But biennial budgeting, particularly in the realm of appropriations, would do nothing to address the underlying *causes* of this dysfunction—and would likely make matters worse by weakening congressional oversight of the executive, jacking even more decisions up to the leadership of both parties, and increasing our reliance on supplemental appropriations bills considered outside of the regular order.

Most importantly, biennial budgeting would weaken Congress's power to shape national priorities by conducting effective oversight and holding the Executive Branch accountable. Proponents of biennial budgeting claim that it would "free up" Congress to conduct oversight in the off-year. That claim is supremely ironic, for the most careful and effective oversight Congress conducts is through the annual appropriations process, when an agency's performance and needs are reviewed program by program, line by line. Off-year oversight would be less, not more, effective because it would be further removed from actual funding decisions, reducing Congress's leverage.

I should stress that the same argument does not necessarily apply to a multi-year budget agreement or to a two-year budget resolution of the sort Congress passed last week. Annual appropriations work, including thorough review of individual agency programs, must have year-to-year flexibility and is distinct from determining top-line funding levels. My argument this morning applies to the twelve appropriations bills that must be passed under any one or two-year resolution or budget agreement.

Supporters sometimes note that four recent presidents—George W. Bush, Bill Clinton, George H.W. Bush, and Ronald Reagan—all favored biennial appropriations. Of course they did! If this suggests that the proposal is not a *partisan* issue, it should warn us that it is definitely an *institutional* issue. It should be obvious why presidents would support a free pass every other year from a legislative process that could make or break an administration's agenda—just as they tend to support the line-item veto, a ban on congressional earmarks, and other measures weakening Congress's authority vis-à-vis the Executive Branch.

It is often asserted that opponents of biennial budgeting are merely defenders of Appropriations Committee turf. As a senior appropriator, I am naturally sensitive to these charges. But the annual work of appropriations serves the entire institution and its place in the constitutional balance of power, no matter who is President. That is why appropriations has historically been relatively bipartisan, and it is why the Congress's place in the constitutional order is compromised to the extent appropriations is swamped by partisan maneuvers—whether they be poison-pill riders or partisan budget resolutions that don't leave room for workable funding bills.

But the appropriations process also needs to be accountable to Congress as an institution and to the country. Here, too, biennial budgeting would more likely do more harm than good.

Under the existing annual appropriations cycle, federal agencies typically begin formulating their budgets in the summer of the year *before* the President submits his budget request to Congress in February—a full 14 or 15 months in advance of the start of the actual fiscal year in question. Asking agencies to put forward a budget request for the second year of a two-year cycle as many as 28 months in advance would require a level of advance planning and foresight that may not be possible or realistic, especially given the uncertainty of revenue and expenditure projections and the constantly evolving challenges the federal government must tackle.

Faced with outdated and unworkable funding levels for individual programs in the second year of a biennial appropriation, each federal department would be forced to present the Appropriations Committees with countless requests to reallocate, or "reprogram," their annual budgets. Typically, those requests are granted or denied solely by the Appropriations Subcommittee Chairmen and Ranking Members without debate, amendments, or votes—and without public scrutiny.

Off-year budget problems that could not be handled through reprogramming requests would necessitate supplemental appropriations bills. We already enact supplemental bills when unforeseen emergency needs crop up after an appropriations bill has been enacted. Budgeting two years in advance will only lead to a greater mismatch between the country's needs and agency budgets. In fact, the whole purpose of a biennial budget could be undermined by the proliferation of supplementals in the off-years.

Perversely, we would have replaced the deliberative and democratic process of annual appropriations with supplemental bills that are sporadic, rushed, and heavily controlled by leadership.

One recent example may prove particularly instructive, especially since it involved the Department of Veterans Affairs, which already receives advance appropriations from Congress for its health care programs. As I'm sure most of you recall, Congress had to scramble this past summer when the VA realized it was facing a $2.5 billion budget shortfall due to an unanticipated increase in demand for veteran health care services and rising drug costs. Congress passed new legislation to allow the VA to shift funds from other accounts, ensuring that tens of thousands of veterans would continue to receive access to vital care.

Granted, the VA faces an especially urgent and difficult mission. But shifting the entire government into a two-year budget and appropriations cycle would only lead to more episodes like this one, not fewer. Even if Congress determines that additional agencies would benefit from advance appropriations, these decisions could be made on a limited, case-by-case basis.

For reasons practical as well as institutional, biennial budgeting isn't any better an idea today than it was fifteen years ago. It would be a mistake to allow recent budget disagreements to lure us toward a supposed "remedy" that would make the appropriations process less systematic, less flexible, and less potent.

We all know that the congressional budget process has broken down. For years, we have passed unrealistic, ideologically driven budget resolutions that not only made bipartisanship impossible; they virtually made appropriations itself impossible. This year, once again, it is only in the face of a government shutdown that we have revised the budget resolution, so as to stitch the twelve appropriations bills together into an omnibus bill three months into the fiscal year. And that is currently a best-case scenario!

But biennial budgeting would fix none of this and might well make it worse. What we must do is muster the political will to make difficult and politically costly decisions, including a comprehensive budget plan that addresses the main drivers of our deficits and debt: tax expenditures and entitlement programs. I urge my colleagues to reject the siren song of biennial budgeting and redouble their efforts to address the underlying causes of our long-term fiscal challenges.

Chairman ENZI. Thank you.

Senator CARPER. Mr. Chairman, could I ask unanimous consent that my full statement be made a part of the record.

Chairman ENZI. Actually, all of the statements will be a part of the record. I appreciate you submitting them in advance.

Senator CARPER. And, Mr. Chairman, could I just have 15 seconds to just say one quick thing and sort of thinking through what David just said, please? You know, we have all these States that are doing biennial budgeting, and it gives us an opportunity to kick the tires and see if it works for States. The legislation I think that you have introduced and that Johnny has introduced would, as I understand it, move us to biennial budgets with the Government sort of like at once. And I was just in a high school not long ago. There was a charter school, a Marine Corps charter school in Dover, near Dover, and this year is 9th and 10th grade, next year 11th grade, next year they added 12th grade. We have seen this in schools in our States. The idea of like moving—if we are going to do something, let us try it on. The idea of maybe to pick like one appropriations bill and do like one of them, a handful of departments on a biennial basis, and if it works, then maybe try two, and three and four and five, like phase it in. I do not know if that is a good idea or not, but that might be food for thought.

Thanks so much.

Chairman ENZI. I appreciate any ideas. That is what this Committee is about, is collecting ideas on how we can do the budgeting and the spending in a better way.

As I mentioned before, it is typical that we do not give questions to colleagues at the hearing. But if any of you want to address written comment, written questions, those should be submitted by the end of business tomorrow, and we will pass that on to them and ask for as speedy an answer as possible on it. I thank you for taking the time out of your busy days for the testimony and all of the ideas that you put forward.

I would mention that Senator Cochran, the Chairman of the Senate Appropriations Committee, was unable to join us this morning, but he submitted a statement for the record about his concerns regarding biennial budgeting, which go along with Congressman Price's concerns, and I ask unanimous consent to have his statement appear in the record in its entirety and would allow questions for him as well. Without objection.

Chairman ENZI. While we are setting up for the next panel, I will introduce the two additional witnesses appearing before the Committee this morning.

Bill Batchelder joins us from The Buckeye Institute in Ohio. Before that, he served in the Ohio House of Representatives for more than 30 years. Most recently, he was the Speaker of the House and worked with Governor Kasich's Administration to pass responsible budgets that balanced billion-dollar deficits.

And Bob Bixby is the executive director of The Concord Coalition where he has worked for over 20 years. His nonpartisan organization encourages and educates the public about the Federal budget and the need to protect our children and future generations from excessive Government debt.

So we will start with Speaker Batchelder.

**STATEMENT OF THE HONORABLE WILLIAM G. BATCHELDER III, EDWIN MEESE III DISTINGUISHED FELLOW, THE BUCKEYE INSTITUTE, COLUMBUS, OHIO, AND FORMER SPEAKER, OHIO HOUSE OF REPRESENTATIVES**

Mr. BATCHELDER. Thank you, Mr. Chairman, members of the Committee, and the gentleman from Rhode Island. The opportunity to speak to this question is particularly interesting because we have had this system for a number of years, beginning in 1908, and it has resulted in our ability to keep a handle on Government spending as well as budgeting and the timelines on budgeting. Having been Speaker, I serve now as the Edwin Meese III Distinguished Fellow at The Buckeye Institute in Columbus. I was in the House of Representatives for 38 years.

We have seen everybody in the budgeting field do something wrong at least once, and that includes all Governors and all members of the legislature. I am here to tell you today that budgets of a biennial nature have worked well to protect Ohio taxpayers and to avoid crisis budgeting.

When I was in the legislature, we did not have a budget crisis every year because our system of biennial budgeting provides a great deal of flexibility in handling emergencies, but at the same time requires us to use foresight and to look at what will happen if certain things are done in the process instead of having the 2-year budget.

For example, in the 1980s, we had a group of savings and loan banks which got in trouble. We had a private insurance system. They ran out of money. I was on the Banking Committee where I received a call from then-Governor Richard Celeste. He was of the other faith, but he knew that I had paid attention to what was going on in the banking area. We were faced with a situation in which there would be a series of bankruptcies because of the weakness of the private effort to provide insurance, like FSLIC, only this was a private system.

Working together in a bipartisan fashion, we solved the problem because we had anticipated difficulties in the passage of the first budget. What we did, in effect, was to set aside money in that budget in the event that there was a series of insolvencies. Those occurred in Colorado and Maryland, if I recall correctly, but because of the budget technique that we were using, we were in a position to save people who had their life savings placed in building and loans which were, unfortunately, part of a private insurance system. States with annual budgets had a harder time solving problems than we did. Those two I mentioned were among them.

Biennial budgets are not new. They have withstood the test of time. Ohio has had biennial budgeting since, as I said, the early 1900s. We are now a full-time legislature, and not having annual budgeting means that we can devote a whole year to setting priorities and adapt to the concerns of Ohio citizens.

In my last year as Speaker, we did not have to do an annual budget, which enabled us to deal with issues that were challenging, some of the municipalities, because of the tight national economy, and as a result of that, we did some things that were imaginative and I think helpful in the long term to the State. We had a piece of legislation on mens rea which was very complicated. Those of us who are lawyers loved it. Everybody else took a bye. But I am not sure that a great and bipartisan bill like that could have been approved had we had a battle over the annual budget prior to its passage.

We are also flexible when we get a new problem. We have had a drug epidemic, and I know many of you in your States have had the same thing. I had two freshmen who were really concerned about it. They were younger, and so we set up in the second year of our budget, we set up hearings all across the State so that we could find out from medical professionals, from law enforcement, and others what it was that needed to be done about the problem that we faced. They were freshmen. They were freshmen, but they absolutely devoted themselves to statewide travel and taking testimony. Without the ability and the flexibility that you get in a biennial budget, they would probably still have been trying to figure out the budget.

It also offers stability and certainty, which is good for businesses, and it is good for taxpayers and for planning for the future. We do not have very many crises in Ohio. Only twice since 1990 have we missed our budget deadline, and that was because of recession. Fiscal emergencies are bad for budgeting. In times of crisis, deals get struck which mean wasteful spending, and you do not have an oversight on spending. Every Governor I have worked with has hidden money, and with more time, we can make sure that money is not then wasted on issues that have not been examined.

Agencies that receive State spending—in Ohio, the public schools in particular and the criminal justice system—can be more efficient because they know what their budget will be for a 2-year period. They can hear the train whistle before they get hit. I personally believe that we avoid wasting resources trying to get more money. Instead, we have more time to do the job in law enforcement, construction, and education.

The key to successful budgeting is strong leadership and coordination between the General Assembly and the Governor. The Governor submits a budget. The House really does most of the work in Ohio. After our budget, we then meet with the Senate to work out differences. Obviously, there are always differences. Ideally, you want to get the budget completed on time and then leave it alone for 2 years. We only needed to worry about the budget in the off- year because there was a recession or an economic downturn.

In summary, biennial budgeting allowed me to have more time to help Ohio instead of fighting over spending every year. If there was a real problem, we fixed it. I could talk the budget over with my colleagues from the opposite party. We simply had more time to put thought into the process.

Biennial budgeting is not necessarily a miracle cure- all, but certainly it can lead to a better and more thoughtful process, increased stability and certainty. And I want to thank you again for the opportunity to be with the members of this Committee on this very important challenge that we face.

[The prepared statement of Mr. Batchelder follows:]

# A Biennial Approach to Better Budgeting

Testimony to the U.S. Senate Committee on the Budget

William G. Batchelder III
Edwin Meese III Distinguished Fellow
The Buckeye Institute*
Columbus, Ohio
Former Speaker, Ohio House of Representatives

November 4, 2015

*The opinions expressed herein are mine alone and do not necessarily represent the official position of The Buckeye Institute.

Good morning.

Chairman Enzi, Ranking Member Sanders, and the other distinguished Members of the U.S. Senate Budget Committee, thank you for inviting me to testify on the process of biennial budgeting.

My name is William G. Batchelder III, and I am the Edwin Meese III Distinguished Fellow at The Buckeye Institute in Columbus, Ohio. I served in the Ohio legislature for 38 years and was most recently Speaker of the Ohio House of Representatives from 2011 to 2014. In my nearly 4 decades of service as a state legislator, I have seen everyone do something wrong at least once.

I am here to tell you that biennial budgets have worked well to protect Ohio taxpayers and avoid crisis budgeting. When I was in the legislature, we didn't have a budget crisis every year because our system of biennial budgeting provides a great deal of flexibility in handling emergencies.

In the 1980s, savings and loan institutions got in trouble and ran out of money. I was on the Banking Committee, and I got a call from then-Governor Dick Celeste. A savings and loan in Ohio was going bankrupt and many Ohio citizens were going to lose their life savings. Dick is a friend of mine, and a Democrat. Working together in bipartisan fashion, we solved the problem and Ohioans did not lose their life savings. We could solve that and other problems because, with a good budget, we knew where to find money and potential savings. In my 38 years of experience doing budgeting for Ohio, I have observed time and again that states with annual budgets have a harder time solving problems than we did.

Biennial budgets are not new, and they have withstood the test of time. Ohio has had biennial budgeting since the early 1900s. We are now a full time legislature, and not having annual budgeting means that we can devote a whole year to the priorities and concerns of Ohio citizens. In my last year as Speaker, because we did not have to do an annual budget, I was able to focus on other key issues such as passing the first *mens rea* reform bill in the nation on my last day in office. I'm not sure that a great and bipartisan bill like that would have been approved if we had instead spent the first six months on a budget.

Independent research also confirms Ohio's experience verifying that legislators have more time to address potential problems under a biennial budget. A survey found that legislators in states with biennial budgets spend less time on their budgeting process than those in states with annual budgets do. Legislators can spend the second year of a budget cycle focused on programmatic review.[1]

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[1] Ron Snell "State Experiences with Annual and Biennial Budgeting", April 2011 at http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx

We are also flexible when we encounter a new problem. We have faced a real drug epidemic in Ohio. Not having to do an annual budget gave me the time and flexibility to focus on helping citizens on serious matters like that one. I was able to direct two freshman members to conduct hearings and investigations around the state to figure out how to help.

Biennial budgeting also offers stability and certainty, which is good for businesses and for planning.[2] We don't have many fiscal crises in Ohio. Only twice since 1990 have we missed our budget deadline and that was because of recessions. Fiscal emergencies are bad for budgeting. In times of crisis, deals can get struck which mean wasteful spending and the legislature does not have oversight on spending. Every governor I've worked with hides money and, with more time, we can make sure that money is not wasted.

Agencies that receive state spending can be more efficient because they know what their budget will be for two years. They can hear the train whistle before they get hit! They don't have to waste resources every year on trying to get more money. Instead, they have more time to do their job in law enforcement, construction, or education. Several surveys have found that budget staff and policymakers are indeed under less pressure and have more certainty with biennial budgets as compared to those using an annual budget process.[3]

We continue to seek new methods to improve our oversight of the spending of taxpayer dollars. Ohio created two new committees: the Joint Medicaid Oversight Committee and the Joint Committee on Agency Rule Review. These committees meet throughout the legislative term and are able to focus on legislative oversight.

Another key to successful budgeting is strong leadership and coordination between the General Assembly and the Governor. In Ohio, the Governor submits a budget and then the House really does most of the work. After the House passes a budget, we meet with the Senate to work out any differences with its budget. Ohio's biennial budgeting is effective because of the strong commitment to good budgeting between the House and Senate budgets. The General Accounting Office cited this partnership and commitment in a report on Ohio's practice of biennial budgeting.[4]

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[2] Rea S. Hederman Jr., Greg R. Lawson, Tom Lampman, and Joe Nichols, "2015 Budget Overview" The Buckeye Institute, February 10, 2015 at http://www.buckeyeinstitute.org/uploads/files/2015_Budget_Overview%281%29.pdf, p.3

[3] Ron Snell "State Experiences with Annual and Biennial Budgeting", April 2011 at http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx

[4] United States General Accounting Office "Biennial Budgeting Three States' Experience", October 2000, GAO-01-132 at http://www.gao.gov/new.items/d01132.pdf

Ideally, you want to get the budget completed on time and then leave it alone. In the past, in Ohio, we needed to worry about the budget in off years only if there was a recession or downturn. If there was a recession, we passed new legislation just like any government with an annual budget would do.

In summary, biennial budgeting allows us to devote more time to helping Ohio instead of fighting over spending every year. I could talk the budget over with my colleagues in the opposite party. If there was a real problem, we fixed it. We simply have more time to put thought into the budget process and avoid problems that seem to afflict Washington D.C. Biennial budgeting isn't a miracle cure-all, but it leads to a better and more thoughtful process, increased stability and certainty.

Thank you again for having me and I will be happy to answer any questions you may have.

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**About The Buckeye Institute**

Founded in 1989, The Buckeye Institute for Public Policy Solutions is an independent research and educational institution—a think tank—whose mission is to advance free-market public policy.

The staff at Buckeye accomplish the organization's mission by performing timely and reliable research on key issues, compiling and synthesizing data, formulating sound free-market policies, and promoting those solutions for implementation in Ohio and replication in other states.

The Buckeye Institute is located directly across the street from the Ohio Statehouse on Capitol Square in Columbus, where it assists legislative and executive branch policymakers by providing ideas, research, and data to enable the lawmakers' effectiveness in advocating free-market public policy solutions.

The Buckeye Institute is a non-partisan, non-profit, and tax-exempt organization, as defined by section 501(c)(3) of the Internal Revenue code. As such, it relies on support from individuals, corporations, and foundations that share a commitment to individual liberty, free enterprise, personal responsibility, and limited government. The Buckeye Institute does not seek or accept government funding.

Chairman ENZI. Thank you for your testimony.
Mr. BIXBY.

**STATEMENT OF ROBERT L. BIXBY, EXECUTIVE DIRECTOR, THE CONCORD COALITION**

Mr. BIXBY. Well, good morning, Mr. Chairman and members of the Committee. Thank you for inviting me here today to discuss ways to reform our broken budget process.

Given the frequent breakdown of the budget process in recent years, The Concord Coalition commends you and the Committee for devoting attention to improving the process in ways that will produce more informed, thoughtful, and far- sighted decisions. In that regard, I would like to express The Concord Coalition's strong support for moving to a 2-year budget cycle.

Mr. Chairman, I think I agree with almost everything you said. I would like to be associated with the remarks of the Chairman in his opening statement, and I will make several of the same points.

A 2-year cycle would lengthen the scope of the budgetary decisionmaking process, allowing for a more strategic approach. Ideally, the first session of each Congress would be spent setting priorities and establishing funding levels. The second session would be devoted to long-term planning and oversight.

The Federal budget is a statement of political values as well as a management tool, and the individuals expressing those values through the budget resolution are elected on 2- year cycles in the other body. But we all function in the whole Congress on 2-year cycles. It is logical, therefore, that Congress should adopt one statement of priorities for each full cycle.

When you look at appropriations bills, historically Congresses have been twice as successful at budgeting during their first session than during their second. Over the past 18 Congresses, 10 have passed more appropriations bills on time in the first year compared to 5 in the second year. Given that track record, it is hard to defend the idea of repeating the entire Federal budget process and appropriations process in the second year of each Congress.

Having time for greater oversight would certainly help to further the cause of a more efficient Government in which programs are evaluated on their merits and extended strategically, not simply extended by default because no one has the time to ask whether or not they are still working or are needed.

The Congressional Budget Office estimates that roughly $300 billion per year was appropriated for programs with expired authorizations in both fiscal years 2014 and 2015, and that number has been growing.

The value of building in time for adequate planning and oversight would go far beyond the dollars saved. Our Nation's fiscal challenges require policymakers to evaluate existing programs and eliminate those that are no longer needed, ineffective, or are unaffordable.

To me, this is a crucial step in restoring public trust in Government. There is no question that the public right now has a low regard for the process of the budget, as well as other things, but I think getting back to a more regular budget process where they see that the public dollars are being treated more respectfully and wisely would help restore trust. And that is really going to be needed because our really big problems are with the entitlement programs and the Tax Code. I think it is going to be very difficult to make those tough decisions with the public being so distrustful of the way money is handled around here, so restoring trust in the budget process I think is a real precursor to the more difficult choices that we are going to have to make.

So it would be particularly useful for Congress to devote enhanced scrutiny to the mandatory spending. It is not reviewed in the annual appropriations process, and it has been an alarming trait in the past 40 years that Congress has spent an ever growing amount of time on an ever shrinking fraction of the Federal budget. The mandatory spending programs already consume around 60 percent of every dollar spent, and that is projected to grow more quickly than the economy and at a faster rate than the resources allocated to pay for them. So this is not sustainable over the long term, and we need to focus more attention on that.

Congress could also use biennial budgeting as an opportunity to give lawmakers more time to conduct needed oversight of the special provisions, loopholes, exclusions, preferences in the Tax Code, sometimes referred to as “tax expenditures” or “tax entitlements,” because economically they function similarly to direct spending programs. These tax provisions add up to over $1 trillion a year, and like mandatory spending, they avoid the scrutiny of the appropriations process and grow on autopilot.

Critics of biennial budgeting simultaneously argue that it would become both a fiscal straitjacket and an excuse for uncontrollable supplemental appropriations. In fact, it would be neither, or at least it need not be either of those. You could still enact a corrections bill in the second year, but such changes, barring major events like a war or economic recession, are likely to be modest and would not necessarily require extensive review.

A biennial cycle will work as long as realistic discretionary spending assumptions are used in the congressional budget resolutions, rosy economic assumptions are avoided, and a mechanism is in place to consider second session updates if needed.

Process reform obviously cannot serve as a substitute for the real and challenging budget choices we need to make, but it can create the space for those choices to be made. The realities our Nation faces are far different today than they were about 30 years ago with the budget process, but neither the budget itself nor the process to create it reflects these changes, and I strongly encourage you to consider this reality.

Biennial budgeting is certainly not a panacea, but I do not think it needs to be in order to be a better idea than what we are doing now. So I thank you again for inviting me to testify on this important issue, and I look forward to taking any questions you may have.

[The prepared statement of Mr. Bixby follows:]

Hearing Before the Senate Budget Committee – Reforming the Federal Budget Process: A Biennial Approach to Better Budgeting

Wednesday November 4, 2015

Testimony of Robert L. Bixby Executive Director of The Concord Coalition

Good morning Mr. Chairman and members of the committee. Thank you for inviting me here today to discuss ways to reform our broken budget process.

I am the executive director of The Concord Coalition, a nationwide, nonpartisan grassroots organization dedicated to helping citizens better understand the federal budget and promoting fiscal responsibility. Since 1992, our staff and grassroots volunteers around the country have encouraged elected officials to pursue a sustainable fiscal policy.

With the most recent budget agreement between the White House and Congress, some small steps have been taken to address our long-term fiscal challenges. While the agreement does contain some budget gimmicks, it also contains reforms to Social Security and Medicare that may serve as the foundation for later, larger reforms. This is important, as both programs are projected to grow significantly in the coming decades.

In short, the budget deal allows Congress to turn to laying the groundwork for significant fiscal reform once the next president takes office. While it is far from perfect, it is acceptable and efforts to expand upon it should be encouraged.

In spite of the marginal progress made, significant challenges remain for our long-term fiscal future. Congress will have to address the impact of the demographic tidal wave that will add significantly to the cost of retirement and health care programs in the years to come. There is also much that can be done to improve our inefficient tax code.

Our problems are worsened by a budget process that exists in name only. Concurrent Budget Resolutions, the key framework of the process, have become increasingly rare. This year was the first year since 2009 in which one was adopted.

The appropriations process has become equally dysfunctional. In the 41 years since the current budget process was created, Congress has only completed consideration of all 12 appropriations bills in four of those years.

Budget process reform is not a substitute for a serious plan to address the significant fiscal challenges facing the nation. However, common-sense reforms to the budget process *can* turn lawmakers' attention to the kinds of long-term planning and strategic discussion that may yield true fiscal reform.

The Concord Coalition has long favored a biennial budgeting cycle, which we believe would help get us to a more rational budgeting process. Historically, Congresses have been twice as successful at budgeting during their first session than during their second.

Over the last 18 Congresses, 10 have passed more appropriations bills on time in the first year compared to five in the second year. Indeed, the chances of an appropriations bill's passage can almost be predicted by the year in which the bill is considered: one in three appropriations bills passed on time in odd years compared to one in seven during even years. Budget resolutions show a similar pattern: up until 2011, every single year Congress failed to pass a budget resolution was an even year.

Given these facts, it is hard to defend the idea of repeating the entire federal budget and appropriations process in the second year of each Congress. The Budget Resolution is a statement of political values as well as a management tool and the individuals expressing those values through the Budget Resolution are elected on a two-year cycle.

It is logical, therefore, that Congress should adopt one statement of priorities for the full cycle. Such a shift would not preclude the possibility of supplemental appropriations measures in the event of major economic events or national security crises. However, the two-year cycle should be altered only in dramatic cases such as these.

Under a biennial system, the budget and appropriations process for the first year of each Congress would function similarly to how it does now. The only difference is that budget resolution and appropriations bills would cover both fiscal years in the biennium. Without the obligation of repeating this process again in the second year, Congress would be free to conduct careful oversight and provide more targeted scrutiny of federal programs than it otherwise would.

A key advantage of a biennial budgeting cycle is that it would allow lawmakers to concentrate energy on the twin challenges of oversight and reform. Greater oversight would certainly help to further the cause of a more efficient government in which programs are evaluated on their merits and extended strategically, not simply extended by default because no one has the time to ask whether or not they are still needed. CBO estimates that roughly $300 billion per year was appropriated for programs with expired authorizations in fiscal years 2014 and 2015.

With a second year to evaluate the success or failure of a given program, Congress could target reforms to particularly outdated or inefficient programs, potentially generating greater and smarter savings. It is best to eliminate programs we can no longer afford, are no longer needed, don't work, or represent giveaways to narrow interests at the expense of the broader public good.

As The Concord Coalition has often stressed in our interactive budget exercises with Americans throughout the country, the most significant fiscal policy choices we face involve the programs in our budget that are growing on automatic pilot -- primarily our mandatory spending programs.

It would be particularly useful for Congress to devote enhanced scrutiny to mandatory spending, which is not reviewed under the annual appropriations process. It has been an alarming trait of the past 40 years that Congress has spent an ever-growing amount of time on an ever-shrinking fraction of the federal budget. In the mid-1970s, the amount of federal spending devoted to "discretionary" spending, or spending subject to the normal appropriations process, was roughly even with mandatory spending. Today, that figure has fallen to about one-third and will likely reach under one-quarter by 2025.

These programs already comprise 60 cents of every dollar spent by the government, and are projected to grow more quickly than the economy and at a faster rate than the resources allotted to pay for them. This is not sustainable in the long term, and we should focus our attention on it.

Congress could also use biennial budgeting as an opportunity to give lawmakers more time to conduct needed oversight of the special provisions, loopholes, exclusions and preferences in the tax code -- which are often referred to as "tax expenditures" because economically they function similarly to direct spending programs. These tax provisions add up to over one trillion dollars a year and like mandatory spending, they avoid the scrutiny of the appropriations process and grow on autopilot.

Formally converting the annual appropriations process to a two-year cycle would be a significant change, but perhaps not as large as it might seem. Along with a shrinking discretionary budget, the historical trend has been towards a gradual lengthening of the budget cycle. When the congressional budget process was launched the process began with two budget resolutions for fiscal year 1976. By 1982, the second budget resolution was becoming a formality that essentially reaffirmed the figures contained in the first resolution. However, not until Gramm-Rudman was enacted in 1985 was the requirement for a second budget resolution officially abolished.

With enactment of the bipartisan budget acts of 2013 and 2015, Congress has effectively taken another step toward a formal biennial cycle. Both agreements set top-line appropriation numbers for two separate fiscal years.

Today, I am pleased to see that there are a number of legislative proposals under consideration that would take further steps to modernize the budgeting system. While each of these proposals would reorient the budget process in slightly different ways, the enhanced attention on biennial budgeting surely bodes well for the prospect of real reforms that may reduce wasteful brinkmanship over the federal budget. Actual shutdowns may be infrequent, but the haphazard stopgap bills used to avoid them are not -- and these bills have serious consequences for federal agencies.

It is difficult to plan and predict as a government manager when an agency is almost totally unaware of what its funding levels will be in the months and years ahead. With each agency starting with a two-year figure to produce longer-term budgets, waste and inefficiency can be lowered throughout the federal government.

Critics of biennial budgeting simultaneously argue that it would become both a fiscal straightjacket and an excuse for uncontrollable supplemental appropriations. It would in fact be neither. While you could still enact a "correction" bill in the second year, such changes, barring major events like a war or economic recession, are likely to be modest and would not necessarily require extensive review.

A biennial cycle will work as long as realistic discretionary spending assumptions are used in the congressional budget resolution, rosy economic assumptions are avoided, and a mechanism is in place to consider second session updates.

One potential solution would be to withhold a small portion of the 2-year total Appropriations Committee allocation until the second year. This specific reserve fund could accommodate new and unexpected demands. Another useful practice would be to limit the adjustment of second-year spending levels to one piece of legislation rather than a handful of smaller and less-scrutinized bills.

Congress should also be planning ahead and thinking strategically about longer-term goals during the initial budgeting period. For instance, regular appropriations bills should be enacted for emergency relief programs that reflect their long-term average levels. Natural disasters such as floods, droughts, fires, hurricanes, tornadoes, and earthquakes occur frequently. This would provide budgetary resources within the discretionary caps in advance of emergency needs and would eliminate the need for most supplemental emergency appropriations. Expenditures in response to these disasters tend to fall within a predictable range. To budget in anticipation that there will be no disasters is disingenuous.

In conclusion, I ask whether you are satisfied with the budget process as it stands? Do you believe that the results we get today are the best we can do? If not, biennial budgeting holds promise as an alternative to foster the kinds of serious, long-term thinking and discussion necessary to confront our fiscal challenges.

As I noted earlier, process reform cannot serve as a substitute for real and challenging budget choices, but it can create the space for those choices to be made. The realities our nation faces are far different today than they were 30 years ago, but neither the budget itself nor the process to create it reflects these changes. I strongly encourage you to consider this reality.

Thank you again for inviting me here to testify on this important issue, and I look forward to taking your questions.

Chairman ENZI. Thank you very much. I want to thank both of you for testifying, and we will have a round of 5- minute questions in order of where they were at the gavel or their order of arrival. I get to begin, and I would mention that Wyoming has a biennial budgeting session. We meet 40 days one year and 20 days the next year, and the 20-day session is the budget session. Of course, that is all we do is budget. You can bring up legislation, but the legislation requires a two-thirds vote of the body with no debate. So seldom is anything able to pass that unless it is an emergency. But we have balanced the budget and done some of those rainy-day account things that Senator Carper talked about, which have never been touched. It has never rained that hard in Wyoming. We are kind of a dry State.

[Laughter.]

Chairman ENZI. I will begin with Speaker Batchelder. Congress' adoption of late appropriations bills and the frequent short-term funding bills, the extensions, how does that uncertainty affect State governments and private organizations like the colleges and the universities in your State? Do you have to deal with that as an emergency basis when we delay?

Mr. BATCHELDER. We have a Governor who is somewhat tight-fisted by his Washington training, John Kasich, and we try to avoid that and have done so. But you are correct. We do have problems particularly with the colleges and universities, which are results of young people not having adequate funds or scholarship help to go to our various State institutions.

We do, however, provide funds to the operation which runs the State colleges, the Board of Regents, and that money is available to them in the event that there is some untoward circumstance that occurs. But basically that is not a problem. Our problem would be more in the primary secondary schools. If people do not renew our voted millage, then we face a difficulty, obviously. But most of the private—pardon me. Most of the primary secondary actually anticipate that and start raising those issues early enough that we ordinarily do not have to bail them out.

Chairman ENZI. Okay. Thank you.

Mr. Bixby, a Gallup survey fielded in February asked whether the responses approved of the way Congress is conducting its business, and only 20 percent of those polled said yes, and I think that was our best poll. Do you think Americans' low opinion of Congress is a reflection of our inability to pass spending bills under regular order? Would the biennial budget restore predictability? Would it help public trust in our institutions?

Mr. BIXBY. Well, I think it would, and 20 percent strikes me as high—

Senator WHITEHOUSE. Microphone.

Mr. BIXBY. Oh, I am sorry. Twenty percent strikes me as high, so maybe that is a bit of good news. But I do think that the budget process is—because I spend a lot of time around the country going to—you know, conducting budget exercises and talking to people about the budget. And I do think that a lot of the frustration people feel is as a result of the budget process. They hear about bills not being passed and wonder why the Government might shut down or nobody knows what is going to happen with the debt limit.

And it is a very high profile reflection of a system that is not working.

So sometimes I really think that budget process reform, while it seems rather dull on its face, saying those words sounds kind of dull, is a key to regaining public trust. If people begin to see an orderly budget process and that their dollars are being dealt with more wisely and thoughtfully and the process is running on time, I think that it would help restore public trust that Congress will need to make far more difficult budget choices. And, look, the process is definitely broken. I agree with the adage, "If it ain't broke, don't fix it." But that is not what we are dealing with here. It is broken, and so we do need to fix it.

And so the idea really is, you know, I think we have an opportunity here to come up with a new budget process that, you know, seems to be more rational on its face and more, you know, oriented towards long-term planning.

So, yes, I do think it could have benefits beyond just dollars saved or "efficiency."

Chairman ENZI. Thank you. My time is almost up.

I will yield to Senator King, followed by Senator Ayotte. Senator King?

Senator KING. Mr. Batchelder, it seems to me one of the most important things you said is that legislatures have no shortage of problems to deal with, so why deal with the same problem every year when you can deal with it every other year and use the time otherwise? Is that your experience in Ohio?

Mr. BATCHELDER. Not really. In Ohio, I have had interim efforts when we are not in session. I sent those two young men out to look at the drug problem, and our new Speaker spent a great deal of time when we were out of session dealing with the problems of higher education, particularly the financial problems that students are having. And so we do get around the problems by addressing them in the off-season, as it were.

Senator KING. Well, that was my point, that by not having to do the budget every year, you freed up legislative time to deal with other issues.

Mr. BATCHELDER. That is correct. But, obviously, if we were in an annual appropriations situation, then you would have a whole different set of problems that would arise as a result of the inability of the members to get together on issues and to work through them, in my opinion. I have had a nice career of being a friend of both caucuses, and as a result of that, we are able to anticipate problems and take care of them in the biennial budget.

Senator KING. Mr. Bixby, you have been watching the Federal budget process for some years. It strikes me that we are in the middle of the second Federal biennial budget. The Murray-Ryan was 2 years, and the agreement reached just the other night is 2 years. So, in effect, we are doing it. And what you are suggesting is that should be the regular part of the process, that we are doing it and I think everyone would agree that it made it a lot easier around here knowing that we had the certainty of 2 years. But it did not compromise the appropriations process because the appropriations have to be done within those overall budget levels.

It seems to me we have had our trial run, in effect, and it seems to be working.

Mr. BIXBY. Yes, I think we have had an experiment by default, biennial budgeting by default. And so moving explicitly to a biennial budgeting process would not be a radical change. It would almost be confirming what we have stumbled into. And perhaps it has been a stumble, but I do not think it is an accident that the last two budget agreements have been 2-year agreements. It makes sense. And so when you have Democrats and Republicans negotiating a budget deal, doing it over a 2-year period makes sense. It gives a certain amount of stability. You have got budget caps in place, and the appropriators can, you know, make decisions, as they should, about what happens beneath those caps.

So, yes, I think we are—we are looking at four fiscal years in a row where we will, in effect, have been governed by a 2-year budget.

Senator KING. How would you feel about a proposal—and there are various proposals, as you know, that have been submitted—where you had a biennial budget but single-year appropriations? In other words, you would set the overall budget limit for 2 years, but then the Appropriations Committee would still do the allocation within those numbers on an annual basis. That might be a way of finding a solution that we could find consensus on here. I am not advocating it. I am just interested in your view, both of you.

Mr. BIXBY. Well, from my view, as kind of a biennial budgeting purist, you might not get as much of the benefit of the biennial budgeting. You would for the 2-year budget, as we are doing now. If you went through still an annual appropriations bill, a lot of the time for oversight and that sort of thing that we are talking about would probably be lost, so you would not get—most of the time is spent on the annual appropriations, not the budget itself.

Senator KING. Mr. Batchelder, what are your thoughts about that hybrid?

Mr. BATCHELDER. I have not examined that, even though I was hanging out there for 38 years. But I would think that the—I can see that there would be some pluses, but I think the system that we have used—when Kasich became Governor, I became Speaker. We had an $8 billion deficit. And that is 18 percent of the State budget. So we had to move lightly and quickly to get that taken care of. We did pass a balanced budget. It was more partisan than I had hoped. All of my party voted in favor of that budget. The other party, with two exceptions, voted against it. But I think part of this has to do with the focus that you do get on budget issues in terms of priorities and so forth. If you could have time to send people out—our new Speaker, for example, I sent him out to the universities to meet with the presidents, and we have a carload of universities in the State of Ohio. And he was able to profit by that and participate in the making of the budget in an in-depth way that a freshman ordinarily would not have had.

Senator KING. Thank you, gentlemen.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Next will be Ms. Ayotte, followed by Senator Warner.

Senator AYOTTE. Thank you, Chairman.

Speaker Batchelder, do you have a balanced budget requirement in Ohio?

Mr. BATCHELDER. Yes. We have had occasions, obviously, over the period of time that I have been there where they were observed perhaps in the absence of action, but basically both parties adopt that as their approach.

Senator AYOTTE. And does that help contribute, obviously, to what you have to come up with in terms of limitations?

Mr. BATCHELDER. Indeed.

Senator AYOTTE. Also, in terms of this biennial budget—and let me just say I am a cosponsor of this. New Hampshire has a biennial budget process like many States, and I think that it is a very effective process. But to the point that is being raised about separating the budget from the appropriations, I guess my concern would be about that, and I wanted to maybe ask Mr. Bixby about this. If we separate the budget from the appropriations, I just do not see how the oversight gets done because we are still in this continuous appropriations process as opposed to using the second year to really look at, okay, what is working, what has not worked; otherwise, you are just constantly appropriating. I want to get—if you had a preference, do you prefer that we just take the unified approach?

Mr. BIXBY. Yes. I would think that the benefits of biennial budgeting mostly come from doing the appropriations once for a 2-year term.

Senator AYOTTE. Right.

Mr. BIXBY. That is what frees up the time.

Senator AYOTTE. The time, because we are actually—if you look at the work we did on the Budget Committee this year putting together a budget, we were pretty—we had a time deadline that we had to follow under the Budget Act, and we did our work in a pretty efficient time period. And so the budget process took up a lot less time that I see, obviously, the appropriations process or the 12 appropriations bills overall. And the appropriations are really where the rubber meets the road in terms of what programs you are going to fund within the overall number.

And one of the things that has frustrated me over the years, too, is that we have a Government Accountability Office that does audits and does some really good work on some ideas on which programs are performing, which programs have issues, and yet too many of those reports sit on the shelf.

Do you see an opportunity in this process, if we did have the second year in oversight, to more effectively take up the work that has been done of that agency auditing programs and saying here are things you should be addressing if we were to move to this process? I would have either of you comment on that.

Mr. BATCHELDER. My sense would be that you apparently have something working for you which was like our old Legislative Budget Office, and we had very good success with that. And, in fact, I was disappointed because that budget office was done away with. That was a legislative tool. We hear enough from the Governor about the budget. He is traveling from city to city informing—

Senator AYOTTE. He is traveling in my State, too.

[Laughter.]

Mr. BATCHELDER. I understand. But I think that that kind of an approach is superior to what we are doing now, which is relying on the Governor to send the budget, and then he sends new taxes. He and I—in Ohio, we have been blessed with a whole new source of funds. We hit oil. And as a result of that, the Governor wanted to put a severance tax into effect. And it seemed to me what we needed to do was encourage everybody who wanted to drill holes in the ground to do so. And that did not involve taxing them. The LBO would probably have been against doing that until we had a good sense of what the prospect was going to be in that particular area.

Senator AYOTTE. What do you think about the GAO role and us using their work more if we had more oversight?

Mr. BATCHELDER. Oh, I think it would be terrific. I think that they put out some—

Senator AYOTTE. Some really good work.

Mr. BATCHELDER. Some really good work, and that is exactly the kind of oversight that is needed.

You know, we always emphasize the mandatory part of the budget, but oversight can go to the discretionary and mandatory side, and as I said, even the Tax Code. There are a lot of things that need to be reviewed for whether or not they are even working. I mean, we all know that things get into the Federal budget, and, you know, they stay there and they do not get that much oversight.

So I think making better use and having time to make better use of the GAO work would be a really good idea.

Senator AYOTTE. Thank you both. I appreciate it.

Chairman ENZI. Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

Let me just follow up on Senator Ayotte's comments. I also am supportive of this 2-year approach. I think most States that have 2-year budgets have worked that process successfully, and I think Senator Kaine will make this point as well. It is not like having a 2-year process and in effect a 2-year appropriations that you cannot make adjustments at the end of each year.

Mr. BATCHELDER. Right.

Senator WARNER. In our State, the Governor submits true-ups and budget amendments. The legislature takes that and disposes of it as appropriate. But it does not dominate the whole time. And I would hope my colleagues on the appropriations process would realize they would still have a bite at the apple if we were to do this 2-year process. So I do hope that we are able to move forward.

My line of questioning, I actually want to follow up again on what the Senator from New Hampshire, was talking about, and this is an area that I know Senator Whitehouse, when I first got on this Committee, had talked about this Budget Committee having a Government Performance Task Force. We worked together on that. Senator Portman and I have worked on legislation in this area. And I would argue that GAO is one tool we could use, but that we have absolutely done legislative activity. It was called the Government Performance and Results Modernization Act, GPRA, the smallest little bill that nobody had ever heard of that, if actually fully implemented, can have enormous results because it requires every agency to actually identify not only its most successful programs but its least successful programs, something that entities are loath to do, but we have never really taken those results—actually, the administration has started to put out just in the last year--and really reviewed those underperforming programs.

Senator Portman and I last year worked very hard on something called the DATA Act, again, bipartisan, trying to bring transparency to our financial reporting systems. There are 200 separate financial reporting systems just inside the Department of Defense alone. How are we ever going to sort through how our taxpayer dollars are wisely used and where we need actually additional investments if we do not have commonality of terms?

What I feel, Mr. Chairman—and I am going to get to a question here—is that every administration, Democrat or Republican, OMB has this responsibility, but the "B" part always trumps the "M" part, and management always seems to get left to being a secondary item. And, frankly, a lot of this activity is nitty-gritty, but if you are really going to roll up your sleeves and say where can we save resources and where are there programs that need additional resources, you got to do this review. And whether it is GAO-wise or whether it is taking legislative actions that the administration is charged with right now, like GPRA or the DATA Act, and actually making sure we have that oversight, I think it would add tremendous value.

Mr. Bixby, I know we have worked together on these issues for a long time. I would like you to speak a little bit more to the question of the oversight tools that we can use. OMB has that list every year. I remember my first year on this Committee where they published the programs that both the Bush Administration and Obama Administration thought should be eliminated, I thought that would be low-hanging fruit. I quickly learned that was not as much low-hanging fruit, even though both administrations had looked at that, but I do not think we had ever looked in-depth at those programs to reach some kind of legislative conclusion.

Mr. BIXBY. No, and I think that that is what is missing. We have got a lot of—as you said, we have got a lot of reporting mechanisms now that were put in place, geez, going back about 10 years or more, that the Federal agencies need to report their progress and defining goals and meeting them and reporting each year how they are doing. And that information is available along with the GAO reports, and what is missing is some sort of formal process for making use of that material.

And I think now this is something that should get bipartisan interest because we are living under tight spending caps, and we know that the budget pressures in the future are going to get, you know, more acute.

So there really is—there never is an excuse for wasteful programs, but there is even more of a necessity to find as much—to require as much efficiency and effectiveness as we can. So making use of those tools that you mentioned I think is really the next logical step, and hopefully the biennial budget process would help do that.

Senator WARNER. I would just add one last editorial comment, and Mr. Bixby raised this. I think we put lots of requirements on every program to have reports. One of the things Senator Ayotte and I have worked on is actually saying if some of these reports are not looked at, let us eliminate them, because I think at some level we have actually gotten so report-heavy and yet we do very little analysis on that.

Mr. BIXBY. There may be waste in looking or waste.

Senator WARNER. There may be waste in looking for waste.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Portman?

Senator PORTMAN. Thank you, Mr. Chairman, and it is an honor to have Bill Batchelder here with us. I know he was able to introduce himself earlier, but he has spent 38 years in the House and the last 4 or 5 years as Speaker. And he really is one of our icons in Ohio, one of our great legislative leaders, and he was also an elected judge, so he will go down in Ohio history as one of the great public servants. And unless term limits change, he will also go down as having some of the most impressive longevity. So it is great to have you here and have your wisdom on this particular issue, Bill. Thank you so much for coming.

Mr. BATCHELDER. Thank you.

Senator PORTMAN. And, Bob Bixby, always good to see you. Thanks for sticking in there and fighting the good fight, not just on this but on entitlement reform and other things.

I was, as you know, in the position at OMB to put together these budgets, and I am a 2-year budget person in part because of that experience. So I was on the Budget Committee in the House and on the Budget Committee here, and I am happy to be cosponsoring the legislation as it relates to Congress.

But even at the Office of Management and Budget, as you know, there is an enormous amount of effort and time put in every year to coming up with the budget, and it is probably the biggest single job of the OMB Director, although as Mr. Warner has said, you know, there is also an important management function and regulatory review function and policy function on every single administration initiative. Frankly, doing the budget every year makes it harder to address those, so I would think there is an analogy to what Speaker Batchelder talked about, and more time spent on the oversight side would be important.

I am looking at your testimony. You said four things that I think are really interesting. One, legislators spend the second year of a budget cycle focused more on programmatic review, and you talked about some specific examples of that and big things you have gotten done. You also mentioned oversight later. You talk about the flexibility to respond to serious new problems rather than being sort of hemmed in by the budget process. You talked about, for instance, now our unfortunate situation with drug overdoses in Ohio. You talked about more predictability and certainty, including for the Government. Specifically, you talked about the agencies can be more efficient; they can hear the train whistle before they get hit. That is one I would like to have, again, your 38 years of experience with this, working with the State agencies, a little more on that. Could you flesh that out a little more? I think we do not talk about that enough, the certainty, the predictability, and, you know, being able to plan, and the efficiencies you get from that.

Mr. BATCHELDER. That is an area where I think we need to have a very much increased focus because, frankly, in the absence of it, then we end up with people who are short of programs funding them, particularly when the money is sent back to the local level. You can have problems emerge if you do not do that properly, and we have had some of those. We had a previous Governor who had a significant number of them. And an $8 billion deficit, 18 percent of the budget, is not a laughing matter. And I think it is something that can be very, very helpful if you have the people in place, obviously, who are willing to come to you and say we have a situation here and we need to address it. And, generally speaking, our Cabinet members are capable of that.

Senator PORTMAN. I think for them, much like the Federal agencies and departments here, there is sometimes a temptation with the annual budget also to spend it all—

Mr. BATCHELDER. Oh, yeah.

Senator PORTMAN. —so that you are not penalized the next budget year, and having a 2-year budget and being able to be maybe a little more efficient and thoughtful about your spending makes sense as well. So I appreciate that. And I do think Ohio is a good model in terms of just the better governing at the agency and department level.

I have also found it interesting, and you talked about focusing during that second year more programmatic, you said, and on oversight. Can you give us an example of that, something that you were able to do during an off-year that would have been difficult to do during a budget year?

Mr. BATCHELDER. We had a situation in which there was a great deal of prescription writing going on down at your region of the State in particular, and there was very little enforcement by those people who are in charge, if you will, of the policing of the medical profession. And we were able through meetings with various officials who were local as well as actually an expansion of some of the power of the Highway Patrol to solve those problems, to take away their licenses and to get them out of the selling of paper businesses that they were in, and particularly in some of the rural areas of the South, those were very, very serious problems.

Senator PORTMAN. Shutting down the pill mills.

Mr. BATCHELDER. The pill mills, yes, sir.

Senator PORTMAN. That is a good example where it takes a lot of time and effort and focus.

Well, my time has expired. I want to apologize to my colleagues. Mr. Sessions, I did not know he was coming, and he is actually more senior than me. He should be seated on my right, not on my left—I just want you to know that—as former Chairman of the Committee.

Senator SESSIONS. Senator, I like you on my right.

[Laughter.]

Senator PORTMAN. But, Mr. Speaker, thank you for coming.

Mr. BATCHELDER. Well, thank you for your kind comments.

Senator PORTMAN. I know it was an inconvenience for you to have to come here to D.C. We always appreciate having you here.

And, Bob Bixby, thanks for your testimony, and I appreciate your continued work on these budget process reforms.

Mr. BIXBY. Thank you.

Chairman ENZI. Thank you.

Senator Whitehouse, followed by Senator Sessions.

Senator WHITEHOUSE. Thank you, Chairman, and thank you for the continuing series of hearings on our Budget Committee process that you have had. I think I share your frustration with the process that I think we probably all on this Committee feel. I think there is a reason that nobody shows up at Budget Committee hearings, today being a case in point. If you could turn the camera around, you would see more empty seats than full. Even when we are debating the budget here in the Committee room, there are usually masses of empty seats. The insignificance and irrelevance of this Committee has really become quite apparent, and I think a good deal of that has to do with the fact that we have changed as a body from the practice of majority votes on appropriations to the new practice that everything has to go by 60 votes. So if you are an appropriator and you know that your appropriations bill has to get 60 votes, the penalty of a budget point of order for violating the budget is nonexistent.

So it seems to me—first of all, let me say I support the idea of biennial budgeting. I am intrigued by it. I am not comfortable with any particular bill yet, but I look forward to working with people who are interested in trying to make this work.

I do think that there should be some procedural obstacle to appropriations that violate the Budget Act or the budget level that we have set. And since there is not one right now, we are just making noise over here, and everybody knows it. The 60 votes is really the procedural obstacle, and you have to be at 60 anyway, so we have basically neutered ourselves.

We also, I think, have the opportunity here to be kind of a bipartisan crucible for a, you know, Ryan-Murray type deal. But for a variety of reasons, we have not taken advantage of that political opportunity either. So both for want of any procedural value to complying with what we have done and because we have not taken advantage of the political opportunity, we have basically made ourselves insignificant.

I think there is hope for this Committee. I think it has a great role. But I do think that under present procedures we will continue to see rooms full of empty seats and an Appropriations Committee that takes zero interest in what we do because they know that they do not care.

I would add one additional point, and this follows up on what Congressman Price said. By not paying attention to the budget, by not paying attention to appropriations, by not paying attention to oversight, we are transferring immense political power from the legislative branch to the executive branch.

I remember coming here and somebody said, look, there are three great battles in Congress. One is the battle between the parties, Democrat on Republican. The other great battle is the battle between the branches, executive versus legislative. That is a battle that has been going on since the founding of the country. And the third, they said—and you are going to have to pay attention to this—is the great battle between members and staff. I do not know about the third battle, but we have become so intoxicated with the first battle that we have totally overlooked the fact that we are having our clocks cleaned by the executive branch year after year after year after year. It is like a boat with a hole in it, and instead of plugging the hole and paying attention to our jobs, the two people in the boat are busy having a fistfight in the boat.

So, you know, I am willing to work with all of you. I have got a minute left. If either of the witnesses have any reaction to that set of observations, I will yield the remainder of my time to the witnesses.

Mr. BATCHELDER. Governors are interesting. I would have to say that in all those years I have seen totally different kinds of Governors. Some of them are very cooperative. In the case of our Governor, he, of course, cut his teeth here on the Budget Committee in the House. I believe that was the last time the budget was balanced. So those of us who are budget balancers and planners have an edge. I am not sure you can get one of those guys in every State to run for Governor, but I understand exactly what you are saying.

One of the frustrations that I think a lot of new young legislators have is the fact that they are really not in charge in any substantial way. I had the privilege of running the House a little bit differently. I started with 45 members. I took that up in 2 years to 60 members and then to 65 members. And the reason was they knew when they went down there, they were really going to work, or they were not going to be part of the process. So we had a good relationship that way

Senator WHITEHOUSE. Yeah. I guess my point in conclusion is that even if we do get a good agreement on a biennial budgeting system here for the Committee, if we have not solved the procedural problem that there is no value to anybody to complying with our budget, and if we have not somehow engaged on the political opportunity of having this be the bipartisan crucible for trying to work something out, then doing what we do now over 2 years is just slowing down a bad and ineffectual process. So I think that has to be part of a larger conversation. But the fact that we are here today having this part of the conversation I think is a testament to the Chairman's continuing interest in this and is one that at least this Senator appreciates very much. Thank you, Chairman.

Chairman ENZI. Thank you.

Senator Sessions, followed by Senator Kaine.

Senator SESSIONS. Well, Senator Whitehouse, as he frequently does, makes some very important points. We have passed some budgets, but we have not followed our budgets. And I think Congress is timid to challenge the Executive, which I have expressed concern about for some time. And Congress is failing to understand that at the bottom line, we are responsible for spending. We have the appropriations power. The President cannot spend any money that we do not authorize or direct to be paid through an entitlement program. And so the debt, as a practical political matter, can be blamed on the President because he is advocating more spending and opposing reductions. But, fundamentally, the bottom line when it becomes law and the money is appropriated, Congress has done it, it cannot be spent.

I worry about that. What good is a budget if we do not follow it? And we had a pretty tough budget, but not— Senator McConnell likes to remind me I voted against the Budget Control Act. I did not think it cut enough. But we cannot adhere to that. And it did constrain spending on the discretionary side in a significant way.

Also, I do not think the American people are unaware of the debt situation that we have. I think the American people do, in fact, think this Government spends a lot of money it does not need to spend, and that properly done, like so many Governors have done, Governor Kasich—you go in there, and you defend your actions and fight for them, and most people are going to give the Executive and the Congress a chance, see if you can do it. And are people going to be thrown in the streets, children going to be starving to death if we trim some of these increases in spending? So I do think that we are at a crisis time.

I appreciate both of you and your thoughts on the 2- year budget. Senator Enzi has worked hard on this. A number of our other members, Johnny Isakson and others, have spent time on it. I think it is a good idea. But it has got some complexities, Senator Enzi, as you know. You could see doing it this way, this way, that way, and that way. But I believe if we do this right, we could improve the expenditure of the taxpayers' money.

Mr. Batchelder, in your experience does it actually reduce spending and help contain spending with a biennial budget as opposed to an annual budget? And how?

Mr. BATCHELDER. That has been our experience in Ohio. Basically what happens is that some of the programs that a Governor would want to fund simply do not have appeal to a majority of the members of either the House or Senate, and, therefore, the result is that that item is either reduced or taken out entirely from the budget.

We have had in Ohio in recent years growth in business and industry, as you have in Alabama, and that has been an offset for us, too. We have been able to count on more income than we had had previously. I will never forget one day—

Senator SESSIONS. But when you do this for 2 years—

Mr. BATCHELDER. Yes.

Senator SESSIONS. So you make a decision, and you are not subject to an emotional appeal the next year. At least it is 2 years before the next appeal comes forward.

Mr. BATCHELDER. Exactly.

Senator SESSIONS. And if somebody has got a new program, then they have a period of time to propose it and a period of time to analyze it before a new spending program is adopted? Is that a factor?

Mr. BATCHELDER. It is a factor the way our Finance and Appropriations Committee operates, but that is largely a result of the leadership within the House and the Senate. The House, of course, gets the budget first, and we do remove things. And it is not a problem if you remove things with Kasich as Governor.

Senator SESSIONS. Mr. Bixby, I appreciate the work of your organization. You have been at it a long time, and you have constantly pointed out dangers that we have in the debt that we face. Can you say to us, without repeating some of the things I know you have already said, how you think in your organization, after its years of work, believe that biennial budgeting is a positive step?

Mr. BIXBY. Well, I start from the premise—and I have been testifying about biennial budgeting going back to the last century.

Senator KAINE. The last millennium.

Mr. BIXBY. Exactly. So, I mean, there you go. But I think that the argument maybe has changed a little bit. I mean, it used to be we were more focused on just the idea of sort of the good government aspect of it. You would have more time for oversight, and that would be good for the process.

I think right now the budget process is just so totally broken that it is important for Congress to make a statement by coming up with a new budget process. It is not just biennial budgeting. I think there are a lot of things we could do to focus more attention on the mandatory side of the budget where the real budget problems are. The dynamic of the budget has changed a lot even just in the time that I have been talking about this. But you go back to the 1970s and everything, you know, the discretionary part of the budget is only about a third of the budget right now, and that is what we are talking about in the annual appropriations bills.

So spending so much time rehashing the same issues over and over again over an appropriations bill that is a shrinking part of the budget seems like a misuse of congressional time when we have some real issues to address with health care programs or veterans' programs or Social Security or tax expenditures. So I think that the argument is still that I think we would do a better job looking at the appropriations bills if we had more time for oversight. But I also think it is very important to think of Congress reestablishing its credibility with the budget by coming up with a new budget process. And I think this would be part of it because it strikes people, it strikes me, I think it strikes a lot of people—there is nothing partisan about it- -as a logical thing to do, to take a 2-year budget, to use it as a planning document to guide each Congress, each session of Congress, and starting with that and doing the appropriations and then making time for those oversight activities that, you know, you do not have enough time for right now.

So, yeah, I mean, I just think it would not only be good government, but I think it would save money, and I think it would help regain trust that we are going to need going forward.

Senator SESSIONS. Thank you, Mr. Chairman, and maybe this hearing will provide some momentum to some of the ideas you have worked for.

Chairman ENZI. I hope so. Thank you.

Senator Kaine?

Senator KAINE. Thank you, Mr. Chairman, and thanks so much for doing this. I am a strong supporter of your budgets. I was a mayor, I was a Governor, and I have come to the conclusion really that my support is less about good governance, less about oversight. It is about the economy does better with more certainty than less. It is a certain producer. I mean, I think we all have this experience in dealing with constituents, you know? You may not like my answer, but I will give you an answer. And everybody kind of adjusts around a known, and it is very difficult to adjust around an unknown.

I am on the Armed Services Committee. We have got Pentagon planners who are supposed to be planning to deal with these very challenging threats in the world who are spending time wondering, you know, will we have a budget and when will it be? Or will we have a CR? Will we have a shutdown? Will we have to furlough people? Will we have full sequester budget caps or partial or none? And they spend their time, where they are supposed to be planning about cyber attacks and whatever, running seven or eight budget scenarios instead.

And in the outside world, there is good economic research on this point—we had some testimony, Mr. Chair, about this at the last hearing—that uncertainty has a cost in terms of economic growth and GDP. And I would argue that the primary generator of economic uncertainty in the last decade in the United States has been the United States Congress. And so we should do things that reduce uncertainty.

As a mayor, a Federal budget that was done in October and a State budget that was done in January and February gave a mayor the ability to do a city budget in April or May for a July 1 fiscal year. And we all know how much budgets are transfer pays. The Federal budget is filled with transfer payments to State and locals. State budgets are filled with transfer payments to locals. And so if you have a Federal budget that is uncertain, then you end up with State and local budgets with question marks throughout the line items.

And so whether you are talking about the outside world, the private sector, or the Pentagon planner or States and localities, the more certainty the better.

Senator King said something that I love and I think is true, but I am going to offer a cautionary tale about it. Are we now in a new norm of 2-year budgets? We did a Murray-Ryan deal in 2013. That was a 2-year budget, essentially a 2-year deal. The vote last week, a 2-year deal. That is great, and I have already been promoting, Mr. Chair, this is proving to the world that the Senator Enzis and others like us who support 2 years, we are normalizing the idea of a 2-year budget. Remember what it took to get each of them. The Murray-Ryan deal only worked after the two Houses each did budgets but refused a conference, and then the Government shut down because we got to the end of the fiscal year and there was no deal. And we had a 16-day shutdown because there was a refusal to do a budget conference. The end of that shutdown was an agreement to go to conference, and then that produced the 2-year deal.

What produced this deal? Arguably, absent the unprecedented resignation of the most powerful member of the most powerful legislative body in the world, who was not in danger of losing a reelection and his party was not in danger of going into the minority—that has never happened before, that the number three person in line to be President has said, "I am tired of being the most powerful person in the most powerful branch in the most powerful Government in the world." Absent that, we do not know whether we would have gotten a deal.

So I like the idea that we have maybe normalized 2-year deals, but I am not sure we can count on something as extraordinary as a Government shutdown or a resignation of a powerful person to push us to do something. So that is why I think we have to normalize it through legislation.

The last thing I will say is this: There are different ways to do this, and, Mr. Chair, I think a 2-year budget is a good thing if we do 1-year appropriations. I think it is a good thing if we do 2-year appropriations. I think it is a good thing if we do staggered 1-year appropriations of the kind that you have suggested. And what I worry a little bit is we will all have our own preferences about it, and then a strong consensus behind 2-year budgeting could get diluted because of the different ones. You know, if I was just thinking this is kind of a game theory problem, I would hope for a bill on the floor that would be the one that would compel the greatest number of votes, and I suspect that would probably be 2-year budget, 1-year appropriations, just because of the testimony of folks like Senator Cochran. I think that we could pick up some appropriators that might otherwise have worries.

Then you do floor amendments. You do a floor amendment about, okay, let us consider 2-year appropriations but staggered, or let us consider straight 2-year appropriations and we see whether we can amend the bill and get to, you know, plus 60 for a 2-year bill. But I hope we do not—I think the votes are here to do a 2-year budget. I hope we do not dilute down into subgroups over exactly how we do it and then whittle away the momentum that we picked up because we have done two 2-year budgets in a row.

So I really am glad you are doing this reform hearings and you are particularly focused on this, and I am going to vote for 2-year budgets of all—you know, reform bills of all flavors until we get one passed. So thanks, Mr. Chair, and thank you to you all for coming and offering your perspective on this.

Chairman ENZI. Senator King.

Senator KING. Before we close, Mr. Chair, I just wanted to follow up on Senator Kaine's—

Chairman ENZI. As the Ranking Member of this, you have that right.

Senator KING. Yes, thank you.

[Laughter.]

Senator KING. My fame eluded me for a moment.

I was going to ask the Chair, are we at a place where we can do a markup and move a bill? I think there is some momentum developing here.

Chairman ENZI. We are getting close. We have one more hearing on budget reform yet that could play into coming up with something more concise for this. That could be soon, and then we need to do that.

Senator KING. Good. I certainly would be supportive, and thank you.

I just had one other observation, as we were discussing it, and I think Mr. Bixby made this point but it needs reemphasizing. We are fighting over a smaller and smaller share of the budget. It is under a third now. If you count tax expenditures, it is more like 28 percent, approaching 25 percent, or will be in a couple years. So all the drama is around 25 percent of the budget, and there is virtually no discussion of the other three-quarters. And I think as we talk about this budget issue and deficits and the fiscal issues, we really need to take cognizance of the fact that we are just not even talking about three-quarters of the budget, and that is the three-quarters that is growing. We have all in the Armed Services Committee, discretionary spending, either defense or nondefense, is declining as a percentage of GDP. It is the lowest it has been in 50 years.

So we have to sort of shift this discussion, it seems to me, to talk about the whole budget, including tax expenditures, which now, by the way, equal the entire discretionary budget, $1 trillion a year, and the parts that do not get any review.

So, anyway, Mr. Chairman, I am delighted to work with you and continue the work of this Committee. I think it is very important. Thank you.

Chairman ENZI. Thank you.

Senator Whitehouse, did you have an additional comment you wanted to make?

Senator WHITEHOUSE. No. I think I am fine. I am just interested in hearing what my colleagues had to say. I think this is a really noteworthy discussion. I think the work on this Committee to try to reboot itself and make itself relevant again is important.

Mr. BIXBY. Can I say something, Mr. Chairman?

Chairman ENZI. Sure.

Mr. BIXBY. I just want to—I have testified a lot. I think this is just—I have noticed such a terrific bipartisan nature to this hearing, I think thoughtful, cooperative questions on both sides, people trying to find some way that might work. And I think that is terrific, and I want to commend the Budget Committee for the way in which the hearing was conducted.

Chairman ENZI. Well, thank you, and I appreciate all the great ideas that have been thrown out, a whole number of different ways that we could do biennial budgeting or budgeting. And I have got to say I have been pretty frustrated with the whole process. It begins with the Office of Management and Budget doing a budget, but quite often, if that President is not from the same party as the Chair of the Budget Committee, it was kind of a worthless exercise. And more so than that, from my experience on the Budget Committee, we usually do opening statements and then we get to see the budget. I reversed that this year, and you actually got to see the budget beforehand. I wanted to even give more advance, but was hoping that we could have some kind of a pre-filed amendment process, which is normal in the other committees.

So there are a lot of things that we can do to make this process a lot better. We did not even get into capital budgeting or regulation budgeting or it was mentioned but now how we would actually do the Government Performance and Results Act, which has been around for a long time. That is where every agency is supposed to say what they are going to do and how we will know if they got it done. And then we are supposed to review that and see if they actually did it.

So there are a lot of tools out there that I think we could impose or use, so I hope that will come out of the process. And we will get into more of the solutions in our next hearing.

Thank you for your testimony, and we do have a system where Senators can ask questions for the record until 6:00 p.m. today that will be sent to you that we hope you will provide us with some speedy comments on. And the same applies to the Senators and the Congressman that spoke earlier and provided testimony.

So, with that, thank you, everybody. Even though it is small attendance, I think we got a lot accomplished. The meeting is adjourned.

[Whereupon, at 12:10 p.m., the Committee was adjourned.]

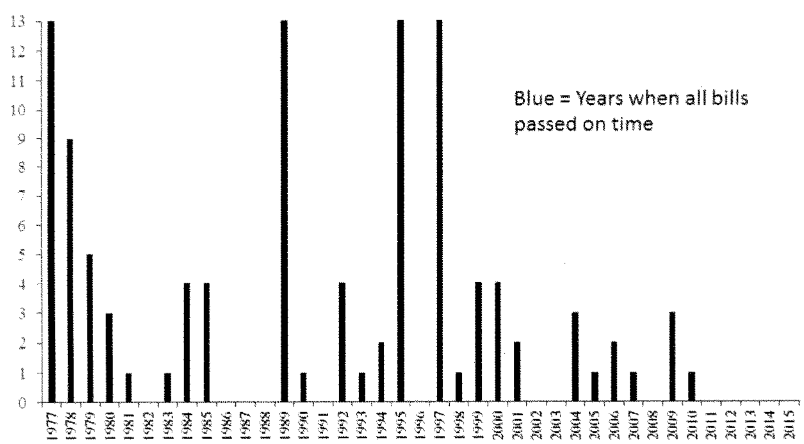
# History of Budget Resolutions

Passed on Time (6)
Passed Late (26)
No Budget Passed (9)

| | | | | |
|---|---|---|---|---|
| **1975** | 1985 | 1995 | 2005 | 2015 |
| **1976** | 1986 | 1996 | **2006** | |
| 1977 | 1987 | 1997 | 2007 | |
| 1978 | 1988 | **1998** | 2008 | |
| 1979 | 1989 | **1999** | 2009 | |
| 1980 | 1990 | **2000** | **2010** | |
| 1981 | 1991 | 2001 | **2011** | |
| 1982 | 1992 | **2002** | **2012** | |
| 1983 | **1993** | **2003** | **2013** | |
| 1984 | 1994 | **2004** | **2014** | |

THE CONCORD COALITION

# History of Appropriations Bills




THE CONCORD COALITION

# MOVING TO A STRONGER ECONOMY WITH A REGULATORY BUDGET

**WEDNESDAY, DECEMBER 9, 2015**

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
*Washington, D.C.*

The Committee met, pursuant to notice, at 10:30 a.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Johnson, and Whitehouse.

Staff Present: Eric Ueland, Majority Staff Director; and Warren Gunnels, Minority Staff Director.

**OPENING STATEMENT OF CHAIRMAN ENZI**

Chairman ENZI. Since it is 10:30, I will call to order this hearing of the Senate Budget Committee. Our topic today is "Moving to a Stronger Economy with a Regulatory Budget." It is the last hearing of the year, and it is a fitting end to a very eventful year for the Budget Committee.

One of the usual customs that goes along with the new year is reflecting on the old and bringing in the new. First, the old. This hearing in many respects is an extension of the June 23rd joint hearing the Committee held with the Homeland Security and Governmental Affairs Committee. That hearing, the first joint hearing between the two Committees in 30 years, discussed the need for the Budget Committee to measure the regulatory costs of the economy and explore different accounting methods to control those costs, including a regulatory budget.

Also a first, the head of Canada's Treasury Board testified about their successful one-for-one red tape reduction effort which they enacted into law earlier this year.

Now, the new. In the new year, one of the Committee's goals will be to focus on the dangers that high regulatory burdens pose for our ability to sustain economic growth and fiscal health and on how Congress can exercise more effective authorization and oversight of the regulatory agencies. With our almost $19 trillion in debt, we cannot afford to accept the notion that we are entering into what some call the "new normal" of anemic economic growth. Maybe better guidance by Congress will help lift some of the regulatory drag on the economy and put an end to this view that we have no choice but to grow slowly.

I am looking forward to hearing from our witnesses today their ideas and suggestions on how we should move forward. According to the Congressional Budget Office, the potential growth rate of our economy, or the rate of growth that is possible given the education of workers, the quality of capital equipment, and the business formation rate, averaged 3.3 percent from 1950 through 2014. This concept of potential growth may seem a little strange, but it means about the same when we talk about a person or group of individuals achieving their potential. When we do not achieve our potential as a group, we begin to look for reasons why, and that is what we are doing now about the U.S. economy.

The potential growth rate of the U.S. economy has been dropping steadily since 2002. Indeed, from 2008 through 2014, it averaged 1.4 percent. CBO now expects the annual rate to remain significantly below its long-term average and to fall to 2.1 percent for the period of 2015 through 2025. That is a 36-percent reduction in the long-run average potential growth rate of the economy.

Why is this so critical? According to the President's own Office of Management and Budget, a 1-percent increase in the economy's annual growth rate will yield more than $400 billion in new revenues for the Government without raising taxes. But when the growth rate falls, when we grow more slowly than we could and we are not meeting our full potential, Government revenues also fail to keep up with budget projections. So what happens when the Government revenue comes up even shorter in the face of growing overspending? More borrowing, more overspending, expanded debt.

The effects of regulation can be seen every day in my home State, not as fluctuations in statistical data but in lost jobs and in the concerns that people have about the future of their communities. The EPA's crusade to keep coal in the ground is already costing hundreds of jobs in my State and will cost my State and this country billions of dollars. At the end of July, Wyoming had 15 percent fewer energy industry jobs than it did a year earlier, according to the U.S. Department of Labor and Labor Statistics. Since 2012, two EPA rules—the Mercury and Air Toxic Standard Rule and the Ozone Rule—are estimated to cost tens of billions of dollars. The two rules do not even include the final rule of the Clean Power Plan. With an estimated price tag of at least $366 billion, the Clean Power Plan will not only devastate the energy industry by mandating unrealistic carbon reductions, it will also squeeze American families' checkbooks by causing double-digit electricity rate increases in more than 40 States. And that is just a few of the major rules recently announced.

The Senate exercised its power under the Congressional Review Act an unprecedented four times this year by voting to disapprove four different agency rulemakings: the National Labor Relations Ambush Elections Rule, the EPA's Waters of the U.S. Rule, and the Greenhouse Gas and the Carbon Limits Rules on utilities.

Congress is also trying to control the agencies through the annual appropriations process, but stopgap efforts to address problems once they have been created are not the answer. We need fundamental reforms to rebalance and fix the authorizing and budgeting authority Congress has over agencies.

Over 35 years ago, on the Joint Economic Committee, Chairman Lloyd Bentsen asked a fair question at the first Senate hearing on regulatory budgeting. He said, "What is so different about preparing a regulatory budget from preparing a fiscal budget?" As an accountant, I know firsthand how effective a sound budget process can be, not just to provide discipline against overspending or overregulation, but to provide a path forward for success and prosperity. I look forward to hearing a discussion about this more today.

I would yield to Senator Whitehouse.

**OPENING STATEMENT OF SENATOR WHITEHOUSE**

Senator WHITEHOUSE. Thank you, Chairman. I guess as the only Democrat present today I am standing in for our Ranking Member, and I would like to make a brief opening statement, and let me open with a word of gratitude for regulation.

Medicines are not snake oil mysteries any longer. People are rarely burned or killed in boiler explosions. Automobiles have air bags. Smokestacks have pollution controls. Stock jobbers have a harder time gulling innocent investors. Most insurance policies actually pay when the insured risk occurs. Quacks and barbers cannot be doctors.

We too often take for granted the safety and reliability that a regulated world has built. We also take for granted how regulation helps advance our economic progress. Regulation helps channel America's competitive enterprise into good and helpful innovations instead of into new tricks and traps for consumers or new ways of cutting safety corners. Confidence in our industries grows when consumers know they can count on the safety and reliability of the product.

Ask yourself, Would the American pharmaceutical industry be a world powerhouse if patent medicine hucksters were still allowed to operate? Regulation sets a positive frame for economic progress.

Where there are common goods we share, like the clean streams of Wisconsin, like the sparkling oceans of Rhode Island, or the unpolluted skies of Wyoming, there is a perverse economic incentive to abuse that resource, leaving all of us poorer. This is the principle famously described in Garrett Hardin's "Tragedy of the Commons." Regulation is what constrains this perverse economic incentive and protects our precious common resources.

If we are to look at a regulatory budget, it should be incumbent upon us to look both at the costs and the benefits of regulation. Otherwise, it is not a sound budget process, no more than a budget process that looks only at expenses and not income would be a sound budget process. Without looking at both costs and benefits of regulation, all we would be doing here is putting a thumb on the scales in favor of the big industries that create hazardous pollutants, that create dangerous chemicals, that create risky financial products, and that create unsafe consumer products.

It is really important that we look at both sides of the ledger. Otherwise, this entire process is not actually a process in budgeting. It becomes only a process in creating talking points for the big industries as they try to subvert the regulations that keep America safe.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you, Senator Whitehouse.

The task for today is to discuss how to make the economy stronger through regulatory budgeting. Federal regulations are threatening to overwhelm our struggling economic recovery. Today's hearing will focus on moving the Committee and Congress to a long-run goal of greater annual oversight of Federal agency regulatory priorities.

We have three expert witnesses with us today that have volunteered their time and expertise to help us with our work, and I would mention that with the education bill that is going on today, we might not have many here, but we always invite them to ask questions as well which would be sent to you, and we would ask for you to respond to those.

Our first witness today will be Dr. John Graham, who is the dean of the School of Public and Environmental Affairs at Indiana University in Bloomington. Dr. Graham leads the two-campus, $50 million professional school with programs in public affairs, environmental science, and nonprofit management, among others. Dr. Graham served as the head of the Office of Information and Regulatory Affairs from 2001 to 2006. He is also well known as the founding director of the Center for Risk Analysis at Harvard's School of Public Health.

Dr. Jerry Ellig is a senior research fellow at the Mercatus Center at the George Mason University where he is a member of the graduate faculty in the College of Humanities and Social Sciences. In addition to teaching, Dr. Ellig has worked at the Federal Trade Commission, serving as Acting Director in 2003. He is an author of several books and articles, including reviewing the performance of the Government Performance and Review Act, or GPRA. He holds a Ph.D. in economics from George Mason University.

Robert Verchick holds the Gauthier-St. Martin Eminent Scholar Chair in Environmental Law at Loyola University in New Orleans and is the faculty director of the Center of Environmental Law at Loyola. He is also a senior fellow in disaster resilience leadership at Tulane University, and he is the president of the Center for Progressive Reform. In 2009 and 2010, he served in President Obama's administration as Deputy Associate Administrator for Policy at the U.S. Environmental Protection Agency. He helped develop the climate adaptation policy for the EPA and served on President Obama's Interagency Climate Adaptation Task Force.

Dr. Graham, you can begin. We may have to recess to do a quick vote, but we will continue the process and get finished up. Dr. Graham.

**STATEMENT OF JOHN D. GRAHAM, PH.D., DEAN, INDIANA UNIVERSITY SCHOOL OF PUBLIC AND ENVIRONMENTAL AFFAIRS**

Mr. GRAHAM. Thank you, Mr. Chairman. Our topic today is a promising reform of the Federal regulatory system called the "regulatory budget."

In the late 1970s, when the regulatory reform movement began to gather steam, reformers noticed an oddity about how the Federal Government operates. If the costs of a Federal program are incurred within the Federal budget, then those costs are subject to scrutiny in the normal congressional appropriations process. But if instead Federal agencies impose costs on the private sector or on State and local governments, those costs are "off budget" and, thus, are not considered a part of the Federal budgetary process. Why, reformers asked, should $1 billion in compliance costs on investors, workers, and consumers be treated differently than $1 billion in Federal budgetary outlays that are typically financed by taxpayers?

Congress imposes annual limits on these appropriations but not on these regulatory costs. So what is the idea of a regulatory budget? The basic notion is that Congress would place annual limits on these off-budget regulatory expenditures through a process similar to what is currently used to define appropriations for agencies. Step 1, agencies request a regulatory budget from OMB within the executive branch for the forthcoming fiscal year. Step 2, OMB, representing the President and the agencies, would make a regulatory request to Congress for the Federal Government as a whole and for specific departments and agencies. Step 3, Congress would make the final decisions regarding the regulatory budget, first in committee actions and then in floor actions. The regulatory budget is enacted by the Congress, is defined in monetary units that represent the costs of regulation.

Now, what would be the advantages of this type of system? The first point is that this process of setting an annual regulatory budget would force the Members of Congress, who oftentimes do not like to take difficult votes, to accept accountability for regulatory costs, both the costs of individual agencies and programs and the overall magnitude of regulatory burdens on the economy.

Second of all, the regulatory budget would induce a competition between new regulatory proposals, since the budget may not be large enough to support all of the new proposals supported by regulators. By setting priorities among these worthy proposals, the regulators will work to advance the best proposals and drop the weaker ones. As a result, new regulations under a regulatory budget are expected to be more effective and more cost-effective than they would be without a regulatory budget.

Finally, budget limitation creates an incentive for agencies to streamline or reduce waste in the existing regulatory programs, since those savings can be used, under the regulatory budget, to finance promising new regulatory proposals. Thus, if an agency is already at its cap with a regulatory budget, the agency can still move forward with a promising new regulation if the savings from the rescission or modernization of an existing regulation are adequate to pay for the new rule.

There are some myths about a regulatory budget that I would like to discuss.

One is this idea that a regulatory budget is not feasible because nobody knows what the existing costs of regulations are. There is an element of truth to this argument; that is, the thousands of existing regulations now in operation, nobody has ever touted up whether these regulations work or how costly they are. It is, however, feasible to do on an annual basis a prospective, incremental regulatory budget, and the costs of those rules are already being estimated in the Federal review process supervised by OMB.

The second myth is the idea that a regulatory budget is unnecessary. Because OMB is already reviewing all these regulations for costs and benefits, what do we need a regulatory budget for?

The truth be told, the tenacity of OMB's review process varies not only from administration to administration, but even from rule to rule, depending on the preferences of the White House. In some cases, agencies and OMB do not consider costs and benefits because of statutory preclusions or because of public opinion or interest group pressures. A regulatory budget would constrain burdens in situations where the executive branch is disinclined to constrain burdens.

The third myth I want to address is this idea that a regulatory budget looks only at the cost of regulation and ignores the benefits. The key point to remember is that in the argument on behalf of raising a regulatory budget, the regulatory agency introduces their information on benefits, whether it be lives saved or environmental protection or consumer protection. That is the currency of the argument in OMB. Just on the budget side, when agencies ask for more appropriations or more spending, they make arguments based on benefits of those programs for why they are seeking to have a higher budget. So there is no difference between a regulatory budget and a regular appropriations budget with the role of benefits information.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Graham follows:]

Testimony of John D. Graham, Ph.D, Dean, Indiana University School of Public and Environmental Affairs

Hearing Title: A Regulatory Budget and the U.S. Economy

Date: December 9, 2015

United States Senate
Committee on the Budget
Senate Dirksen Building
6th Floor, Room SD-608

My name is John D. Graham. I am Dean of the Indiana University School of Public and Environmental Affairs (SPEA) in Bloomington and Indianapolis. SPEA is ranked #2 out of 266 Master's of Public Affairs programs in the United States and is best known for its outstanding programs in environmental science and policy, public budgeting and finance, public management, and policy analysis. During the George W. Bush administration (2001-2006), I served as Senate-confirmed administrator of the Office of Information and Regulatory Affairs (OIRA) in the White House Office of Management and Budget (OMB). Prior to my OMB service, I was a tenured Harvard Professor and founding Director of the Harvard Center for Risk Analysis. I earned my BA in politics and economics at Wake Forest University (1978), my MA in public affairs at Duke University (1980), and my Ph.D. in urban and public affairs at Carnegie-Mellon University (1983).

ORIGINS OF THE REGULATORY BUDGET

Our topic today is a promising reform of the federal regulatory system called the "regulatory budget." In the late 1970s, when the regulatory reform movement began to gather steam, reformers noticed an oddity about how the federal government operates. If the costs of a federal program are incurred within the federal budget, then those costs are subject to scrutiny in the normal appropriations process. But, if instead, federal agencies impose costs on the private sector and/or state/local governments, those costs are "off budget" and thus not considered a part of the federal budgetary process. Why, reformers asked, should $1 billion in compliance costs on industry (investors, workers and consumers) be treated differently than $1 billion in federal budgetary outlays that are typically financed by taxes?

Congress imposes strict annual limits on the magnitude of an agency's appropriations but there are no limits imposed on the unfunded mandates that federal agencies may impose on the private sector and state/local governments. In order to remove this odd discrepancy between budgetary and off-budget costs, the concept of a regulatory budget was developed.

Although there are several variants of the regulatory budget, the basic notion is that Congress should place annual limits on off-budget regulatory expenditures through a process similar to what is currently used to define appropriations for agencies. Step 1: agencies request a regulatory budget from OMB for the forthcoming fiscal year; Step 2: OMB, representing the president and the agencies, makes a regulatory budget request to Congress for the federal government as a whole and for specific departments and programs. Step 3: Congress makes final decisions regarding the regulatory budget, first in committee actions and then in floor actions. The regulatory budget is defined in monetary units that represent the costs of regulation. Once a regulatory budget is enacted by Congress, the regulator is not permitted to impose regulatory burdens in excess of the authorized budget.

ADVANTAGES OF THE REGULATORY BUDGET

Advocates of the regulatory budget foresee several advantages compared to the current system.

First, the process of setting an annual regulatory budget would force the U.S. Congress to accept political accountability for regulatory costs, both the costs of individual agencies and programs and the overall magnitude of regulatory burdens on the economy. Under current procedures, Congress delegates significant regulatory authority to federal agencies, without having to accept any accountability for the regulatory burdens that result. Indeed, members of Congress may criticize the burdens associated with individual rules, knowing that they do not have to vote for any limitation on the level of regulatory burden for that particular year. Thus, from a standpoint of democratic accountability and transparency, the regulatory budget compels the US Congress and the President (through his or her budget request) to decide how much regulatory burden they are willing to authorize.

Second, the regulatory budget would induce a healthy competition between new regulatory proposals, since the budget may not be large enough to support all of the new proposals suggested by regulators. By setting priorities among worthy proposals, the regulators will work to advance the best proposals and drop the weaker ones. As a result, new regulations under a regulatory budget are expected to be more effective and more cost-effective than they would be without a regulatory budget.

Finally, budget limitation creates an incentive for agencies to streamline or eliminate wasteful regulations, since those savings can be used, under the regulatory budget, to pay for the cost of promising new regulations. Thus, if an agency is already at its cap on regulatory burden, the agency can move forward with a promising new regulation if the savings from the rescission or modernization of an existing rule are adequate to pay for the new rule.

Over the last twenty years, the regulatory budget has been -- and continues to be -- considered in the US, Canada, Australia, the UK, the Netherlands and Portugal. The UK has accumulated the most significant practical implementation experience.

MYTHS ABOUT A REGULATORY BUDGET.

1. *A regulatory budget is not technically feasible because the costs of regulations are unknown.*

The overall costs of the thousands of existing federal regulations have never been estimated and thus it would indeed be very difficult to establish a baseline for the current regulatory budget. However, a regulatory budget can be defined in terms of new ("incremental") regulatory burdens for the next year, without any need to estimate the overall size of current regulatory burdens. The costs of economically significant new rules are already being estimated in the OMB regulatory review process mandated by presidential executive order. Those estimates -- and the agency procedures that produce them -- provide clear evidence that it is technically feasible to estimate the costs of new regulations.

2. *A regulatory budget is unnecessary because the president, through OMB review, already subjects economically significant rulemakings to a cost-benefit test.*

While the president does accept some political accountability under current executive order procedures, the cost-benefit reviews performed by OIRA/OMB are not shared with Congress, the Congress does not have any expertise in cost-benefit analysis, and the Congress does not establish any budget for regulatory costs on a regular basis. Moreover, the tenacity of OMB's review process varies from administration to administration (and even from rule to rule), depending on how committed a president is to the rigors of cost-benefit analysis. In some cases, agencies and OMB do not consider costs and benefits because of statutory preclusions or because of public opinion or interest-group pressures. A regulatory budget would constrain burdens in situations where the executive branch is disinclined to constrain burdens.

3. *A regulatory budget looks only at the burdens of regulation, and thus ignores benefits.*

The fact that the regulatory budget is defined as a cap on regulatory costs does not mean that regulatory benefits play no role in the process. As is the case with the normal budgetary process, agencies advance whatever case they wish for benefits (whether it be quantitative or non-quantitative, monetary or non-monetary, economic or environmental, or whatever) when making the case for their desired regulatory expenditure cap. If the case for benefits is strong, OMB (or Congress) might be inclined to set a higher regulatory budget; if the case for benefits is weak, OMB (or Congress) might lower the proposed regulatory budget.

*Conclusion*

In my opinion, the concept of a regulatory budget is appealing. The key question is how to move the idea from theory to reality. My suggestion is a congressionally-designed pilot project where three regulatory agencies (e.g., EPA, DOT and SEC) work under a regulatory budget for a 3-year to 5-year period. If the pilot is successful, the pilot could be extended to the entire federal government.

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Chairman ENZI. Thank you.
Dr. ELLIG.

**STATEMENT OF JERRY ELLIG, PH.D., SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY**

Mr. ELLIG. Thank you, Chairman Enzi and members of the committee, for the opportunity to appear here today.

I work at a university. That means I am in favor of knowledge and I am against ignorance. I think regulators and legislators have a moral responsibility to make decisions about regulations based on actual knowledge of regulations' results, not just on hopes or intentions.

Effective budgeting of tax dollars in the Federal budget or effective budgeting of social costs in a regulatory budget requires knowledge of the results of regulations and programs. And a decision-maker's failure or refusal to acquire this knowledge is a willful decision to act based on ignorance.

To try to promote knowledge and to try to combat ignorance, over the past 15 years the Mercatus Center at George Mason University has run two research projects to evaluate the quality of information about results that Federal agencies produce. The first we called the "Performance Report Scorecard." This was a project we ran between 1999 and 2008 that evaluated the quality of the annual reports that Federal agencies are required to produce under the Government Performance and Results Act, and our evaluation criteria were based on the criteria in GPRA.

What did we learn from this project? Well, the information about the results of Federal programs did improve over this period, but it required a full-court press by the Office of Management and Budget and, in particular, by an Associate Director for Management who had a very close relationship with the President and the President's full backing. We found that results information did affect some decisions in agencies. There is evidence that it affected some Presidential budget recommendations. But the use of results information in budgeting foundered when the Appropriations Committees made it clear that they did not want the information and did not plan to use it.

One Appropriations Committee told a Federal agency essentially, "If you are going to continue this wasteful practice of trying to include results information in your budget submission, we will assume you have excess resources, and we will budget accordingly." And this was in a Congress controlled by the President's own party.

The next evaluation project was the Regulatory Report Card. Between 2008 and 2013, we looked at the quality of regulatory impact analysis conducted for every proposed prescriptive—that means non-budget regulations— economically significant regulations between 2008 and 2013 according to criteria laid out in the Executive orders and OMB guidance.

We found that the quality of this analysis is highly variable. There are some good ones, but on average, I would give a lot of them an F. In 60 percent of the regulations we looked at, the agency made no claim to have used the analysis to make any decision about the regulations. We found that review by OIRA does help improve the quality of analysis, but the end result still falls far short of what you would expect if you read the requirements in the Executive order and in OMB guidance.

In about half of the regulations we looked at, statute required the agency to issue a regulation. Congress made the decision to regulate. But Congress currently has no system for conducting rigorous analysis of the problem and alternative solutions before it passes regulatory legislation.

A couple of examples I can give you with some of these regulations. I have seen a regulation on catfish inspection that extrapolated the benefit—that created a benefit estimate by extrapolating from the incidence of salmonella on chicken because there was only one instance in recent years of salmonella infection that might be linked to catfish. Yet we used chicken instead of catfish—the other white meat.

I have seen a regulation in which the accompanying analysis presumed that half of the benefits come from preventing injuries to blind bicyclists. This was a regulation requiring hybrid vehicles to make more noise so that people who are vision impaired can hear them. It makes sense if you are talking about pedestrians. It does not make sense if you are talking about bicyclists.

I have seen energy efficiency regulations that assume that greedy businesses, not consumers but greedy businesses, when they buy things like washing machines and refrigeration equipment do not understand their own financial self- interest, and so they have to be forced to do things that are in their own financial self-interest.

If you remember only three things from my testimony and my written testimony, remember this:

First off, regulations do not enforce themselves, and neither do requirements for analysis. Regulatory agencies need stronger incentives to focus on results, conduct high- quality analysis, and explain how they use the analysis. What is sauce for the goose is sauce for the gander. If Congress is going to make decisions about regulations and appropriate money to regulatory agencies and authorize regulations, Congress needs a system to ensure that it has high-quality analysis of the likely effects of regulations.

And, finally, ignorance is not bliss. It is a sin. There are a lot of important values at stake when we regulate, and given the importance of values, decisionmakers, regulators, as well as legislators ought to be acting based on genuine knowledge of regulations, likely results, and the results that a regulation has already accomplished. That is why the real choice in the debate over regulatory reform and the real conflict should not be Republicans versus Democrats, should not be business versus the public. It should be knowledge versus ignorance. And I urge all of you to choose knowledge.

[The prepared statement of Mr. Ellig follows:]

MERCATUS CENTER
George Mason University
Bridging the gap between academic ideas and real-world problems

TESTIMONY

# OUTCOME-BASED REGULATORY DECISIONS REQUIRE CONGRESSIONAL COMMITMENT

JERRY ELLIG, PhD
*Senior Research Fellow, Mercatus Center at George Mason University*

Senate Committee on the Budget
Hearing: Moving Toward a Strong Economy with a Regulatory Budget

December 9, 2015

Good morning Chairman Enzi, Ranking Member Sanders, and members of the committee. Thank you for inviting me to testify today.

I am an economist and research fellow at the Mercatus Center, a 501(c)(3) research, educational, and outreach center affiliated with George Mason University in Arlington, Virginia. I've previously served as a senior economist at the Joint Economic Committee and as deputy director of the Office of Policy Planning at the Federal Trade Commission.

Decision makers—legislators as well as regulators—have a moral responsibility to make decisions about regulations based on actual knowledge of a regulation's likely outcomes—not just hopes, intentions, or wishful thinking. A decision maker's failure or refusal to acquire this knowledge before making a decision is a willful choice to act based on ignorance. For effective decision-making, Congress and regulators both need access to the best possible assessment of the likely results of prospective regulations and the actual results of regulations that are already in force.

The Mercatus Center at George Mason University has undertaken two long-term research projects that directly assess the quality of federal agencies' information about the prospective and actual results of government programs and regulations. One is the Performance Report Scorecard, which evaluated the quality of federal agencies' annual performance reports required under the Government Performance and Results Act (GPRA).[1]

1. Findings from the *Performance Report Scorecard* are presented in Jerry Ellig, Maurice McTigue, and Henry Wray, *Government Performance and Results: An Evaluation of GPRA's First Decade* (Boca Raton, FL: CRC Press, 2012). Annual editions of the *Performance Report Scorecard* are available at www.mercatus.org.

For more information or to meet with the scholars, contact
Robin Bowen, 703-993-8582, rbowen@mercatus.gmu.edu
Mercatus Center at George Mason University, 3434 Washington Blvd., 4th Floor, Arlington, Virginia 22201

The other is the Regulatory Report Card, which evaluated the quality of economic analysis produced by executive branch agencies for prescriptive, economically significant regulations proposed from 2008 through 2013.[2]

From both of these projects, I have learned that telling agencies to conduct prospective analysis before they act (or retrospective analysis of the results of their actions) is no more than a useful first step. Regulations don't enforce themselves, nor do analytical requirements. Stronger incentives are necessary to: 1) focus regulatory agencies on results rather than outputs; 2) produce high-quality analysis that assesses results; and 3) explain how agencies used their analysis in decisions. To ensure that legislative and budget decisions focus on regulatory results, Congress also needs to commit itself to obtaining and using high-quality analysis when it authorizes regulation by statute and funds agencies to promulgate and enforce regulations.

## PERFORMANCE REPORT SCORECARD

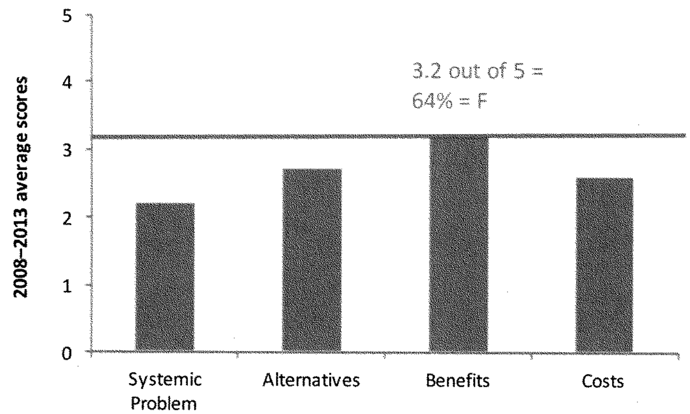
The Performance Report Scorecard was a 10-year research project that evaluated the quality of annual performance reports produced under GPRA by the 24 US federal agencies that account for more than 95 percent of all federal spending.[3] A panel of experts with experience in government performance management evaluated agency reports based on 12 criteria found in GPRA. Principal findings from this project include:

- GPRA significantly improved the quality of performance information. On average, the quality of agency performance reports improved by about 75 percent between fiscal year 1999 and fiscal year 2008.
- However, even in 2008 there was still substantial variation in quality, with only a few reports each year employing best practices on each of the evaluation criteria.
- GPRA improved the availability and use of performance information in agencies, and results information affected some presidential budget proposals.
- However, there is little evidence that GPRA altered congressional budget decisions. Congress showed little interest in using results information to make budget decisions. On several occasions, appropriations committees instructed agencies not to include performance information in their budget submissions.

The improvement in agency performance reporting did not simply happen because GPRA required it. The improvement required a major internal push by the Office of Management and Budget (OMB) with the full backing of the president. Even then, the quality of many agency performance reports fell short of what one would expect given GPRA's requirements and 10 years of intense effort. And the actual use of performance information in budgeting decisions was marginal at best.

2. "Economically significant" regulations are regulations with benefits, costs, or other economic effects that exceed $100 million annually, or meet certain other requirements specified in Executive Order 12866. "Prescriptive" regulations are what most people think of when they think of regulations: they mandate or prohibit certain activities. This is distinct from budget regulations, which implement federal spending programs or revenue collection measures. The Report Card evaluated budget regulations in 2008 and 2009, then discontinued evaluating budget regulations in subsequent years because it was clear the budget regulations have much lower-quality analysis. See Patrick A. McLaughlin and Jerry Ellig, "Does OIRA Review Improve the Quality of Regulatory Impact Analysis? Evidence from the Final Year of the Bush II Administration," *Administrative Law Review* 63, special edition (2011): 179–202; Jerry Ellig, Patrick A. McLaughlin, and John F. Morrall III, "Continuity, Change, and Priorities: The Quality and Use of Regulatory Analysis across US Administrations," *Regulation & Governance* 7, no. 2 (2013).
3. For an online summary of the *Performance Report Scorecard's* principal results, see Jerry Ellig, "Ten Years of Results from the Results Act," prepared for presentation at *Stronger Nations, Stronger Relations: New Prospects for Asia-Pacific Regional Integration*, 1st Annual IDAS International Conference, Chengchi National University, Taipei, Taiwan, June 1–2, 2010.

Figure 1. Average Scores for Major Elements of Regulatory Impact Analysis, 130 Economically Significant Regulations, 2008–2013




Source: Author's calculations using data downloaded from www.mercatus.org/reportcard.

## REGULATORY REPORT CARD

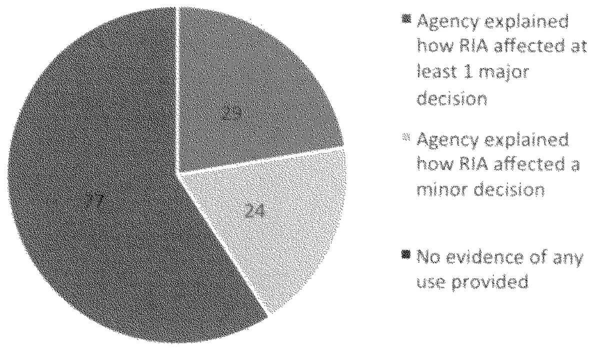
Executive Order 12866 requires that before regulating, agencies must identify the problem they are trying to address and assess its significance, examine a wide range of alternatives to solve the problem, and assess the benefits and costs of the alternatives.[4] The Regulatory Report Card is a qualitative evaluation of both the quality and use of regulatory analysis by executive branch agencies. The scoring criteria are based on requirements in Executive Order 12866 and OMB guidance to agencies. The scores do not assess whether the evaluators agree with the results of the analysis or believe the regulation is a good idea. For each criterion, trained evaluators assigned a score ranging from 0 (no useful content) to 5 (comprehensive analysis with potential best practices).[5] The online Report Card database now includes evaluations of every economically significant prescriptive regulation proposed between 2008 and 2013—a total of 130 regulations.[6]

Figure 1 shows average scores for the four major elements of Regulatory Impact Analysis. None of the average scores exceed 3.2 out of 5 possible points. If I were assigning letter grades, each of these would earn an "F."

The broadest Report Card criterion measuring use of analysis asks whether the agency claimed or appeared to use any part of the analysis to guide any decisions. As figure 2 demonstrates, agencies often fail to provide any significant evidence that any part of the Regulatory Impact Analysis helped inform their decisions. Perhaps the analysis affects decisions more frequently than these statistics suggest, but agencies commonly fail to document this in the Notice of Proposed Rulemaking or the Regulatory Impact Analysis. If so, then at a minimum there is a significant transparency problem.

4. Exec. Order No. 12866, 58 *Fed. Reg.* 51735 (October 4, 1993). President Obama reaffirmed Exec. Order No. 12866 in Exec. Order No. 13563, 76 *Fed. Reg.* 3821 (January 21, 2011).
5. For the first several years, the evaluators were senior Mercatus Center regulatory scholars and graduate students trained in Regulatory Impact Analysis. Since 2010, we have developed a nationwide team of economics professors who serve as evaluators in conjunction with senior Mercatus Center regulatory scholars. Biographical information on current evaluators is available at www.mercatus.org/reportcard.
6. See discussion of prescriptive regulations in footnote 2.

Figure 2. Use of RIAs in 130 Economically Significant Regulations, 2008–2013




Source: Author's calculations using data downloaded from www.mercatus.org/reportcard.

Studies find that regulatory review by the Office of Information and Regulatory Affairs is correlated with higher-quality analysis and better explanations of how agencies used the analysis in decisions.[7] But as the Report Card and prior research on the quality of Regulatory Impact Analysis demonstrates, the quality and use of analysis falls far short of what one would expect after reading the principles and standards articulated in Executive Order 12866 and OMB guidance.[8]

## CONCLUSION

The results of these research projects lead me to two conclusions:

1. *Regulatory analysis requirements, like regulations, do not enforce themselves.* Putting analytical requirements in laws or executive orders does not by itself guarantee that agencies will conduct high-quality regulatory impact analysis, explain how they used the analysis in decisions, and produce desirable results for the public. When Congress delegates decision-making authority to regulatory agencies, strong incentives are needed to promote high-quality analysis, explain transparently how the analysis affected decisions, and encourage a focus on results.

Numerous regulatory reform proposals seek to change agency incentives to conduct and use high-quality analysis.[9] From a budgetary perspective, some of the most relevant proposals include clear articulations of the outcomes Congress expects regulatory agencies to accomplish, budgetary consequences if agencies produce substandard

7. Jerry Ellig and Rosemarie Fike, "Regulatory Process, Regulatory Reform, and the Quality of Regulatory Impact Analysis" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, July 2013); Ellig, McLaughlin, and Morrall III, "Continuity, Change, and Priorities"; Stuart Shapiro and John F. Morrall III, "Does Haste Make Waste? How Long Does It Take to Do a Good Regulatory Impact Analysis," *Administration & Society* 20, no. 1 (2013).
8. For references to relevant studies, see Jerry Ellig, "Comprehensive Regulatory Impact Analysis: The Cornerstone of Regulatory Reform" (Testimony before the Senate Committee on Homeland Security and Governmental Affairs, Mercatus Center at George Mason University, Arlington, VA, February 25, 2015).
9. Jerry Ellig and Richard Williams, "Reforming Regulatory Analysis, Review, and Oversight: A Guide for the Perplexed" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, August 13, 2014).

analysis or fail to produce desirable results, and reform of Senior Executive Service bonuses so that they are based on regulatory results instead of regulatory output.

2. *What's sauce for the goose is sauce for the gander*. Efforts under GPRA to improve the use of performance information foundered when it became clear that appropriations committees were not going to use performance information to make budgeting decisions. The same problem could easily occur with congressional decisions about regulations or regulatory programs. Congress often makes key regulatory decisions when it writes statutes that authorize or reauthorize regulations. The current system provides Congress with a flood of information but little structured means to produce high-quality analysis of the problems that regulatory legislation seeks to solve and the benefits and costs of alternative solutions. For this reason, Congress needs to develop a system for obtaining impartial legislative impact analysis when it authorizes new regulation or reauthorizes existing regulation.

Citizens expect federal regulation to accomplish a lot of important things, such as protecting us from financial fraudsters, preventing workplace injuries, preserving clean air, and deterring terrorist attacks. Regulation also requires sacrifices; there is no free lunch. Depending on the regulation, consumers may pay more, workers may receive less, our retirement savings may grow more slowly due to reduced corporate profits, and we may have less privacy or less personal freedom. Given the important values at stake, Congress and regulatory agencies should craft regulations with full knowledge of their results. Decision-making in the dark should not be an option.

Thank you for your time. I would be happy to answer any questions.

Chairman ENZI. Thank you very much.
Dr. VERCHICK.

**STATEMENT OF ROBERT R.M. VERCHICK, GAUTHIER–ST. MARTIN CHAIR IN ENVIRONMENTAL LAW, LOYOLA UNIVERSITY NEW ORLEANS**

Mr. VERCHICK. Chairman Enzi, others present, thank you for inviting me here today to share my concerns about regulatory budgeting and to explain why I think this strategy could deprive Americans of common-sense protections while producing no overall benefit to the economy.

As a former EPA official, I am proud of the achievements of our regulatory agencies. And as a law professor, I know there is still room to improve. But regulatory budgeting, which essentially puts a lid on the quantity of regulation produced each year, is the wrong approach.

It first fails to credit the regulatory system for the amount of good, the enormous amount of good that it does, and it would ration that good just when technologies create a larger need for it. It would also hamstring the Government with legal and political complexities, and it would, last, distract us from many effective reforms, which I will outline a little bit later.

First, in contrast to what many say, there is no question in our country that our regulatory system benefits Americans immensely. Federal rules keep our air clean, our water drinkable, our workplaces safe, and our access to energy reliable.

Government estimates have routinely shown—in the administrations of both parties—that the combined benefits of significant regulations far outstrip the costs. For significant regulations, OMB's latest report shows that benefits exceed costs by seven to one. If you look at just a single statute, like the Clean Air Act, the ratio is 25 on the benefit side to one.

But instead of trying to enhance this success, regulatory budgeting rations it. Instead of raising quality, it is interested in lowering quantity. Under regulatory budgeting, carrying out the will of Congress is subordinated to an arbitrary cap. And that is going to be a problem when we face a future with even more deepwater drilling, edible nano-particles, self-driving cars, and other advances that could be risky.

Just as there is no end to what we can imagine or invent, there is also no end to the amount of good sense that we should expect of people along the way. Good sense in the form of reasonable standards is what allows society to innovate while at the same time remaining profitable and safe.

To those who ask if we can afford to have more regulations like these, the simple answer is we cannot afford not to. Imagine that before you put a $20 bill in your wallet or your purse you had to first take out a $5 bill to make room for the $20 bill. Regulatory budgeting is just like that. It asks you to leave advances in public health, environmental protection, and money on the table.

Second, a regulatory budget poses a series of legal and political problems. Setting the cap is a first challenge because advocates have no standard for determining the ideal amount of total compliance costs without referring to corresponding benefits. Once the cap is set, you have got all kinds of legal problems. One can imagine legal challenges for arbitrary deletion of rules under administrative statutes, constitutional claims over delegations of authority, and the special problem, very familiar to me from my EPA days of court-ordered rules. And if you think that EPA can make room for a new court-ordered rule by removing an old rule, you need to consider that a lot of those old rules were also at one time ordered by courts.

Add to that political battles over saving popular rules from the chopping block or shutdown threats that could arise over raising the "reg ceiling" to accommodate new must-have rules. And you could have many years of lawsuits and logjams to look forward to.

Finally, regulatory budgeting would distract us from more effective reforms, like eliminating unnecessary ex ante analytical and procedural requirements, empowering agencies to emphasize back-end adjustments in the implementation of completed rules, and empowering agencies to emphasize more flexible agency-driven reviews of their existing regulations and regulatory programs. And I expand on all of these in my written testimony.

So thank you, and I would be pleased to answer any questions that you would have.

[The prepared statement of Mr. Verchick follows:]

TESTIMONY
OF
ROBERT R.M. VERCHICK

GAUTHIER-ST. MARTIN CHAIR IN ENVIRONMENTAL LAW
LOYOLA UNIVERSITY NEW ORLEANS
AND
MEMBER SCHOLAR, PRESIDENT
CENTER FOR PROGRESSIVE REFORM

BEFORE THE COMMITTEE ON THE BUDGET
UNITED STATES SENATE

HEARING ON "MOVING TOWARD A STRONGER ECONOMY WITH A REGULATORY BUDGET"

DECEMBER 9, 2015

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for inviting me here today to share with you my concerns about regulatory budgeting and to explain why I think this strategy could hurt everyday Americans while producing no benefit to the overall economy. As a former official at the U.S. Environmental Protection Agency (EPA), I'm very proud of the professionalism and resourcefulness of America's regulatory agencies. And, as a law professor, I know that our regulatory system can be much improved. But rather than focusing on artificially imposed caps, I think we would do better by instead providing executive agencies with the tools and resources they need to write the smartest, most effective rules possible. Agencies should, of course, have the incentives and the resources to identify deficient rules already on the books and to fix or remove them. (And, in fact, periodic retrospective review, is already required of most agencies.)[1] But a regulatory budget—whose fixation is on *quantity*, not *quality*—will not lead to smarter regulations, a stronger economy, or a healthier and more secure citizenry. It will stand against those those things, making the concept, however well-intended, ultimately counter-productive.

My name is Robert R.M. Verchick. I hold the Gauthier-St. Martin Chair in Environmental Law at Loyola University New Orleans and serve as a Senior Fellow in Disaster Resilience Leadership at Tulane University. I am the President of the Center for Progressive Reform (CPR) (http://www.progressivereform.org/), where I also serve as a Member Scholar.

I have been a law professor for more than 20 years. My research focuses on environmental law, disaster risk management, and administrative law. I am author of three books, including the award-winning *Facing Catastrophe: Environmental Action for a Post-Katrina World* (Harvard University Press 2010). My work has appeared in many venues, including the *California Law Review*, the *Southern California Law Review*, and the environmental law reviews at Harvard, Stanford, and Duke.

In 2009 and 2010, I served as Deputy Associate Administrator of Policy for the EPA. The office I helped direct, EPA's Office of Policy, coordinates all of EPA's rulemaking processes, oversees the economic analysis of its proposed actions, and works closely with the White House's Office of Information and Regulatory Affairs (OIRA).

I hold an A.B. degree, with distinction and honors, from Stanford University and a J.D. degree *cum laude* from Harvard University.

Today I make five points:

1. In contrast to what some budgeting advocates suggest, there is no question that our regulatory system, over all, benefits Americans immensely. Federal regulations keep our air clean, our water drinkable, our workplaces safe, and our access to energy reliable. Government estimates have routinely shown (in the administrations of both parties) that the combined benefits of major regulations far outstrip the costs. An arbitrary cap on future rulemaking would deprive us of many necessary protections and of even more net benefits.

[1] *See, e.g.*, Exec. Order No. 13563, Sec. 6, 76 Fed. Reg. 3821, 3822 (Jan. 21, 2011), *available at* http://www.gpo.gov/fdsys/pkg/FR-2011-01-21/pdf/2011-1385.pdf; Regulatory Flexibility Act §610, 5 U.S.C. §610 (2005).

2. It is a mistake to focus on the quantity of regulations rather than the quality. By itself, quantity (as expressed in terms of compliance costs) says nothing useful about a rule at all. As my first point shows, regulation is not a zero-sum game. More regulations can bring more benefits to the public and the economy if managed properly. This pivot from quality to quantity marks a dramatic shift in reform strategies, and I'm concerned it will lead to worse decision-making within agencies.
3. A regulatory budget program could create a series of novel governance problems, including threats of government shut-down over a failure to raise the "reg ceiling," legal questions about proper delegations of power to the executive branch, and the challenge of accompanying many new rulemaking actions with equal and opposite "unrulemaking" actions. These problems would hobble, not improve the regulatory system.
4. Regulatory budgeting risks leaving people and the environment unprotected, particularly against new and emerging risks like those posed by nanotechnology, driverless cars, and many other important but untested technologies.
5. For rulemaking agencies, improving regulatory outcomes is Job Number 1. Sound proposals for making the system smarter include (a) eliminating unnecessary *ex ante* analytical and procedural requirements, (b) empowering agencies to emphasize back-end adjustments in the implementation of completed rules, and (3) empowering agencies to emphasize more flexible, agency-driven reviews of their existing regulations and regulatory programs.

Regulatory budgeting rations regulatory costs to industry the way a fiscal budget rations taxpayer dollars. Before an agency could issue a new standard relevant to, say, blowout preventers on deep-water oil platforms, or the venting of radiation from a nuclear reactor, an agency might first have to locate an existing regulation with comparable compliance costs and strike it from the books. To make way for protections demanded by new circumstances and new technologies, many long-established safeguards would be put on the chopping block.

As applied, budgeting appears to be more about fewer protections, not better ones.

But as we face a future in which deep-water drilling, nanomaterials, and even driverless cars will be more commonplace, *better* protections—not fewer ones—are what we actually need. Rationing public goods like health, safety, and security for the benefit of a narrow class of commercial interests is the very opposite of what a virtuous and effective government should be doing.

## I. Don't Put a Lid on Regulatory Success

In the last fifty years, federal regulatory agencies have done a remarkable job protecting people and the environment from unreasonable risks. During the 1960s and '70s, rivers caught fire, cars exploded on rear impact, steel workers inhaled benzene as a condition of employment, while smog sent legions of urban and suburban children to the emergency room. But today, the most visible manifestations of these threats are under control. Millions of people have avoided early deaths and terrible injury as a result. Rates of environmental degradation has been slowed in many cases, and even reversed. In short, the United States is much better off because of the regulations adopted over the past half century.

Consider the following:

- The White House Office of Management and Budget (OMB) estimates that regulatory benefits exceed regulatory costs by about 7 to 1 for significant regulations.[2] The EPA estimates that the regulatory benefits of the Clean Air Act exceed costs by a 25-to-1 ratio.[3]
- The failure to regulate some hazards related to the workplace, the environment, product safety, food safety, and more, and the failure to enforce existing regulations on such hazards results in thousands of deaths, tens of thousands of injuries, and billions of dollars in economic damages every year. Sometimes, the damages reach a catastrophic scale. The BP Oil Spill caused tens of billions of dollars in damages.[4] The Wall Street collapse may have caused trillions. Regulation to prevent catastrophe can be far cheaper, and less painful, than cleaning up damage to lives, property, and the environment later.[5]
- Dozens of retrospective evaluations of regulations by the EPA and the Occupational Safety and Health Administration (OSHA) have found that the regulations were still necessary and that they did not produce significant job losses or have adverse economic impacts for affected industries, including small businesses.[6]

Individual examples of regulatory successes paint an even more compelling portrait. The EPA estimates Clean Air Act rules saved 164,300 adult lives in 2010 and will save 237,000 lives annually by 2020. The National Highway Traffic Safety Administration's vehicle safety

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[2] OFFICE OF MGMT. & BUDGET, EXECUTIVE OFFICE OF THE PRESIDENT, DRAFT 2015 REPORT TO CONGRESS ON THE BENEFITS AND COSTS OF FEDERAL REGULATIONS AND UNFUNDED MANDATES ON STATE, LOCAL, AND TRIBAL ENTITIES 11, *available at* https://www.whitehouse.gov/sites/default/files/omb/inforeg/2015_cb/draft_2015_cost_benefit_report.pdf.

[3] ENVTL. PROTECTION AGENCY, THE BENEFITS AND COSTS OF THE CLEAN AIR ACT FROM 1990 TO 2020, 7-9 (Mar. 2011), *available at* http://www.epa.gov/oar/sect812/feb11/fullreport.pdf.

[4] *See* Aaron Smith, *BP: We've Spent $2 Billion on Clean-Up*, CNNMONEY, June 21, 2010, *available at* http://money.cnn.com/2010/06/21/news/companies/bp_oil_spill/index.htm. In June of 2010, Credit Suisse predicted that the total costs would be around $37 billion, with $23 billion in clean-up costs and $14 billion in settlement claims. Linda Stern, *Gulf Oil Spill Could Cost BP as Much as $37 Billion*, MONEYWATCH.COM, June 8, 2010, *available at* http://moneywatch.bnet.com/economic-news/blog/daily-money/gulfoil-spill-could-cost-bp-as-much-as-37-billion/728/.

[5] OFFICE OF MGMT & BUDGET, EXECUTIVE OFFICE OF THE PRESIDENT, FISCAL YEAR 2012: ANALYTICAL PERSPECTIVES: BUDGET OF THE U.S. GOVERNMENT 47 (2011), *available at* www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/spec.pdf. The Congressional Budget Office (CBO), which employs a different methodology for calculating costs than does the OMB, estimates the costs of TARP to be $19 billion. CONG. BUDGET OFFICE, REPORT ON THE TROUBLED ASSET RELIEF PROGRAM—MARCH 2011, 1 (2011), *available at* http://www.cbo.gov/ftpdocs/121xx/doc12118/03-29-TARP.pdf. *See also* BARBARA BUTRICA, KAREN E. SMITH, & ERIC TODER, HOW WILL THE STOCK MARKET COLLAPSE AFFECT RETIREMENT INCOMES? 1 (The Urban Institute, Older Americans' Economic Security Report No. 20, 2009), *available at* http://www.urban.org/uploadedpdf/411914_retirement_incomes.pdf.

[6] Sid Shapiro et al., *Saving Lives, Preserving the Environment, Growing the Economy: The Truth About Regulation* 10, 20-30 (Ctr. for Progressive Reform, White Paper 1109, 2011), *available at* http://www.progressivereform.org/articles/RegBenefits_1109.pdf.

standards have reduced the traffic fatality rate from nearly 3.5 fatalities per 100 million vehicle miles traveled in 1980 to 1.41 fatalities per 100 million vehicle miles traveled in 2006. An Endangered Species Act recovery program developed by the U.S. Fish and Wildlife Service helped increase the Bald Eagle population from just 400 nesting pairs in 1963 to 10,000 nesting pairs in 2007, enabling the Service to remove Bald Eagles from the Endangered Species List.[7]

Still, big challenges remain. As scientific study expands, so does our knowledge of important risks. We discover new viruses, new cancer-causing agents, new kinds of workplace injuries, new flood risks, and new seismic fault lines. Developing technologies, while exciting in terms of promised benefits, can also present profound risks if not carefully managed. Think of deep-water drilling, edible nano-particles, or privately owned drones. Just as there is no end to what we can learn, imagine, or invent, there is similarly no end to the amount of good sense that we should be expected to employ along the way. Good sense—in the form of reasonable regulation—is what allows society to innovate and experiment *while at the same time remaining profitable and safe*.

Saying you want to provide for the general welfare with only a fixed quantity of regulation is a little like saying you are going to paint a picture with only ten colors or write a novel using only twenty verbs. Unless there is some inherent objection to colors or verbs, why would you do it?

Supporters of a regulatory budget cap usually say that the cost to industry is, itself, an inherent objection to government rulemaking. But that dismisses the moral obligation that industry already has to avoid harming other parties. When an agency regulates activities at a steel mill or a coal mine, it surely shifts costs to the operator.[8] But it is also requiring that an operator act responsibly toward its workers and the public. Requiring businesses to act responsibly even when it costs money is not a *bad* thing. We can argue about whether an obligation is too strict or too lax. But it is hard to argue that one's duty to avoid harming others is a thing to be rationed or put on the chopping block. That's particularly true when the rules cementing such duties each year contribute tens of millions of dollars to the economy (after deducting the costs) and save hundreds of thousands of lives.

To those who ask if we can afford to have more regulations like these, the simple answer is that we cannot afford not to.

## II. Focus on Quality, not Quantity

### A. How Regulatory Budget Differs from Traditional Regulatory Policy Debate

Most debates on regulatory policy focus on quality and effectiveness. The question is whether a rule or set of rules is furthering the objectives that Congress set in its enabling legislation and doing so in a fair and effective way. Answering the question depends on the statutes involved,

[7] *Id.* at 5-6.

[8] Budget advocates sometimes say the cost is "imposed," but that's not quite right. Even before a regulation is enacted, the cost exists—manifested as a risk of injury borne by members of the public. By reducing the risk, a safety regulation lowers the cost borne by the public and transfers that cost to a regulated entity, which experiences that cost as a duty to exercise care.

taking into account factors that Congress and the President (to the extent permitted by statute) deem relevant.[9] Considerations almost always include the rule's general effectiveness and the costs imposed on government actors and regulated entities. When a regulation meets the standard, agencies implement the rule. To do otherwise, would likely defy the will of Congress.

Regulatory budgeting presents a sharp departure from the traditional approach. Instead of quality, it's interested in quantity. Under the budgeting approach, designing a rule that implements Congress's will while reflecting (to the extent permitted by statute) the President's values is only the first step. The second step is finding an existing rule of similar cost—which once also expressed Congress's will and the President's values—and deleting it.

The underlying premise appears to be that there is a maximum amount of regulation that is socially desirable. And it is the primary goal of a regulatory system to make sure that that maximum is never exceeded. Many of the regulatory budgeting proposals that have been introduced in Congress add an important corollary: It is the job of the executive branch, *not the Congress*, to decide which previous regulations (all authorized or required by Congress) can be snuffed out in order to meet that limit.

This approach must be puzzling to those who believe cost-benefit analysis is a measure of regulatory success. According to its supporters, cost-benefit analysis seeks to ensure that all rules increase social welfare by producing net monetized benefits. In fact, according to the strict version of cost-benefit analysis, a regulation should be designed to achieve maximized net benefits. But under regulatory budgeting, even rules that make society better off may not be permitted if there is no room beneath the budgetary cap. Plus, to make room a policy maker has to delete an existing rule that in another way *also* makes society better off.

Imagine that before you put a $20 bill into your wallet or purse, you had to first take out a $5 bill to make room for it. Regulatory budgeting is like that: it asks you to leave advances in public health, environmental protection—and money—on the table.

### B. The Reasons for Placing a Cap on the Total Number of Regulations are Unavailing

Beyond a preference for smaller government, supporters of regulatory budgeting offer two justifications: (1) Budgeting promotes good government and (2) Budgeting encourages economic growth and creates jobs. Neither claim is supported by evidence.

#### *1. Good Government*

Advocates of budgeting believe a regulatory cap will help agencies set better priorities: faced with a scarcity of options to improve public welfare, they will choose the best and forget the rest. But there is little evidence that agencies have their priorities wrong. The relatively high job approval ratings of most agencies, to take one measure, suggest that the public largely supports

[9] *See* Robert R.M. Verchick, *Toward Normative Rules for Agency Interpretation: Defining Jurisdiction under the Clean Water Act*, 55 ALA. L. REV. 845, 849-64 (2004).

agencies' current approaches to priority setting. If an agency does veer off course, there are many ways to set them back on track through Congressional oversight, Congressional control of agency (financial) budgets, White House control through executive orders, White House control through support of budget requests, and other softer forms of Congressional and White House cajoling.

Budgeting advocates also say that regulatory limits will encourage agencies to minimize compliance costs so as to squeeze in as many rules as possible. But agencies are already doing this. Indeed, regulators are under constant pressure to minimize costs, whether from the White House, Congressional committees, individual members of Congress, state governors, or industry lobby groups. The weakening of regulations to reduce compliance costs manifests itself through a well-known process known as "policy erosion." Legal scholar Thomas McGarity describes this process in the following terms:

> Students of the policymaking process have long understood that the protective purposes of regulatory programs established over the opposition of regulated industries during times of crisis are often undermined through a slow process of erosion, drift, or slippage, as the industries, agencies, and beneficiary groups engage in what Professor Eugene Bardach calls "the implementation game." As the crises that gave rise to public demand for a government program fade from memory and the beneficiary groups that fought for it move on to other pressing matters, the agency charged with implementing the new program struggles to promulgate and enforce the required regulations over the continued opposition of the regulated industry. The industry, meanwhile, carefully monitors and frequently interacts with the agency as the agency sets its regulatory agenda, collects and analyzes scientific and economic information, and prepares the various support documents that accompany modern rulemaking.[10]

At any rate, lower compliance costs do not necessarily translate into better regulatory decision making. Imagine, for example, an agency is trying to decide between Rule 1, which would generate $1 million in benefits at a cost of $100,000, and Rule 2, which would generate a $10 million in benefits at a cost of $150,000. A regulatory budgeteer might be tempted to choose Rule 1 because of the lower compliance costs. But the better deal for the national economy and the public at large is Rule 2.

Third, supporters say regulatory budgeting increases political accountability. Given the many ways Congress and the White House influence agency action, this need is probably not as strong as imagined. But if Congress believes agencies need greater accountability, it can make better use of its oversight powers. And if Congress believes that an agency has misused its discretion under a statute or taken the mission too far, lawmakers can and should amend the law to put a stop to that.

In any event, regulatory budgeting risks defeating political accountability, rather than enhancing it. Depending on how it is designed, a regulatory budgeting program typically involves complex

[10] *See* Thomas O. McGarity, *Administrative Law as Blood Sport: Policy Erosion in a Highly Partisan Age*, 61 DUKE L.J. 1671, 1674-75 (2012).

processes that few ordinary citizens would be able to follow or understand. In this regard, regulatory budgeting proposals modelled on the fiscal budgeting process raise special concern. Few Americans have the expertise, time, or inclination to follow the fiscal budgeting process, even though many have strong concerns over how their tax dollars are spent. It is unlikely that the general public would monitor a regulatory budgeting process effectively and then organize into action when they feel that this process does not serve their interests adequately. Regulatory budgeting could have the effect of surreptitiously rewriting popular laws, such as the Clean Water Act and Clean Air Act, that have been on the books for years. Many such laws direct agencies to prioritize protections over cost compliance concerns. As noted above, however, regulatory budgeting would likely induce these agencies to do the reverse and put costs before protections. Such changes to bedrock laws are not trivial, and should only be made after careful consideration in an open debate.

Fourth, and related to increased accountability, supporters contend that regulatory budgeting will lead to greater transparency with regard to regulations and their impacts. But regulatory budgeting threatens to undermine transparency instead. Regulatory budgeting would make a rule's cost the determinative consideration in regulatory decision-making. The problem is that it is impossible to evaluate any decision on its costs alone without giving proper consideration to its benefits. By considering only costs, any decision—from buying a loaf of bread to reinforcing a bridge—would be counted as a negative. In this way, regulatory budgeting tends to obscure rather than clarify the impacts and purpose of regulations.

Finally, proponents of regulatory budgeting contend that it is necessary to encourage agencies to engage in meaningful reviews of their existing regulations. This argument overlooks the fact that agencies already operate under many legal mandates to conduct such reviews. The Regulatory Flexibility Act, for example, requires agencies to review every rule that has "a significant economic impact upon a substantial number of small entities" within 10 years after the final rule is published. Further, Executive Order 13563 requires agencies to conduct similar resource-intensive reviews on an ongoing basis for all significant rules. In addition, several procedures are already in place for third parties to independently evaluate agencies' existing regulatory programs. For instance, federal law establishes a network of independent Inspectors General for every major executive and independent agency, which, among other things, audits and evaluates the effectiveness of agencies' regulatory programs. In addition, Congress created the Government Accountability Office (GAO), an independent agency that works to aid Congress's oversight of the federal government. A key component of the GAO's work is to audit and evaluate specific regulatory programs in response to requests from members of Congress. As part of this effort, the GAO maintains a "High Risk List," which it updates at the start of each new Congress in order to bring "attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation."

Beyond these legally required retrospective reviews, agencies also frequently conduct discretionary reviews. Last year, Michelle Sager, the Director of Strategic Issues at the GAO, testified before the U.S. Senate Committee on Homeland Security and Governmental Affairs that agencies already conduct discretionary lookbacks of their existing regulatory programs, and that these discretionary reviews were more effective than the mandatory ones in terms of producing meaningful policy changes. As she put it, "discretionary reviews generated additional action more often than mandatory reviews, which most often resulted in no changes."[11] Thus, contrary to the claims of many supporters of regulatory budgeting, a strong culture of regulatory review already exists.

### 2. *Economic Growth and Job Creation*

Supporters of regulatory budgeting say something is needed to eliminate regulations that are hindering economic growth and job creation. The position assumes there is an inherent trade-off between regulatory protections and a sound economy. For that, there is little support in economic theory or empirical evidence. After all, the steps a business undertakes to comply with or respond to a new regulation is simply a form of spending, and as such generates tangible economic activity. In turn, this spending generates job gains that can offset whatever job losses a firm might experience as a result of a regulation. The relevant question, then, is what net impact a given regulation has on employment overall.

While difficult to measure, most existing studies find that regulations result in either no overall impact or even an actual increase in employment in some cases.[12] For example, a study of Bureau of Labor Statistics (BLS) data by the Environmental Policy Institute (EPI) found little evidence that jobs are lost due to regulation.[13] Until recently, the BLS had developed an "extended mass layoff" data series, which examined the reasons why companies lay off 50 or more workers for more than 30 days. Significantly, the data series were based on employer-supplied information. EPI found that an average of only 0.3 percent of workers lost their jobs because of government regulations or interventions during the years 2007 through 2009. This result is similar to data concerning layoffs prior to 2007.[14] (By comparison, the same data find that extreme weather events have caused more extended mass layoffs.[15]) Similarly, regulatory scholars at the University of Pennsylvania conducted a comprehensive book-length study that looked at the economy-wide employment impacts of regulation and concluded that "to date the empirical work suggests that regulation plays relatively little role in affecting the aggregate number of jobs in the United States."[16]

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[11] *A More Efficient and Effective Government: Improving the Regulatory Framework, Hearing Before the Subcomm. on Efficiency and Effectiveness of Fed. Programs and Fed. Workforce of the S. Comm. on Homeland Security and Gov. Aff*, 113th Cong. 3 (2014) (statement of Michelle Sager, Director, Strategic Issues, U.S. Gov. Accountability Off.), available at http://www.hsgac.senate.gov/subcommittees/fpfw/hearings/a-more-efficient-and-effective-government-improving-the-regulatory-framework [follow hyperlink text "Download Testimony (217.7 KB)"].

[12] *See* Isaac Shapiro & John Irons, *Regulation, Employment & and the Economy: Fears of Job Loss Are Overblown* (Envtl. Pol'y Inst., Briefing Paper No. 305, 2011) (summarizing the evidence), *available at* http://epi.3cdn.net/961032cb78e895dfd5_k6m6bh42p.pdf; Frank Ackerman & Rachel Massey, *Prospering with Precaution: Employment, Economics, and the Precautionary Principle* (Global Dev. & Env't Inst., Working Paper, 2002) (same), *available at* http://www.healthytomorrow.org/attachments/prosper.pdf.

[13] Shapiro & Irons, *supra* note 12, at 20.

[14] *Id.*; *see also* Eban Goodstein, *The Trade-off Myth: Fact and Fiction About Jobs and the Environment*, 35-37 (1999). (summarizing data from 1970-90 and finding similarly small numbers of workers being laid off because of environmental regulations).

[15] *Regulations Do Not Hinder U.S. Job Market, Paper Finds*, CTR. FOR EFFECTIVE GOVT, Apr. 19, 2011, http://www.foreffectivegov.org/node/11615 (last visited Sept. 30, 2015).

[16] CARY COGLIANESE, ADAM M. FINKEL & CHRISTOPHER CARRIGAN, DOES REGULATION KILL JOBS? (2013).

Most importantly, this line of argument ignores the fact that inadequate regulation of the financial services industry can result in catastrophic job losses, as the recent global economic crisis dramatically demonstrated. The 2008 financial collapse and resulting Great Recession in the United States was in large part precipitated by the steady deregulation of the financial services industry over the course of several decades. According to a 2013 Government Accountability Office analysis, the economic crisis could cost the United States more than $13 trillion in lost economic output over all. [17] Most estimates put the total job losses that resulted from the financial crisis at 8.7 million.[18]

The above evidence indicates that is not regulation *per se* that has negative impacts on the economy, but rather that it is poorly designed regulations that can have this effect. To avert this possibility, it makes more sense to focus on reforms that promote higher quality regulatory outcomes.

### III. Regulatory Budgeting Sounds Simple, but It's Really Very Complicated

The threshold implementation challenge posed by regulatory budgeting is identifying the proper level at which to set the regulatory cap. Among the many concrete proposals for regulatory budgeting that have been offered over the years, none have offered a coherent explanation for why their cap on total regulatory costs reflects the socially desirable amount of such costs. Ultimately, it seems that a regulatory budget's cap ought to be set in reference to one or more of the justifications noted above. For example, the cap should be set at a level at which additional regulation will cause concrete economic harm or at which it will clearly correct some undesirable government pathology, such as inadequate transparency or political accountability.

Thus far, most regulatory budget proposals would deem the current level of regulation as at or in excess of what the proper cap on regulatory costs should be. But as I note above, none of the common justifications offered in support of regulatory budgeting would seem to support that conclusion. Rather, establishing the cap at the current level seems to be based on some arbitrary consideration, such as a desire to maintain the status quo.

Once the cap is set, other daunting implementation challenges begin to merge. One version of the regulatory budget concept would be modeled on the annual appropriations process, in which agencies are each allotted a certain amount of regulatory costs they can expend through the implementation of new regulations over the course of a defined period of time. Given the ongoing inability of Congress to carry out the annual appropriations process according to regular order in recent years, it is doubtful whether a similar process for allocating annual regulatory budgets could be carried out successfully either. In turn, the failure to carry out the regulatory budget process according to regular order raises additional concerns. For example, what would a regulatory budget "shut-down" look like? If Congress doesn't pass an annual regulatory budget—essentially lifting the "reg ceiling," would agencies not be able to issue new regulations? Would their budget authority carry over automatically similar to a continuing

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[17] U.S. Gov't Accountability Off., Financial Regulatory Reform: Financial Crisis Losses and Potential Impacts of the Dodd-Frank Act 17 (2013), *available at* http://www.gao.gov/assets/660/651322.pdf.
[18] Ctr. on Budget & Pol'y Priorities, *Chart Book: The Legacy of the Great Recession*, Sept. 9, 2015, http://www.cbpp.org/research/economy/chart-book-the-legacy-of-the-great-recession (last visited Sept. 30, 2015).

resolution? If the latter, does this really contribute to greater political accountability and transparency in the regulatory process?

Even under regular order, implementation of a regulatory budgeting would face a host of other challenges. Some mechanism would need to be established to accommodate the creation, elimination, or consolidation of new agencies. For example, how would Congress have adjusted the regulatory budgets to match the reorganization of Homeland Security-related agencies in the early 2000s? Similarly, there have been several proposals to consolidate the food safety-related agencies into a single agency. What process would Congress follow to adjust the applicable agency regulatory budgets? Similarly, to function properly, a regulatory budget would have to accommodate the creation of brand new regulatory programs. For example, Congress recently established a new regulatory program to address the emerging hazards posed by the pharmaceutical compounding industry. Under regulatory budgeting, would Congress have been able to increase the Food and Drug Administration's (FDA) budgetary allocation to accommodate this new program? Or would the agency have been forced to stretch its finite regulatory budget to implement this new program? If the latter, would this outcome be desirable, given it would force the FDA to potentially forgo new protections for food and traditional pharmaceuticals?

Another version of regulatory budgeting would employ a "pay-go" system under which agencies would be prohibited from instituting a new regulation until they have first eliminated an existing regulation (or a set of existing regulations) that impose a cost that is equal to or greater than that of the new regulation. This version of regulatory budgeting introduces unique implementation challenges of its own. First, it would compound the "ossification" problem that affects the rulemaking process. In developing regulatory proposals, agencies must negotiate a thick web of analytical and procedural requirements, a process that is time-consuming and resource-intensive.[19] Agencies would also have to negotiate much of these same analytical and procedural requirements when it undertakes the "unrulemaking process"—that is, when it works to repeal an existing rule. To make matter worse, it is unlikely that agencies will receive additional budgetary resources to undertake the un-rulemaking process. As such, each new rulemaking would become an even more mammoth task for agencies, as they must complete the time- and resource-intensive parallel procedures of the rulemaking process and the unrulemaking process simultaneously.

Second, the APA would likely need to be revised to accommodate the process for repealing rule under a regulatory pay-go system. The APA requires agencies to articulate a rational basis supported by the record when undertaking a rulemaking to repeal a rule. It is unlikely that agencies would be able to articulate a rational basis to support a rule repeal in most cases. In particular, the need to clear space under a regulatory budget cap is unlikely to satisfy most reviewing judges as a rational basis.

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[19] *See* PUBLIC CITIZEN, THE FEDERAL RULEMAKING PROCESS, *available at* http://www.citizen.org/documents/Regulations-Flowchart.pdf.

IV. KEEP AMERICANS SAFE AND PROSPEROUS

As noted above, the defining characteristic of regulatory budgeting is that it might prohibit agencies from instituting new regulations due to the cap that it places on new regulatory costs. In some cases, if an agency sought to regulate a harmful activity, it would first have to drop an existing protection against some other risk. Alternatively, the agency could choose not to act, and leave the existing safeguard in place, at the price of leaving some other hazard unaddressed. In either case, people and the environment would be left unprotected against an identifiable and preventable risk.

In contrast, regulatory budgeting would not impose a similar cap on the sources of potential harms to people and the environment. For example, if a farm wanted to start using a new toxic pesticide that is uniquely harmful to the environment, it would not be required to first to take off-setting steps to improve the safety of working conditions for its laborers.

As noted above, the U.S. regulatory system has succeeded in addressing many environmental, health, and safety risks. Nevertheless, new risks continue to emerge as the U.S. economy evolves and technologies advance. Nanotechnology provides a good example of this potential challenge. Nanotechnology involves the use and manipulation of nature's basic building blocks— atoms and molecules—to manufacture new products or materials. Over the next decade, the nanotechnology industry is projected to employ millions of people and generate products worth trillions of dollars.[20] Because of its revolutionary nature, this new form technology carries substantial risks, and its health and environmental impacts remain poorly understood, even as the development and use of nanotechnologies continues to barrel ahead. For example, early research indicates that some nanotechnologies exhibit human health and environmental hazards that are similar to those of asbestos or toxic metals.[21] Oversight of nanotechnology remains limited, though several federal agencies, including the Consumer Product Safety Commission (CPSC), the FDA, and the EPA, could eventually play a role in regulating its use.

The advent of driverless car technology raises another example. The National Highway Traffic Safety Administration (NHTSA)—the agency responsible for automobile safety—is already struggling to keep up with the rapid growth of computer-based automobile technology.[22] Driverless car technology would add still another dimension to the challenge NHTSA already faces in ensuring automobile safety. It is likely that regulatory measures would also needed to be taken to address cybersecurity treats for driverless cars to prevent against hacking of the cars' driverless technology, which can be deployed to endanger the driver, others on the road, and pedestrians.[23]

[20] The Project on Emerging Nanotechnologies, *Introduction to Nanotechnology*, http://www.nanotechproject.org/topics/nano101/introduction_to_nanotechnology/ (last visited Dec. 4, 2015).
[21] *See, e.g.*, ENVTL. PROTECTION AGENCY, NANOTECHNOLOGY WHITE PAPER 58 (2007), *available at* http://www2.epa.gov/sites/production/files/2015-01/documents/nanotechnology_whitepaper.pdf.
[22] David Gelles, Hiroko Tabuchi, & Matthew Dolan, *Complex Car Software Becomes the Weak Spot Under the Hood*, N.Y. TIMES, Sept. 27, 2015, at BU1, *available at* http://www.nytimes.com/2015/09/27/business/complex-car-software-becomes-the-weak-spot-under-the-hood.html?_r=0.
[23] Tom Risen, *How Safe is a Self-Driving Car?*, U.S. NEWS & WORLD REPORT, Oct. 8, 2015, http://www.usnews.com/news/articles/2015/10/08/nhtsa-volvo-seek-cybersecurity-privacy-for-driverless-cars (last visited Dec. 7, 2015).

Even 10 years ago, few could have predicted the nature and scope of regulatory challenges like nanotechnology, just as today we are unable to predict the greatest regulatory challenges we will face 10 years from now. If regulatory budgeting becomes the law of the land, regulatory agencies may be prevented from instituting new safeguards for addressing emerging risks like nanotechnology, unless they can first identify and eliminate existing and potentially unrelated regulations. For example, as it works to address the harms of nanotechnologies used in some pesticides, the EPA might have to relax or eliminate regulations aimed at reducing the threats of endocrine disrupting substances used in other industrial chemicals. Similarly, 10 years from now, the EPA's pesticide nanotechnology standard might have to give way for another rule to address the next toxic chemical threat.

## V. IMPROVE THE SYSTEM, BUT IN SMARTER WAYS

Based on these observations, as well as my experience supervising regulatory processes at the EPA, I strongly believe efforts at regulatory must stay focused on quality, not quantity. Regulatory budgeting, despite its intuitive appeal to some, will not lead to more effective regulation and it will not keep Americans prosperous or safe. If anything, it will hamper our efforts.

That said, I also strongly believe the regulatory system can and should be improved. Thus I recommend the following reforms:

- **Eliminate unnecessary and burdensome *ex ante* analytical and procedural requirements.** Over the past few decades, the rulemaking process has become encumbered by a growing number of analytical and procedural requirements. These analytical obstacles draw upon agencies' already stretched resources and distract them from focusing on their regulatory missions without meaningfully improving the quality of agency decision-making. Eliminating the unnecessary requirements would enable agencies to focus on those considerations that are most important, leading to a more responsive regulatory system that produces higher quality rules.
- **Empower agencies to focus greater attention on making back-end adjustments in the implementation of completed rules.** Back-end adjustments—which can include exceptions, time extensions, variances, and waivers—allow for greater implementation flexibility and can reduce unintended burdens on uniquely affected regulated entities.[24] These various forms of back-end adjustments have been successfully deployed for decades without controversy, and a review of the table of contents for each day's edition of the *Federal Register* provides several examples of how these adjustments are deployed. Congress can encourage their greater use by ensuring that agencies have adequate budgetary and legal resources to deploy them as much as possible. One potential criticism against these adjustments is that they have been disproportionately used by larger and more sophisticated businesses to the competitive disadvantage of the

[24] For about these back-end adjustments and the advantages they offer, see Robert L. Glicksman & Sidney A. Shapiro, *Improving Regulation Through Incremental Adjustment*, 52 U. KAN. L. REV. 1179 (2004).

smaller firms in their industry. Congress should explore opportunities to correct this discrepancy by establishing new programs or reform existing ones aimed at ensuring small businesses are able to take advantage of available back-end adjustment processes. For example, Congress could enact legislation that directs the Small Business Administration's Office of Advocacy to focus on this task.

- **Empower agencies to focus greater attention on more flexible, agency-driven reviews of their existing regulations and regulatory programs**. As noted above, the GAO has found that agencies conduct discretionary reviews and that these reviews are more effective than those mandated under various legal authorities. Consequently, Congress should consider eliminating many of the existing one-size-fits-all regulatory review programs that are on the books. In addition, Congress should consider providing agencies with greater budgetary resources for conducting their discretionary reviews.

Thank you. I'd be pleased to answer any questions you might have.

Chairman ENZI. Thank you. I want to thank all of you for your testimony and for your written testimony, all of which will be a part of the record.

The vote is a 15-minute vote, and I think there are 2 minutes left, so I will have a recess while I go vote.

[Recess.]

Chairman ENZI. I call the hearing back to order. I said 5 minutes over and 5 minutes back. I guess it took me 1 minute longer than that. But I want to thank all of you for your testimony and what you submitted beforehand, some excellent suggestions and warnings, and mechanisms that we might be able to use.

I would mention that there is another hearing going on at the same time, and it is on gun control, and apparently there are a lot more people who understand guns than regulations.

[Laughter.]

Chairman ENZI. So we will conduct this a little bit more perhaps conversational, and others will be able to submit questions, specific questions for you based on what they have read from the testimony. But I will start with Dr. Graham because it has been argued by some that, on average, Members of Congress lack the subject matter expertise sufficient to do a regulatory budget. Indeed, so this argument goes, one has to know how a regulation works, for example, a clean air regulation, technically and scientifically before you know whether it should go forward or how much money to spend on it. That is the evolution of our increasingly complex economy, is simply taking regulatory oversight and budgeting out of Congress' hand and put them in the hands of experts working in the administration. It has pushed aside the lawyers, the business people, and even the two accountants who serve in

the United States Senate, and it puts the scientists and economists in control of regulation. And it is a good idea to have people that have some expertise in charge of things, but technically we are the ones who assign regulations. And, increasingly, we have had less and less ability to have any input into those regulations.

So one of the ideas that was suggested and even promoted by the Canadians based on their experience was having a regulatory budget. So how would each of you answer the critics of the type of budgeting the world is simply too complicated for people's elected representatives to be involved in annually making budget decisions about major regulations? We will start with Dr. Graham.

Mr. GRAHAM. Sure. I think the first thing I would say is that the regulatory budget idea I think envisions a more modest role for Congress because simply setting overall budget targets than the concept that Congress should vote on every single regulation. And there are proposals out there that suggest that Members of Congress should study—should be required to study every rulemaking or every significant rulemaking and they should vote on every single one of them. And I understand the sentiments behind that idea, but I do not think that that is practical in the way that our legislative process is set up.

But I do think it is reasonable for Members of Congress to look at the information that agencies are providing for their performance, how well they have done in the past with their regulations, and what the benefits are prospectively of their new regulations, and say, Is this an agency that we think should have a substantial regulatory budget or a smaller regulatory budget? And I think it is reasonable to expect Congress to do that.

So it is a big difference between voting on every single regulation versus just setting the budget and letting the executive branch then move forward in the implementation of that budget.

Chairman ENZI. Thank you.

Dr. Ellig?

Mr. ELLIG. Well, I think it is common sense to say that budgeting decisions, whether you are talking about tax dollars or social costs of regulation, that budgeting decisions ought to take benefits into account, as Senator Whitehouse said in his opening remarks. To me that is uncontroversial, and, heck, that is what I have been trying to do for 15 years, is improve the quality of information about the results of Federal programs and regulations.

But I think that what members ought to ask themselves about every argument you hear against a regulatory budget, ask yourself, Is this also an argument against having a Federal budget for tax dollars? Because many of the arguments against a regulatory budget also imply we should not have a Federal budget for tax dollars either, Congress does not have the relevant expertise. Well, gee, to evaluate—to understand programs, you have to understand how the program works; you have to understand complicated chains of reasoning in order to understand whether the program is actually accomplishing results.

Now, in reality, Congress does not have to know those things, but it does have to have access to good information about those things that is hopefully impartial and done by people with the relevant expertise.

Here is why we have a Federal budget and a Federal budget process, and I think it is the same reason that you would want to have some kind of regulatory budget. Without a Federal budget, the process of appropriating is like a bunch of people who get together for dinner, sit around a table and agree they are all going to share the check equally. And if we are all sharing the check equally but I am ordering whatever I want, you can be if I know I am sharing the cost with everybody in the room, I am going to order the filet mignon, and I will be happy to get an extra bottle of wine toward the end of the evening. There is a difference in the type of discipline that people exercise when you are spending money or spending social resources and all of the costs are shared among the general population.

The reason we have a Federal budget process is so that there is somebody—the Budget Committees—in charge of giving an overall look at everything and saying, okay, what is the limit on spending that we are going to have, and then we will divide that up among various priorities. And that prevents the appropriators from saying, well, gee, if you are—you know, if somebody else is sharing the cost, we will just kind of go and buy whatever we want. The same kind of logic applies to a regulatory budget.

Now, I would be the first to admit, though, that the one argument I have heard about a regulatory budget that I think has merit is it is harder to count, reliably count social costs of regulations than it is to count tax dollars. And so a regulatory budget may have to work somewhat differently than the budget for tax dollars. But that is a difference in how you implement the concept, not a problem with the concept of an overall limit set by some entity in Congress whose job is to look at the totals rather than be advocates for particular programs or regulations.

Chairman ENZI. Thank you

Dr. Verchick?

Mr. VERCHICK. Thank you. I think it is a really good question that you ask, and it concerns me a lot because I agree with what I think your belief is, which is that Congress can certainly find the resources to understand these complicated problems and that the public engaged in the process politically also has the ability to understand what is at stake.

What I fear is that this kind of budgeting process actually disarms Congress in a particular way. So, for instance, when Congress right now makes decisions about what the train—you know, what sort of safety we need on trains or in automobiles or whatever, and they issue statutes, and then the organizations, the agencies come up with rules as a result, and then, of course, there is congressional oversight over that and a tremendous amount of cajoling, lobbying, whatever you want to call it in the political spheres when agencies are making these decisions.

Now, the problem, why I say that there is less accountability for Congress is that Congress is essentially saying to the agencies we think you have too many regulations, or you are destined to have too many regulations, so you go figure out which regulations we told you to initiate and find the ones you do not like and take them out, because all of the regulations that the agencies have enacted have been authorized by Congress.

And so, you know, for instance, your constituents who may tell you that there are some unfair barriers to operating their businesses because of regulations, if that is so, I think that the right way to do it would be to look into those regulations, to find out what is going on and harming the constituents, see if they are right, and if they are, then make a move in Congress to change the authorizing statute.

But if you vote instead for a budget, there is no guarantee at all that the people that you care about in your community are going to see any effect of that, because what are the odds that the particular rule that is posing a barrier to them is the exact rule that some agency is going to scrap in order to make room for a new one?

I would just make two quick points. The Canadian example I think is really interesting, and I watched on video the Treasurer's remarks, and I think it is an interesting plan. But one thing to keep in mind in comparing other plans is the Canadian plan really only applied to what he described, what the Treasurer described as "red tape" on small businesses. And the large examples he brings up are regulations about scrapping a regulation that required national registration before you could put a kayak in the river.

I am not so concerned with those kinds of regulations in the sense that I am much more concerned with regulations in my community outside of New Orleans, for instance, where the EPA just created a new regulation to keep benzene from billowing out in clouds over communities from oil refineries. My neighbors, just miles away from there, they see that regulation not as something onerous or burdensome. they see that as an improvement to their lives.

The very last thing about the budget, I think it is a fair question to say, well, should we not be aware of the amount of cost that we are shifting from one group to another? And I say it that way because before the oil refinery rule, the cost was borne by those poor and mainly African American communities in those neighborhoods. The cost was waking up in the middle of the night choking and having to go to an emergency room. Now the cost of that is shifted to compliance on the part of refineries. And so the cost is always there. It is just a question of who is going to bear that cost.

But I would suggest that we think every day about the affordability of compliance rules. Congress does not pass a single act, I am sure, without hearing from groups about what the expenses are going to be. In almost every authorizing statute I can think of, at least under the EPA, costs of compliance are baked into the system, either in implementation or in writing the standard or in some other way. It is not fair to say that affordability is never a concern. Affordability is always a concern. My only point is that once we find that rules are affordable and that they produce net benefits in health, environment, and other things, it is a mistake to say of those successful rules, we will only choose a single one. We should choose them all, because we are better off with all of them than with just one of them.

Chairman ENZI. Thank you. I have exceeded my time. I am not sure if Senator Whitehouse is ready to ask questions. He was here at the sound of the gavel.

Senator WHITEHOUSE. Ready to go if it is my turn, but I am happy to defer to Senator Crapo. Why don't we let Senator Crapo go? He was here, and I just got here.

Chairman ENZI. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman. I just have a couple of questions, and I am conceptually interested in how this is going to work if we were to do something.

Let us assume that Congress were to pass a law that created a regulatory budget, which means that we say that all of the regulations—maybe I am not even describing it right—that all the regulations in the United States can only cost X dollars, and then that is allocated to the various agencies. Is that how a regulatory budget in concept works?

Mr. GRAHAM. That is one variant, but it is the more complicated one.

Senator CRAPO. Tell me a simpler one.

Mr. GRAHAM. The simpler one is you look for the next year, and Congress would say this is the amount of regulatory cost that you are allowed to impose for the next year.

Senator CRAPO. Okay.

Mr. GRAHAM. You do not have to quantify all the existing ones. You see the difference?

Senator CRAPO. All right. Yes. Let us take the simpler version. Who decides whether the agency has exceeded the budget? How is that calculated?

Mr. GRAHAM. Right. There either needs to be an executive branch process through OMB where the cost estimates of the agency are certified, or there needs to be a parallel process at CBO or a CBO-like organization that would do the same thing, or both.

Senator CRAPO. Okay. So if I understand you right, the agency, at least in the approach that you just described, the agency would get the first cut at it with their estimate, but either the CBO or GAO or—

Mr. GRAHAM. Or OMB.

Senator CRAPO. Or OMB would validate that. And what I am getting at here is the potential for gaming the analysis, because I personally think we see a lot of that. So it ultimately in my mind comes down to whoever the final decisionmaker is making sure that there is a system of accountability for the right kinds of analysis. I definitely personally would not like to see the agency be its own watchdog. So I like the idea of having some other entity do the cost analysis.

But is there a way—I guess my next question then is: Do we know how to do that?

Mr. GRAHAM. Now, just a reminder that we do this on the budget side.

Senator CRAPO. I know we try.

Mr. GRAHAM. Okay, and we have a Congressional Budget—

Senator CRAPO. This is why I am suspicious.

Mr. GRAHAM. We have a Congressional Budget Office, and when I was in the administration from 2001 to 2006, we would float up proposals of how much it would cost in the budget if we were to make certain changes, say, in the Medicare prescription drug benefit or whatever it was. But then CBO would run off and do their own analyses, okay? And oftentimes they would call us on, in their view, we made errors or we low-balled or whatever it is, and so forth and so on.

The first thing I want to say is there is nothing intellectually or qualitatively different about what we are talking about, what happened under our regulatory budget, than what we are already doing on the budget process.

Senator CRAPO. All right. So let me ask just another couple of questions, because my time is already starting to run out. When the agency, which would presumably in this process take the first cut at it, when the agency puts out its analysis, does it do a cost-benefit analysis and subtract the benefits of the rule from the costs of the rule?

Mr. GRAHAM. There are variants of the regulatory budget that propose that that be done that way. That is not what I would argue is the preferred approach to it. But if you wanted to structure it that way, you could.

Senator CRAPO. Would you say the preferred approach is to simply identify the cost?

Mr. GRAHAM. Exactly, like you do in the budget side.

Senator CRAPO. And that cost would be the dollars that would be expended by the economy to comply with the rule.

Mr. GRAHAM. Correct. And the benefits are the way the agency argues for why they should get permission to impose—

Senator CRAPO. To impose those costs.

Mr. GRAHAM. Right.

Senator CRAPO. All right. I guess then the last question would be—I would like to shift a little bit to the one-in/one-out system that Canada has tried. That is one that has been talked about a lot. I would just love to have each of you give us quickly—I have only got 45 seconds, so if you could each take 15 seconds and give me your impression of what Canada is doing there.

Mr. GRAHAM. Well, I think the key thing to remember is that the metric is not overall regulatory cost. The metric is paperwork burden or think of it as red tape. But you could design the whole regulatory budget just around paperwork burden and information collection, and you could achieve a lot of the benefits of a regulatory budget through that process.

Senator CRAPO. All right.

Mr. ELLIG. It should not be hard, at least in the initial years, under one-in and one-out to find a few regulations that do not accomplish much and are kind of costly. At some point in the future, you might have to ask whether that is the best way to do it, but at least initially there are probably a few things that could go.

Senator CRAPO. Okay.

Mr. VERCHICK. The main difference with the Canadian system is it does not apply to public health, to environmental regulations, or safety regulations, which I think is a positive thing, because those actually are protections to real people, and to take them away is a problem.

Senator CRAPO. All right. Thank you very much.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman.

Would all of the witnesses agree that there are regulations whose benefits exceed their costs?

Mr. GRAHAM. Absolutely.

Mr. ELLIG. For sure, but we do not always know which ones.

Mr. VERCHICK. Yes.

Senator WHITEHOUSE. And would you even agree that there are regulations for which the benefits so exceed the costs that it is really clear that the benefits exceed the costs?

Mr. GRAHAM. Yes.

Mr. ELLIG. Conceptually, yes, not making any commitment on any particular regulations.

Senator WHITEHOUSE. Did not ask that.

Mr. VERCHICK. Yes, the air regulations are a good example of that.

Senator WHITEHOUSE. Yes. And we have a phrase that we use very often called "cost-benefit analysis." Will you all agree that we use that phrase "cost-benefit analysis" because the cost comparison to a benefit is a relevant comparison?

Mr. GRAHAM. I try to persuade my students that it is more than a phrase, that it is actually an analytic tool.

Senator WHITEHOUSE. But you agree?

Mr. GRAHAM. Yes.

Senator WHITEHOUSE. Dr. Ellig, yes?

Mr. ELLIG. Yes.

Mr. VERCHICK. Yes.

Senator WHITEHOUSE. Okay. So there are some basics. And if we were to look at things that companies have to report, for instance, statements of assets and liabilities, or statements of income and expense, if a company were to omit the assets or omit the income and just report the liabilities or just report the expense—actually, it would probably be the other way around—and you filed that with the SEC, for instance, you would be in trouble. It would be dishonest, and you would be violating our disclosure laws, correct?

[Witnesses nodding heads.]

Senator WHITEHOUSE. Yes. Let the record reflect three yeses.

Mr. GRAHAM. As much as I know about that law, yes.

Senator WHITEHOUSE. Great. Okay. So here is my problem with where we are. Out there in the regulatory world, there are regulations and there are costs of compliance and there are benefits that emerge, and undoubtedly there are times when it is inefficient or obsolete. Got it.

I live in a smaller world. I live in Congress world. And in Congress world, we deal with the forces that do not want there to be regulation at all. They are interested selfishly in their own costs and have zero interest in the benefits that accrue to the general public versus their balance sheet. And we see that over and over and over again in industry studies on environmental and other regulations that do exactly that. They only report the industry costs. They do it over and over again. We have even heard that done here today. Over and over again you hear only the cost. And that is a weapon in the battle here in Congress world where corporations try to get out from under regulations. And my worry is that—and I will make one other observation.

Over and over again we hear about how important it is to lower the burden of regulation, excessive regulation, burdensome regulation. These have become catch phrases. And yet virtually every time we actually take up anything that would reduce the burden of regulation, it is always the same stuff. I is always Wall Street and polluters. We hear about burdensome regulation across the board, but I have never seen a list, let us get together, Democrat and Republican, let us look at what is really burdensome, let us look at what is obsolete, let us look at what is excessive, let us look at what is unnecessary. No. As soon as you pull back the curtain that says burdensome regulation, you see the same creatures: Wall Street trying to get out from under regulation, and polluters trying to get out from under regulation. And over and over again we have had headlines this year saying, you know, GOP moves to attack Dodd-Frank and EPA regulations. That is what I see. That is the world I live in.

And so I am very worried that a mechanism that looks only at costs not only is wrong from a point of view of cost-benefit analysis, but also is a tool designed to be used by the industries in Congress world in their fight against regulation. And I guess I will give you a chance to react to whether you think a cost-only analysis would be amenable to that type—would it be an abuse of your analysis to be used for those political purposes?

Mr. GRAHAM. The first point I want to make is that there are proposals in the literature for a regulatory budget to operate on benefits minus costs, so it would be formally in the calculation. So if that is what you want, you can design a regulatory budget system to do that.

The second, more important point I want to make is on the budget side right now, when OMB makes a request to the Congress for the budget for a program or agency, in the narrative of the justification are benefits. The ask is just for the authorization to spend. The regulatory budget would proceed the same way. The limitation is on the regulatory burden, but the rationale and the evidence that is provided to the Congress is benefits. So benefits are really a central part of this process.

So I think that everything you are talking about is going to—all this stuff about the industries not wanting any regulation, that is going to be true with or without a regulatory budget.

Senator WHITEHOUSE. True. But I guess I would conclude by saying if a regulated industry were to use the cost analysis without taking into account benefits, you would view that as an abuse of the budget—

Mr. GRAHAM. Right. But all the staffers and all the members, they have got the request right there from OMB, and they see all the benefits. It is right there in the documentation.

Senator WHITEHOUSE. Got it. Well, that is helpful to clarify. I appreciate the Chairman allowing me to go over the time a little bit, and I thank the witnesses for being here. My time is over.

Chairman ENZI. Well, thank you, and I appreciate a lot of the points that have been made here today. I want to pursue the Government Performance and Results Act a little bit more since I have an expert on that here and others who are very knowledgeable on it as well.

One of the things that—well, when I was running for office for the very first time, people said, "You know, there ought to be some way we can tell what the agencies think they are doing and whether they get it done or not." And I said, "You know, if I go to Washington, I am going to put something in that will cause that to happen." And I got back here and got to reviewing it, and I found out there was already this law in effect called the "Government Performance and Review Act," and each agency was supposed to say what they are going to do, and then at the end of the year evaluate whether they did it or not.

So I started collecting those to see, you know, how it went, and most agencies had not done the list of things to begin with that they were going to achieve. And those that had listed them and then reviewed their own, I would have given them a failing grade because they were not paying attention to the goals that they had.

So one of the problems that we have around here is our accountability for what we find or fail to find. One of the processes I found as Budget Chairman was that we have 260 programs that are out of authorization. Their ability to get appropriations has expired. But we are still doing them. One of them expired in 1983, another one in 1987. Most of them are before 2006. And does it amount to much money? $293.5 billion a year that we are spending on things that we have not taken a look at to see if they are worth doing anymore. Some of them may be too controversial to be reauthorized. I am not sure. I have tried to figure out the reasons. The biggest reason is we do not go back and look at anything. And that is why we brought the Canadians down, to get some kind of an emphasis on how do we get Congress to go back and look at the old stuff. It is only sexy to look at the new stuff. And that is sometimes what happens with regulations. And I do appreciate the distinction that has been made by several of you that their budget deals with red tape costs.

Another experience that I had when I got here is I had teacher, a principal that got a hold of me and wondered where all his reports went. And his district let him come back and intern for me, so I sent him down to the Department of Education, and he followed all those forms around for a semester and then reported back to me. And his answer was, “It is absolutely amazing. They check every one of those reports. They make sure that everything is filled in, that everything is logical. If it is not, they send it back. They get a new one. And once it is all completed, they file it in a drawer, and nobody looks at it.”

So that is some of the red tape and paperwork and cost that we could be talking about. What we are trying to find is some kind of an incentive for people to actually look at that. And that is why we talked about a regulatory budget— it could be called a “red tape budget” or “excess reporting budget” or something like that—as a starter budget.

But one of the things we have gotten into a little bit- -and you have talked a little bit about it—is this cost- benefit analysis, and the ones that I have looked at, the costs are fairly easy to delineate. Well, in some cases they are easy to delineate. In some cases the inventions have not been made yet for industry to put in those things. So they have not been costed out yet. But on the benefit side, I cannot get much information on what they anticipated were these benefits. We get kind of a gross number of what it is, but when we try to get into the details, that is a little bit more nebulous. And, of course, it is usually done over varying lengths of time, which is something the Canadians solved. They said that there is an international standard for doing the benefit analysis as well as the costs. But it puts them on a equal basis for the cost of the time versus the cost of the benefits.

Have you got any ideas on how we can get better cost analysis and benefit analysis or either or both? I will start with Dr. Verchick on this one.

Mr. VERCHICK. Thanks. I would say that in some ways we do a very good job of focusing on those issues. I myself have sometimes troubles with seeing how costs are estimated or how benefits are estimated, for that matter particularly when the benefits are things like human lives or IQ points or a pristine environment. Those are things that are monetized, and I think it is troublesome sometimes when it happens.

But I do think if you take a look, for instance, at the regulatory impact assessments that are done by agencies for significant rules, they are very, very deep in the details of how benefits are calculated if one is interested in that. And when you get to the point where you find that benefits are 7 to 25 times the costs, that gets you to a number, I think, where it is beyond funding, right? Where when something is 25 times more than another thing, it is hard to say, oh, well, you know, they rounded it wrong or they dropped a decimal point somewhere. That is usually an indication that there is really something that is desirable for society.

The other time, though, that Congress, I think—and what I am talking about is agencies, but Congress can really look at this, too, and they do every time they pass a statute. Every time a statute is passed, or least an expensive one, the CBO will come out with an estimate of what it is going to cost, what kinds of benefits will be, and so on. And so the idea, I think, that we need a separate law to spur Congress to think about the costs and benefits of statutes is wrong. They have already done it when they enact the statutes. And for parties that would like them to do it again every year, that is just looking for another bite at the apple at something that they have already done. If Congress says we want statutes that protect people from such-and-so, presumably they have already done the economic work to decide that that is something that needs to be done.

Chairman ENZI. Anybody else want to comment on that?

Mr. GRAHAM. I just want to clarify that oftentimes Congress passes general regulatory authority, for example, for the safety of cars, but they do not know at the time that they pass that what the total economic burdens or benefits will be over the life of that program. So it is not unreasonable for Congress to also want to look into whether the overall cost of the program should be limited. So the general regulatory authority does not mean that they have done the economic analysis up front.

Chairman ENZI. And our government performance and results expert here.

Mr. ELLIG. Yes, I have spent 15 years complaining about the quality of information that agencies have and produce about the results of Federal programs and regulations. That does not mean I am against the idea of having a Federal budget that only considers tax dollars. What it means is we need better information about results, and we need to consider that information when we make decisions that lead to the expenditure of tax dollars or the expenditure of private dollars when we are dealing with regulation.

So, yeah, there is a big need to improve. I think what our experience has shown is just that exhortation does not work. Just putting something in a law or an Executive order does not necessarily work. There seem to be two kinds of things that will encourage better information about the results of programs. One is as if the information is actually used by decisionmakers, either at agencies or if we see a congressional commitment, to use that information in budgeting decisions, authorizing decisions, reauthorization decisions, because, quite frankly, especially under GPRA, I noticed a number of agencies just treat it as a paperwork exercise because they presume, well, yeah, it is in the law, but committees in Congress are not going to really use this, and they are going to make decisions based on other criteria anyway, so we will do the minimum we have to do to claim that we complied. Now, to get real agency commitment, if they knew that the information was going to be used, that might be a different story.

Secondly, what you need is enforcement. As I said in my testimony, regulations do not enforce themselves. Neither do analytical requirements. We have seen evidence through our regulatory report card that OIRA review of regulations and regulatory impact and all this analysis does help improve the quality. We have seen for certain kinds of regulations where there are statutory requirements that certain types of benefits and costs must be considered by the agency, those types of regulations tend to do somewhat better analysis of the types of benefits and costs that are mentioned in statute, particularly the Department of Energy energy efficiency regulations. There are other problems in the analysis of those, but they have more detailed analysis of benefits and costs than other regulations, and I think part of the reason is because the statute lays out specific benefit and cost criteria that the Department of Energy has to consider.

You know, the other potential incentive is some type of budgetary consequences based on the quality of analysis about results that the agencies produce. If you do not have solid evidence-based analysis of results, then, you know, maybe we should say, well, maybe we should not be spending so much money on some of those things.

Finally, I would take issue with one comment you made about costs being relatively easy to identify, and we hear this a lot in the regulatory debate, that costs are very easy to estimate, but benefits are nearly impossible and that is why we should not try and broad values should always trump costs.

I think that is inaccurate, and it reflects a difference between kind of the average person's understanding of costs and the economist's understanding of really what social cost is or opportunity cost. It can be easy to count up money that regulated entities—business firms, State governments, local governments, tribal government—it can be easy to count up the money that they spend on compliance. But that is not the full social cost of regulation. The full social cost is what does society give up as a result of the regulation, and the best example of that that I have is something that probably everybody here is familiar with: airport security.

If we try to figure out the cost of airport security regulations, the first thing that would occur to you is, well, you have to pay TSA agents and you have to pay for equipment in the airport and the airlines have to pay for that, and they pass that on to the passengers in the form of a fee on your airline tickets. And that is true enough, and that is several billion dollars a year. But that is nowhere near the entire cost to society of airport security screening.

Using the Department of Transportation's own rule-of- thumb figures for the value of passengers' time—DOT is actually reasonably good about these kind of things in its analysis—there are several billion dollars more of social costs that are a result of the time passengers spend standing in line at security checkpoints.

We also have a reduction in the amount of air travel because some passengers, myself included, on shorter trips say, "The heck with flying, it is too much of a hassle. I am going to drive." There is a loss of value to consumers there. And there is a paper published in the Journal on Law and Economics by some economists at Cornell University who calculated the number of additional deaths on the Nation's highways we have because a number of people who were traveling decided that, "Using the airports is too much of a hassle, and I am going to drive instead of fly." And, statistically, driving is more dangerous than flying.

So we have the costs of passengers' time, lost output, increased highway deaths, which are also costs of airport security regulation, and those are costs that are just as difficult to estimate as benefits of regulation are.

Now, does that mean airport security is a bad idea? Of course not. I do think, though, that if the social costs of airport security had been fully recognized and accounted for right after 9/11 when the system was changed, maybe the system would have been designed with a little more sensitivity to those costs to try to reduce them. And I was going to say I am not blaming the man who was OIRA Administrator at the time. I am sure behind the scenes he probably tried to make some of those arguments. But, in any case, that is just one example of how costs of regulation are much fuller and more significant than simply counting up some dollars that you see regulated entities spending.

Mr. GRAHAM. Just a quick comment. It took more than 10 years to get the PreCheck in. So, you know, once you establish a regulation, you incur all those burdens to try to gradually just kind of rationalize a little bit. It takes a long time, and it is very hard.

Chairman ENZI. And it goes back to my comment about we do not usually go back and look at the old stuff. We like to kind of promote the new stuff.

Dr. Verchick, did you have an additional comment?

Mr. VERCHICK. Just a short response to Dr. Graham, who is exactly right that often or at least sometimes statute are passed without an understanding of what the complete expanse will be. But, for instance, if a court were to order an agency to start regulating or expand its regulation in a certain area—they have done that with EPA, for example, or courts have ordered EPA to lower standards or raise health standards, which increase costs. If those things are unpredicted by Congress and they are undesirable in the understanding of Congress, then it seems to me that the right answer is for Congress to look at that particular statute and to say, "Oh, wait, it has gone off the tracks. Let us fix that." That seems to me more accountable than saying to agencies generally through a budget, "Go back and find things you want to fix."

It seems if there is a problem with the statute and it really is too expensive or more expensive than Congress envisioned, then the answer is that Congress should revisit it and change it.

Chairman ENZI. Well, I have greatly exceeded my time. I will go back to Dr. Whitehouse again for his turn.

Senator WHITEHOUSE. I am the only one who is not a doctor here. Mr. Chairman, I would—

Chairman ENZI. No, no. There are two of us that are not a doctor.

[Laughter.]

Senator WHITEHOUSE. Okay. I would say that as we are sitting here in Congress waiting for the annual tax extenders negotiation to reach its conclusion, and waiting for the annual appropriations process to reach its conclusion, it might not be a bad idea to try to put together a regulatory housekeeping annual proposal. And I would suspect that you would find that there are a considerable number of things that both sides could agree on as being unnecessary, burdensome, or obsolete if we did it as a package and tried to put it all together. The danger, of course, is that the big, powerful groups that throw their weight around here would try to co-opt that process so that it once again became the Wall Street and Big Polluter Free Ride Act of whatever year it was in. But if we could steer away from that, I bet that there is a big area of bipartisanship that could be done, and if it became a regular routine, maybe the Budget Committee could be the focus or the forum for trying to pull that together, and I would be happy to participate in such an effort.

I have been a regulator. I have been an advocate before regulatory agencies. I suppose I have been the subject of regulation as a candidate. And it is clear that there can—I tell you what. Anybody who has been through Union Station knows that there are times when regulation does not make sense. There is that guy out front, and there are 50 taxicabs waiting, and there are 50 people waiting for taxicabs, and they have managed to manufacture a chokepoint so that you have a line of 50 people; whereas, if that individual were dedicated to helping people who needed help into cabs and everybody else could just go to one, it would be very efficient, and you would have less people wasting time, to Dr. Ellig's point.

So I do not want to put myself—I think it is important that we defend regulation where it makes sense because I think it is essential to civilized society, but that does not mean it cannot get stale or it cannot become obsolete, particularly as technologies change. And if this Committee becomes a place where we start to look at that in a thoughtful way, then I am all for that. And I appreciate your attention to this question, Mr. Chairman.

Chairman ENZI. As usual, you have an outstanding suggestion, too, and we will take a look at that as we go through some of the reform and see what responsibilities the Budget Committee actually ought to have that can actually accomplish something. And what you suggest is also a way of getting us to look at some of the old things that might be on the books that are not being used anymore.

I always mention that I discovered that there is a certain rule to passing bills, and that is, if it is worth regulating, it is worth overregulating. We always do things kind of in the crisis. The airport security is one of those things that happened in the crisis. We needed to do something immediately. We did something immediately. Then I did not realize that it took 10 years to get PreCheck through, but I can tell you that in D.C. the PreCheck line is longer than the regular line.

[Laughter.]

Chairman ENZI. Because everybody here deserves PreCheck.

Senator WHITEHOUSE. One interesting example, Mr. Chairman, is hospital quality reporting. Hospitals have to report on quality—I do not have the numbers handy because I was not prepared to talk about this, but dozens and dozens of reports to multiple different agencies, and the effect of that is twofold: First, an enormous amount of time is wasted on these reports. And, second of all, the effect of having a bad quality report is diminished because there is some other report where they can say, "Well, we did well on this one." And so you end up with what is intended to be a signal to the public to drive consumer behavior to pressure hospitals to make sure they avoid hospital-acquired infections and so forth. And we manage to mute that message by layering on so many different reports that it becomes a big Tower of Babel, a big muddle. So it is kind of the worst of all worlds. You do not really get the signal when a hospital has a bad safety record, and at the same time, everybody is complying like crazy with dozens of different quality reports, each of which is very well intended. But when you look at the whole system globally, it ends up just being a clutter out of which no serious consumer message emerges.

So that is just one that we have been facing off on trying to deal with in my office, and I am sure there are a gazillion others.

Chairman ENZI. Very good. I get calls from businessmen all the time who wonder if they ought to fill out this report they just got from one or another Government agency, and my first question always is: Is it mandatory? They usually cannot tell from the wording. It sounds very mandatory. So we checked on it, and often they are not mandatory. And I always suggest that they never fill out one of the non-mandatory reports because they will get consistently asked for additional reports. But I think that maybe we could make it a little clearer on that.

I know in the bill that we just passed on elementary education, we eliminated a bunch of reports, and we are going to start on higher education next. And Lamar was a college president, and he brought in a stack of the reports that he had to file, and I think it was about 9 feet tall. So I suspect we will eliminate a few there, too. But I appreciate your—

Senator WHITEHOUSE. I hope so. Rhode Island is a very big higher education State, and I hear from a lot of very capable college presidents, not so much that—I guess it is the same issue. They have to report on a million different things, and the result in terms of a signal to prospective students, to consumers, to parents, is completely lost in the muddle. You cannot find it. There are so many reports that there is no place for a consumer to go. And if you were to actually create a dashboard of consumer information that was really relevant and important and then strike everything that was not necessary to the dashboard, you would actually have a far better regulatory service provided to the public.

Chairman ENZI. Very good. Well, I thank the panel for all of their great comments, and particularly the excellent testimony that you provided, too, with some excellent suggestions, and we will see where this can all go. So thank you, and, again, you may get questions from people that were at the gun control hearing.

Mr. GRAHAM. Thank you, Mr. Chairman.

Mr. ELLIG. Thank you

Mr. VERCHICK. Thank you

Chairman ENZI. The meeting is adjourned.

[Whereupon, at 11:59 a.m., the Committee was adjourned.]

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