

MERCATUS ON POLICY

Biennial Budgeting: A Look at Intents vs. Potential Outcomes

Jason J. Fichtner, Angela S. Kuck,
and Adam N. Michel

March 2016



MERCATUS CENTER
George Mason University

Jason J. Fichtner is a senior research fellow at the Mercatus Center at George Mason University. He has served as chief economist at the Social Security Administration and as senior economist with the Joint Economic Committee of the US Congress. Fichtner earned his PhD in public administration and policy from Virginia Tech. He serves on the adjunct faculty at Georgetown University, the Johns Hopkins School of Advanced International Studies, and Virginia Tech.

Angela S. Kuck is the deputy director of the Spending and Budget Initiative and director of Policy Communications at the Mercatus Center at George Mason University. Ms. Kuck spent more than a decade working for the US Congress, serving as communications director for the House of Representatives Committee on the Budget.

Adam N. Michel is a program coordinator for the Spending and Budget Initiative at the Mercatus Center. He is an alumnus of the Mercatus MA Fellowship program at George Mason University. Michel graduated from Whitman College with a BA in politics. He previously worked at the Tax Foundation as a federal tax policy intern and as a research associate at the Competitive Enterprise Institute on labor policy.

Frustration over federal budget gridlock is fueling renewed interest in reforming the congressional budget process. Timely, effective budgeting has proven increasingly elusive for both Democratic and Republican Congresses—both of which have had to rely on temporary funding measures to bridge between one fiscal year and the next. One proposal getting significant attention in Congress is a move away from an annual budget to a biennial budget.

Biennial budgeting is not intended as a panacea for all budget woes. Instead, it is an incremental reform that aims to create a more efficient, effective budget process via a two-year budget cycle. While Congress would continue to budget and appropriate funds during the first year, the funding would be provided for two years, freeing lawmakers to use the second year to perform oversight of agency spending. Biennial budgeting advocates also contend that the extended process would create more stability for agencies to plan long-term initiatives.

A better budget process is a goal worth pursuing. The current process is overly complex and lacks the enforcement mechanisms necessary to compel Congress to follow whatever limits are set. It also fails to require an annual review of entitlements—allowing more than half of the federal budget to run on autopilot.¹ As explained below, however, biennial budgeting is itself unlikely to improve key problems with the current process, or deliver the benefits proponents seek. Adopting biennial budgeting as a piecemeal reform also threatens to give a false sense of progress in improving the budget process—and thereby undermine political momentum for more fundamental reform.

INTENTS VS. POTENTIAL OUTCOMES

Intent: More Efficient, Effective Budget Process

Biennial budgeting is intended to reduce the inefficiency, ineffectiveness, and uncertainty that have plagued the current annual budget process. Proponents of a biennial budget argue that two-year budgeting may allow more deliberate congressional action, reduce some of the friction around the annual budget and appropriations process, and free up time for additional oversight.

Potential Outcome: Higher Political Stakes

Budgeting less often could raise the political stakes and increase lawmakers' incentives to delay hard decisions. Reflecting on the 1995–1996 government shutdowns, former Congressional Research Service senior specialist Louis Fisher explains, “no budget reform would have avoided the presidential vetoes, successive continuing resolutions, and government shutdowns of that period. In fact, biennial budgeting might have made the political and partisan problem of the 104th Congress more severe by raising the stakes.”² This analysis holds true today: there is no evidence that adding time between budgets will help bridge political differences. To the contrary, allowing each new Congress just one chance to present its vision for the future—via a single budget resolution—may exacerbate political brinkmanship.³ It is reasonable to assume the one-year appropriations process could regularly stretch over two years, requiring longer stopgap measures to keep the government running. This could add additional uncertainty to the budget process.

Potential Outcome: More Challenging Entitlement Reform

Unsustainable growth in spending on the largest federal entitlement programs is the greatest driver of all future federal spending and debt. If left on its current path, the Medicare Hospital Insurance Trust Fund, for example, is projected to reach insolvency in the early-to-mid 2030s, according to the program's trustees.⁴

The current budget process does not require an annual review of entitlement (or mandatory) spending, which essentially runs on “autopilot.” It does, however, include the reconciliation process—a fast-track procedure that provides Congress its best means to make necessary, if difficult, changes to entitlement programs.⁵

Neither reconciliation nor any budget process reform in itself will fix the nation's entitlement crisis—that will take political will and follow-through from both Congress and the president.⁶ But even marginal reform through reconciliation instructions can only be spurred via a budget conference report, and biennial budgeting would actually decrease by half Congress's opportunities to reform non-Social Security entitlement programs. Congressional inaction on entitlements in the first year of the biennial budget process would almost certainly be followed by inaction in the second year—during which time the challenges would grow even greater and more difficult to address in the next Congress.

Potential Outcome: No Gains in Oversight Effectiveness

In 2015, House committees convened more than 750 non-appropriations hearings—more than five each day they were in session.⁷ This argues against the contention that Congress lacks enough time for oversight. What Congress does lack is follow-through in acting on its oversight findings.⁸ However, the most effective way to implement new procedures and programs is through the appropriations and authorization processes.⁹ By decreasing the number of times Congress appropriates and authorizes money, biennial budgeting may make it more challenging to conduct effective oversight.

Intent: Greater Certainty, Better Planning

Two-year budgets are intended to provide agencies more certainty to better plan longer-term projects. As Alice Rivlin, a senior fellow at the Brookings Institution, argues, “program managers would be able to spend less time defending their budgets and more time running their programs.”¹⁰

Potential Outcome: More Budgetary Uncertainty

Budgeting for two years requires increased advance planning and will likely necessitate additional off-year appropriations to fill unforeseen gaps. Agencies tend to begin preparing their budgets in June for a budget submitted the following February. If this practice is continued, this means that budgets will be written more than 28 months before the second budget year would start (40 months before the end of the two-year cycle).¹¹ Forecasting program needs two to three years into the

future is complicated by unavoidable uncertainty in economic and fiscal projections.

Congressional budget writers use a forecasted baseline of economic conditions to estimate the coming year's spending. Baseline forecasts are notoriously unreliable and have historically changed between the time committees set appropriations levels and the passage of a budget resolution.¹² Congressional Budget Office (CBO) projections of the deficit in 2015, for example, changed by \$60 billion between January and August of the same year because of changes in economic forecasts.¹³ Such uncertainty would likely reduce the benefits of long-term planning under a biennial budget.

Potential Outcome: Congress's Power of the Purse Reduced

The appropriations and authorization processes provide Congress with critical opportunities to carry out effective oversight. Thorough congressional scrutiny of agency budgets will always be a time-consuming, but necessary, function of the legislature. Biennial budgeting could put further strain on legislators, who will have to audit twice as much spending in the same amount of time. Thus, under a two-year budget, each dollar of federal spending may actually receive less oversight.

In Federalist No. 58, James Madison famously explained that Congress's "most complete and effectual weapon" is the power of the purse.¹⁴ Control of the annual budget process allows Congress to set policy priorities, allocate tax revenue, and oversee agency operations. The budget and appropriations processes are the primary constitutional checks that balance the power between Congress and the president and executive branch agencies. Uncoupling oversight from appropriations and authorization will diminish the effectiveness of congressional control over the progeny of their legislative efforts. National security expert and professor Robert Art notes that agencies recognize that "biennial budgeting would lead to less congressional micromanagement."¹⁵

Although congressional oversight can be time consuming, it provides a valuable institutional check on government programs. Art explains that when advocating for a two-year budget in the 1980s "[the Pentagon's] not-too-hidden agenda for biennial budgeting was to get Congress off their backs."¹⁶ We cite Rivlin's argument above that biennial budgeting may in fact allow program managers to spend less time defending their budgets; however, it

may also have the unintended consequence of shifting the balance of power between Congress and executive institutions. In his seminal book on the federal budget process, Allen Schick warned, "one should be wary of changing a critical process that has operated on an annual basis since the start of American democracy . . . a biennial cycle would ripple beyond the appropriations process to the operation of Congress and its relations with executive institutions."¹⁷

Potential Outcome: Congress's Vision-Setting Role Diminished

The budget process is also Congress's most effective legislative tool for setting and contributing to the national agenda via the power of the purse. Biennial budgeting could diminish the role of the budget process as a regular coordinating mechanism for diverse legislative interests. It could also limit legislators' ability to construct and convey a comprehensive, coherent vision for the future. In the first year of a biennial budget, the sheer magnitude of assembling a two-year budget will consume legislators' attention. In off years, the absence of the budget process to coordinate the congressional agenda could empower the executive branch with more ability to frame the national discussion.

Potential Outcome: Greater Use and Abuse of Emergency Loopholes

Reining in the unsustainable growth in federal spending will require, among other things, instituting real and enforceable spending controls. While biennial budgeting may appear to be a fiscally responsible reform in the first year, "emergency" and nonemergency off-year appropriations threaten to reverse any progress in the second year.

Under the current annual appropriations process, supplemental appropriations are regularly used to circumvent the traditional budget process and any spending limits it may contain. A two-year budget process could provide a rationale for more frequent and even larger off-year supplemental appropriations bills that would further increase the growth of federal expenditures. Increased supplemental appropriations in off years may thus undermine any predicted savings from budgeting less frequently and further reduce agencies' incentives to budget well.

Congress regularly abuses the emergency designation for predictable and other nonemergency spending. A notable example occurred in 1999 when Congress classified spending for the Decennial Census as emergency spending.¹⁸ A strong budget process—biennial or annual—must strictly limit supplemental appropriations by providing a strong and enforceable definition of emergency spending, requiring a supermajority vote for any supplemental appropriation and establishing a rainy day fund for emergency expenditures.¹⁹

To their credit, some biennial budget advocates include safeguards against off-year appropriations.²⁰ Regrettably, the fiscal discipline has been lost in many congressional proposals, with some explicitly protecting Congress’s continued ability to utilize supplemental appropriations in the second year of the budget.²¹

Intent: Mirror States’ Biennial Budgeting Success

Many in Congress began their careers in state legislatures that use a biennial budget process—and some suggest the process could be effectively implemented at the federal level. However, as state budgets have grown in size and complexity, most states have moved away from biennial budgeting. According to the National Conference of State Legislatures (NCSL), only 15 of the 46 states that have an annual legislature use a biennial budget. Additionally, larger states with more complex budgets tend to use an annual budget. As Ron Snell of NCSL notes, “among the 10 largest states—whether measured by population or by legislative appropriations—only Ohio and Texas use biennial budgets, and only Texas has regular biennial sessions of the legislature.”²²

Potential Outcome: Increased Spending

States with biennial budgets tend to spend more than their annual budgeting counterparts. According to Paula Kearns of Michigan State University, empirical evidence from state legislatures shows that states with biennial budgets tend to spend more per capita, after controlling for other factors.²³ Political economy professor Mark Crain corroborates Kearns’s work, finding that states with biennial budgets tend to spend about \$119 (figure in 2003 dollars) more per capita than states that use annual budgets.²⁴ Kearns explains that the use of biennial budgeting may encourage “circumvention of the budget process, which results in higher spending.”²⁵

In fact, examination of state experiences with biennial budgets reveal that two-year budgets tend to increase the cost of government. In a summary of the literature, Matthew Mitchell of the Mercatus Center notes, “biennial budgeting introduces a measure of durability, which may make it more appealing for special interest groups to lobby for government largesse, thereby increasing spending.”²⁶

CONCLUSION

It is reasonable to conclude that the current budget process is “broken” and in need of fundamental reform. But the budget process is itself only part of the problem. The greater share of responsibility lies with Congress and its failure to follow its own process—routinely gaming, waiving, or ignoring budget rules.²⁷ Incremental changes, such as simply budgeting less often, can at best only marginally improve the problem of failing to follow the existing budget process. A switch to biennial budgeting is also unlikely to advance the difficult political discussions and legislative reforms necessary to address the nation’s major underlying fiscal challenges, such as entitlement reform.

Federal budgeting has, in fact, become more burdensome as the mounting national debt continues to grow. Legislators increasingly struggle to reconcile the gap between revenues and expenditures and too often simply choose to delay making challenging decisions, pushing the problem onto future Congresses. Controlling the deficit would go a long way to relieving one source of pressure on the federal budget process, regardless of whether the government followed an annual or biennial budget process.²⁸

As former CBO director Rudy Penner famously noted, “the problem is not the process, the problem is the problem.”²⁹ While fundamental budget process reform can provide Congress a more efficient, effective means of setting its fiscal agenda, Congress itself must summon the will to set—and enforce—the difficult reforms critical to place the federal budget on a sustainable path.

NOTES

1. David Primo, “First Principles of Congressional Budgeting” (Testimony before the House Committee on the Budget, Mercatus Center at George Mason University, July, 2015).
2. Louis Fisher, “Biennial Budgeting in the Federal Government,” *Public*

Budgeting and Finance 17, no. 3 (1997): 89.

3. Thomas E. Mann, "Biennial Budgeting: A Tool for Improving Government Fiscal Management and Oversight" (Testimony before House Committee on Rules, Brookings Institution, March 16, 2000).
4. Social Security and Medicare Boards of Trustees, *A Summary of the 2015 Annual Reports*, 2015.
5. Reconciliation excludes Social Security, which by rule does not allow for consideration under reconciliation any provision that changes Social Security's retirement, survivors, or disability insurance programs. David Reich and Richard Kogan, "Introduction to Budget 'Reconciliation,'" Center on Budget and Policy Priorities, January 22, 2015.
6. Jerry Brito, "Running for Cover: The BRAC Commission as a Model for Federal Spending Reform," *Georgetown Journal of Law and Public Policy* 9, no. 1 (2011): 131.
7. Author's calculation and "Statement of Representative Thomas M. McClintock to the House Rules Subcommittee on Legislative and Budget Process concerning H.R. 1610," January 6, 2016, 5.
8. Congress also often uses oversight hearings for political messaging rather than true programmatic oversight. For example, see Cristian R.C. Kelly, "Full of Sound and Fury: Curbing the Cost of Partisan Opportunism in Congressional Oversight Hearings," *NYU Law Review* 90 (2015): 253.
9. Fisher, "Biennial Budgeting in the Federal Government," 92.
10. Alice M. Rivlin, "Biennial Budgeting: A First Step toward Budget Process Reform" (Testimony before the House Committee on the Budget, Brookings Institution, November, 18, 2015).
11. Richard Kogan, Robert Greenstein, and James R. Horney, "Biennial Budgeting: Do the Drawbacks Outweigh the Advantages?," Center on Budget and Policy Priorities, January 20, 2012, 2.
12. "Statement of Representative Thomas M. McClintock," 6.
13. Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2015 to 2025*, August 25, 2015.
14. James Madison, Federalist No. 58, in *The Federalist Papers*, Library of Congress.
15. Robert J. Art, "The Pentagon: The Case for Biennial Budgeting," *Political Science Quarterly* 104, no. 2 (1989): 214.
16. Ibid.
17. Allen Schick, *The Federal Budget: Politics, Policy, Process* (Washington, DC: Brookings Institution Press, 2004), 283.
18. Eric Pianin and Juliet Eilperin, "'Emergency' Funds Bypass Budget Cap," *Washington Post*, July 27, 1999.
19. De Rugy and Kasic describe in detail how to fix the supplemental spending problem. See Veronique de Rugy and Allison Kasic, "The Never-Ending Emergency: Trends in Supplemental Spending" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, August 2011), 20.
20. Linda Bilmes, "Reforming the Budget: Four Steps to Restore Fiscal Discipline," Brookings Institution, February 5, 2014.
21. See, for example, H.R. 1869, Biennial Budgeting And Enhanced Oversight Act Of 2014, 113th Congress, 2nd session, Rept. 113-382, <https://www.gpo.gov/fdsys/pkg/CRPT-113hrpt382/pdf/CRPT-113hrpt382-pt1.pdf>
22. Ron Snell, "State Experiences with Annual and Biennial Budgeting," National Conference of State Legislatures, April 2011.
23. Paula S. Kearns, "State Budget Periodicity: An Analysis of the Determinants and the Effect on State Spending," *Journal of Policy Analysis and Management* 13, no. 2 (Spring 1994): 331-62.
24. Mark Crain, *Volatile States: Institutions, Policy, and the Performance of American State Economies* (Ann Arbor: University of Michigan Press, 2003).
25. Kearns, "State Budget Periodicity," 356.
26. Matthew Mitchell and Nick Tuszynski, "Institutions and State Spending" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, October 3, 2011), 9.
27. Primo, "First Principles of Congressional Budgeting."
28. Fisher, "Biennial Budgeting in the Federal Government," 89.

The Mercatus Center at George Mason University is the world's premier university source for market-oriented ideas—bridging the gap between academic ideas and real-world problems.

A university-based research center, Mercatus advances knowledge about how markets work to improve people's lives by training graduate students, conducting research, and applying economics to offer solutions to society's most pressing problems.

Our mission is to generate knowledge and understanding of the institutions that affect the freedom to prosper and to find sustainable solutions that overcome the barriers preventing individuals from living free, prosperous, and peaceful lives.

Founded in 1980, the Mercatus Center is located on George Mason University's Arlington and Fairfax campuses.