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## **BIENNIAL BUDGETING: DO THE DRAWBACKS OUTWEIGH THE ADVANTAGES?**

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House Budget Committee Chairman Paul Ryan (R-WI), Rep. Reid Ribble (R-WI), and others have introduced legislation (H.R. 3577) that would move the federal budget from an annual to a biennial cycle and make other changes in the congressional budget process. House Rules Committee Chairman David Dreier has introduced his own biennial budgeting bill, H.R. 114. Proponents of biennial budgeting present it as a reform that will lead to more thoughtful and deliberative budgeting and allow more time for congressional oversight. Many budget experts, however, have concluded that the disadvantages of biennial budgeting outweigh the advantages and make it an unwise course to pursue.

For instance, in testimony in 2004, then Congressional Budget Office Director Douglas Holtz-Eakin warned:

[C]hanging to a two-year cycle could have significant drawbacks. It could diminish the effectiveness of Congressional control of spending in the appropriation process and could make adjusting to rapidly changing budgetary and economic conditions more difficult. If the economic and technical assumptions underlying the two-year budget resolution were not revised before the end of the biennium, the information and estimates that policymakers used would be far less reliable. Budget discipline and Congressional oversight might suffer if major policies were reviewed less frequently. And large supplemental appropriation bills could be more likely under a biennial budget process. Finally, it is unclear whether the root cause of the problems cited by the proponents of biennial budgeting is the annual timetable or other factors that would be largely unaffected by a switch to two-year budgeting.<sup>1</sup>

Moreover, Thomas E. Mann of the Brookings Institution, one of the nation's leading experts on Congress, concluded:

I find the case for a biennial budget and appropriations process too weak and the risks too high to recommend such a course of action.<sup>2</sup>

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<sup>1</sup> Douglas Holtz-Eakin, "Reforming the Federal Budget Process," testimony before the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 23, 2004.

<sup>2</sup> Thomas E. Mann, "Biennial Budgeting: A Tool for Improving Governmental Fiscal Management and Oversight," testimony before the Committee on Rules, U.S. House of Representatives, March 16, 2000.

It also may be noted that the majority of states, including nearly all of the largest states, use annual rather than biennial budgeting, and that a number of states abandoned biennial budgeting in recent decades because of problems it was causing. Since 1968, five times as many states have moved from biennial to annual budgeting as have done the reverse.

This analysis examines the limitations of biennial budgeting. It also discusses two other components of H.R. 3577 — but not of H.R. 114 — that would create new problems in the budget and appropriations processes and are ill-advised:

- a proposal to remove the 20 budget functions from congressional budget resolutions and replace them with six much broader program categories, which would significantly reduce budget transparency and make it easier for lawmakers to assume deep cuts in budget resolutions while camouflaging where the cuts would be made; and
- a proposal to limit not only the amount of spending authority in appropriations bills, which budget resolutions already do, but also the resulting outlays. This would create significant headaches for appropriators and could force them to make budget choices that represent unsound or inferior policy while doing nothing to produce more fiscally responsible outcomes.

### **Budgeting Too Far in Advance**

Biennial budgeting involves working on budgets very far in advance. Agencies would begin to put together budgets for the second year of a two-year cycle *at least 28 months* before the year would start and 40 months before the year ends. Federal agencies typically begin working no later than June on the budget the President submits the following February for the fiscal year that will commence the following October. Under biennial budgeting, agencies would begin working in June on a two-year budget, the second year of which would not commence for 2 1/3 years.

Similarly, the Office of Management and Budget and the White House usually make key decisions on the President's budget in November and December. These decisions would come 22 to 23 months before the beginning — and 34 to 35 months before the end — of the second year of a biennial cycle.

Such long lead times would result in decisions that become outdated. During the intervening period, there would inevitably be findings concerning the effectiveness of various programs and changes needed in those programs from Government Accountability Office reports, Inspector General's reports, and research studies. Under biennial budgeting, a year may be lost before these findings and developments can be reflected in budget decisions.

Substantial changes in economic conditions also can occur in the intervening period. Biennial budgeting would make it harder for the federal government to respond expeditiously to changes in such conditions. Because decisions relating to the second year of the two-year cycle would be made so far in advance, it would be more difficult for the government to use fiscal policy to help stabilize the U.S. economy when the economy weakened unless significant changes were made during the second year of a biennial budget cycle.

Biennial budgeting also would make it more difficult for the President and Congress to respond promptly within the regular budget framework to other types of problems as they arise. Problems such as a potential avian influenza epidemic, devastating hurricanes or earthquakes, and the need to fund the wars in Iraq and Afghanistan have often resulted in massive supplemental appropriations that are not subject to the normal budget process. The desire of many lawmakers to rein in such supplemental appropriations and reassert meaningful control over all annually appropriated funds — and the practice the Obama Administration has followed of including war funding within the regular defense appropriations bill, which has improved budget transparency — would become much harder to fulfill if biennial budgeting were implemented. It is not possible for Congress effectively to plan ahead for unexpected needs in the second year of a biennium. Large supplemental appropriations to meet such needs outside of the two-year budget plan would almost certainly become a regular part of the budget process and could further erode budget controls and accountability.

### **Biennial Budgeting May Protect the Status Quo**

Biennial budgeting also may hinder broader efforts to reorder federal budget priorities. Securing shifts in priorities often involves challenging the status quo and taking on strong constituencies that protect various lower-priority discretionary programs. Because of resistance to such shifts in priorities, funding shifts tend to occur incrementally; each year, appropriation levels for lower-priority programs can be nudged down somewhat, while important new initiatives can be ratcheted up somewhat. If appropriations decisions are made only once every two years, however, the process of reordering budget priorities may proceed more slowly. Lower-priority programs are likely to be reduced at slower rates because appropriators and Congress tend not to take big bites out of existing programs at one time. Thus, while biennial budgeting would represent a change in the budget *process*, it could impede changes in budget *priorities*.

### **Biennial Budgets Would Have to Be Revised Frequently**

As these observations about changes in needs over a two-year cycle suggest, biennial budgeting is not likely to work in the real world in the way it appears on paper. The pressures to revise the budget during the two-year period will be very strong, likely leading to frequent budget revisions and supplemental appropriation bills on a much larger scale than is desirable.

Budget revisions and, as was shown in the 2000s, supplemental appropriations often involve less rigorous congressional analysis of larger budget matters than does the regular budget process. The revisions that will occur under a biennial budgeting process may, in the end, result in nearly as much budgeting activity as under the current annual budget process, but with much of the budget revisions activity being considered on an *ad hoc* basis rather than as part of the more comprehensive examination of budget priorities that the regular budget process provides.

## **Would Biennial Budgeting Improve Congressional Operations?**

One argument made on behalf of biennial budgeting is that it will improve congressional operations, giving Congress more time for oversight. This argument appears to be overstated. What is traditionally thought of as oversight is done primarily by authorizing committees, which do not operate on an annual budget cycle. Switching from annual to biennial budgeting is unlikely to have a major effect on the amount of time authorizing committees have to evaluate programs over which they exercise jurisdiction.

Furthermore, a significant amount of oversight is conducted by the appropriations committees in the course of reviewing agency budget requests each year. By limiting this review of agency budgets to every other year, biennial appropriations could actually reduce the amount of oversight Congress conducts, even if authorizing committees increased their efforts in this area. As then CBO Director June O'Neill testified in 1997, "[F]urther Congressional oversight that is divorced from the purse strings may be less effective than oversight conducted through annual appropriations hearings linked to agency funding requests."<sup>3</sup>

## **Would Biennial Budgeting Improve Program Planning?**

Another argument sometimes made for biennial budgeting is that it would provide greater certainty for, and thus better planning by, federal agencies and state and local governments. Many of the programs for which certainty and advance planning are most important, however — such as many education programs — already are forward funded or receive advance appropriations (two means of providing funds a year in advance). If it is desirable to expand the list of programs that are funded in advance, that can be done without moving the entire federal budget to biennial budgeting.<sup>4</sup>

## **States and Biennial Budgeting**

States often are referred to as “laboratories of democracy” and their experiences are studied for clues to improving federal government performance. Yet states — particularly states with large and complex budgets — have a clear preference for annual budgeting.

According to the National Conference of State Legislatures, 44 states practiced biennial budgeting in 1940.<sup>5</sup> Now just 19 states do, and four of them have legislatures that only meet once every two years. Of the 46 states that have regular annual legislative sessions (including North Carolina,

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<sup>3</sup> Statement of CBO Director June E. O'Neill on S. 261, The Biennial Budgeting and Appropriations Act, submitted to the Senate Committee on Governmental Affairs, April 23, 1997.

<sup>4</sup> Biennial budgeting proposals in essence require appropriations bills, considered every other year, to provide regular funding for the coming fiscal year and advance appropriations for the subsequent fiscal year. Currently, some aspects of advance appropriations can constitute a gimmick (which Congress has largely halted over the last decade). Under biennial budgeting, the amount of advance appropriations would expand to cover all discretionary programs.

<sup>5</sup> Ronald K. Snell, “State Experiences with Annual and Biennial Budgeting,” National Conference of State Legislatures, <http://www.ncsl.org/issues-research/budget-tax/state-experiences-with-annual-and-biennial-budgeti.aspx>.

whose legislature is biennial by statute but meets annually), only 15 practice biennial budgeting. Since 1968, some 18 states have changed their budget cycles; 15 from biennial to annual and only 3 from annual to biennial.

Large states in particular tend to have annual budgets. Of the eight states with the largest budgets and legislatures that meet each year (Texas has the third-largest budget, but its legislature meets only every other year), only Ohio has a biennial budget. There may be a lesson here: if large state governments find that biennial budgeting is not the best approach given the responsibilities they shoulder, is it likely to prove appropriate for an entity with the far more extensive domestic and international responsibilities of the U.S. government?

### **Conclusion Regarding Biennial Budgeting**

The disadvantages of biennial budgeting are likely to outweigh the advantages. The apparent drawbacks are sufficiently serious that if federal policymakers wish to pursue biennial budgeting, the procedure should first be tested on an experimental basis with a limited number of budget accounts. Another possibility worth exploring may be to institute biennial budget resolutions but maintain annual appropriations. A decision to switch the entire federal government to both biennial budget resolutions and biennial appropriation bills, however, is premature. It would be unwise to adopt such a proposal until it has been demonstrated that the serious questions surrounding biennial budgeting can be satisfactorily addressed.

### **Debate on Budget Priorities Would Become More Difficult**

Unrelated to biennial budgeting, the Ribble-Ryan bill, H.R. 3577 (but not the Dreier bill, H.R. 114) also alters the structure of the congressional budget resolution in a significant way. Instead of including dollar targets for the 20 standard budget functions, the budget resolution would include targets only for six much broader areas. The current targets for defense, international affairs, education and social services, transportation, natural resources and environment, administration of justice, veterans, community and regional development, agriculture, and so on would instead become targets just for defense, all non-defense discretionary programs, Medicare, other mandatory health including Medicaid, all other mandatory programs, and net interest.

While these new categories are analytically useful, they have a clear drawback: it is easier to call for deep unspecified cuts in broad categories such as “nondefense discretionary” and “other entitlements” than to call for the corresponding cuts in veterans’ benefits, education, agriculture, transportation, and other specific budget functions. The risk is that Members will be able to vote for budget resolutions that would require deep cuts in useful and deservedly popular programs without having to take much responsibility for the results — or even acknowledge that they voted to make cuts in such program areas. This, in turn, would make it more likely that Congress would approve budget resolutions but not implement them once the intended budget outcomes became clear.

One response might be that the 20 traditional budget functions would still be listed in the *report* on the budget resolution. This is true, but reports would likely have less salience with Members or the public than the budget resolution itself.

Furthermore, an element of congressional budget-making is the offering of amendments to the budget resolution with respect to budget policy. Currently, the structure of budget resolutions allows amendments that would, for example, shift funding from education to transportation or from agriculture to law enforcement. The Rules Committee sometimes precludes such amendments in the House, but under the proposed structure, such amendments could not be offered at all in either the House or the Senate.

### **Unnecessary Restriction on the Nature of Appropriations Bills**

Currently, appropriations bills may not include more funding (that is, more “budget authority” or appropriations) than budget resolutions allow. The Budget Committee allocates a total pot of discretionary funding to the Appropriations Committee, which then sub-allocates that amount among the 12 appropriations subcommittees. If an appropriations bill is brought to the floor with funding levels that would breach the sub-allocation of any appropriations subcommittee, consideration of that bill can be halted by a point of order.

The Ribble-Ryan bill (H.R. 3577) would require budget resolutions to allocate *outlays*, as well as budget authority, to the Appropriations Committee and would enforce outlay sub-allocations, in addition to the budget authority sub-allocations, by points of order. This is both unnecessary and unwise. Nearly all budget authority — that is, nearly all funding that is actually appropriated — is ultimately spent. If \$1 billion is appropriated for the Low-Income Home Energy Assistance Program (LIHEAP) or military personnel, it will virtually all be spent in the first year. If \$1 billion is appropriated for Head Start or veterans’ hospitals, it will virtually all be spent within two years. If \$1 billion is appropriated for community development or naval aircraft, it will be spent within several years. *The real issue — and the only important issue from the point of view of budget control — is how much is appropriated, and the existing system already restricts that total.* If outlay restrictions are added as well and the outlay limit for either of the two years in the biennium is unrealistically tight (relative to the limit on budget authority that the budget resolution imposes for that year), then the Appropriations Committee will be forced to choose between two undesirable courses of action:

- Appropriators could underfund programs that spend quickly, such as LIHEAP or military personnel, while overfunding programs that spend slowly, *even though this would make no difference to total spending over time* and could result in inferior public policy; or
- They could appropriate in line with sound public policy (given the limit on total funding) but force agencies to delay the normal operations of some of their programs just so less would be disbursed in the first year and more in the second. This, too, is poor public policy and could raise the price of goods and services that some agencies purchase.

Recognizing that outlay constraints are both unnecessary and unwise as long as there are enforceable constraints on funding, both the Bush and Obama administrations negotiated with Congress over the levels of discretionary budget authority and focused public attention on those

levels, while *not* insisting that appropriations be arranged in such a way as to achieve specific outlay levels in a specific year. Both administrations understood that the important question for fiscal control is the total amount appropriated, not how quickly or slowly it happens to spend out. This is the same reason why the statutory caps enacted in the bipartisan Budget Control Act last August applied to funding, *not* to both funding and outlays.