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BIENNIAL BUDGETING DO THE DRAWBACKS OUTWEIGH THE ADVANTAGES?

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Senate Budget Committee Judd Gregg (R-NH) has introduced legislation (S. 3521) that would make far-reaching changes in the federal budget process. Included in that legislation is a proposal to move the federal budget from an annual to a biennial cycle. 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.

It is likely, however, that not all of the effects of biennial budgeting will be positive. For instance, in testimony in 2004, then Congressional Budget Office Director Douglas Holtz-Eakin warned:

However, changing 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.¹

Many budget experts have concluded, in fact, that the disadvantages of biennial budgeting outweigh the advantages and make it an unwise course to pursue. For example, Thomas E. Mann of the Brookings Institution, one of the nation's leading experts on the Congress, concluded that:

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.²

¹ 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.

² 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. The Government Accountability Office has reported that the number of states that moved from biennial to annual budgeting since the mid-1960s is more than twice the number that moved from annual to biennial budgeting.

This analysis examines the limitations of biennial budgeting.

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 GAO 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, and the need to fund the wars in Iraq and Afghanistan have already 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 would become much harder 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 would 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 at large tend not to take big bites out of existing programs at one time. While biennial budgeting would represent a change in the budget process, it could serve to *reduce* the degree of change in budget priorities.

Biennial Budgets Will 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 strong, likely leading to frequent budget revisions and supplemental appropriation bills on a much larger scale than had been experienced until the last few years.

Budget revisions and — as has been shown in recent years — 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 the regular budget process provides.

Will 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, "further 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."³

³ 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.

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.⁴

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, forty-four states practiced biennial budgeting in 1940.⁵ Now 21 states do so, and seven of those states have legislatures that only meet once every two years.⁶ Of the 43 states that have regular annual legislative sessions (including North Carolina, which has a legislature that is biennial by statute but meets annually in practice), only 14 practice biennial budgeting. Since the mid-1960s, 16 states have changed their budget cycles; 11 from biennial to annual and only 5 from annual to biennial (two more put part of their budgets on a biennial basis).

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 only meets 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

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

⁴ 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 attempted to halt in recent years). Under biennial budgeting, the amount of advance appropriations will expand to cover all discretionary programs.

⁵ Ronald K. Snell, “Annual and Biennial Budgeting: The Experience of State Governments,” National Conference of State Legislatures, <http://www.ncsl.org/programs/fiscal/annlbien.htm> .

⁶ General Accounting Office, “Biennial Budgeting: Three States’ Experiences,” October 2000. In addition to the 21 states that practice biennial budgeting, two states (Kansas and Missouri) provide part of the budget on a biennial basis.

resolutions and biennial appropriation bills, however, is premature. It would appear to be unwise to adopt such a proposal until it has been demonstrated that the serious questions surrounding biennial budgeting can be satisfactorily addressed.