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

by Robert Greenstein

The House of Representatives may consider a proposal to move the federal budget **from** an annual to a biennial cycle during consideration of a scaled-down version of H.R. 853, the Comprehensive Budget Process Reform Act of 1999, that is tentatively scheduled for the week of May 8. Legislation to institute **biennial** budgeting has also been introduced in the Senate by Budget Committee Chairman Pete Domenici and reported by the Senate Governmental Affairs Committee. That legislation may be considered by the Senate in the next few months. 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.

Biennial budgeting is likely to have many effects, however, not all of which are positive. Many budget experts believe, in fact, that the disadvantages of biennial budgeting outweigh the advantages and make it an unwise course to pursue. The General Accounting Office, among others, has expressed reservations about moving from annual to biennial appropriation bills.<sup>1</sup>

It also may be noted that the majority of states, including nearly all large states, use annual rather than biennial budgeting, and that about half the states have abandoned biennial budgeting in recent decades because of problems it was causing. The GAO has reported that the number of states that moved from biennial to annual **budgeting** over the past 30 years is nearly four times the number that moved **from annual** to biennial budgeting. The experience of large states is essentially one of 'having tried biennial budgeting and discarded it.

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 January or 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  $\frac{1}{3}$  years.

Similarly, OMB and the White House usually make the 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.

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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 Generals' reports, and research studies. Under biennial budgeting, a year may be lost 'before these findings and developments can be reflected in budget decisions.

### GAO Cautions about Biennial Budgeting

"This change [biennial budgeting] has often been suggested as a way to streamline the budget process, provide more focused time for congressional oversight of programs and, by providing funding for a longer period of time, enhance agencies' ability to manage their operations. While these are laudable goals, shifting the entire annual budget cycle to a biennial one is not necessary to achieve these ends....

"Advocates of biennial budgeting often point to the experience of individual states. In looking to the states it is necessary to disaggregate them into several categories. First, 8 states have biennial legislative cycles and hence necessarily have biennial budget cycles. Second...the 42 states with annual legislative cycles present a mixed picture in terms of budget cycles: 27 describe their budget cycles as annual, 12 describe their budget cycles as biennial and 3 describe their budget cycles as mixed.

"...the state experience may offer some insights for your deliberations. Perhaps significant is the fact that most states that describe their budget cycles as biennial or mixed are small and medium sized. Of the 10 largest states in terms of general fund expenditures, Ohio is the only one with an annual legislative cycle and a biennial budget....

"We have previously reported that if the Congress decides to implement a 2-year budget at the appropriation level, it should proceed cautiously by testing it on a limited basis....

"While budgeting always involves forecasting, which itself is uncertain, the longer the period of the forecast, the greater the uncertainty. Increased difficulty in forecasting was one of the primary reasons states gave for shifting from biennial to annual cycles. Dramatic changes in program design or agency **structure...will** make budget forecasting more difficult. Moving from an annual to a biennial appropriations cycle at the same time may not be wise, given that there may be program changes which could in turn create the need for major budgeting changes in the second year of a biennium. If this happens, biennial budgeting would exist only in theory."

• from "Issues in Biennial Budget Proposals," Testimony of Susan J. Irving, Associate Director for Budget Issues, Accounting and Information Management Division, General Accounting Office, before the Senate Committee on Governmental Affairs, July 24, 1996.

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 to other types of problems as they arise. Problems such as an unexpected increase in AIDS cases or in the incidence of another disease, or a rise in drug trafficking, could arise and necessitate a response. So could international developments that bear on the nation's military or foreign aid posture.

If a need for resources in a particular area unexpectedly emerged, finding the funds to meet the

need would be more **difficult** under a biennial budgeting regimen. Securing the needed funds could entail rescinding funds appropriated for other programs for the second year of a two-year cycle, something that generally is difficult to do. By contrast, under annual budgeting, no appropriations decisions would yet have been made for the second year. It always is easier to **shift** funds *before* appropriations bills are enacted than afterward. As a result, the need for supplemental appropriations that are in addition to other funding would likely increase under biennial budgeting.

### Biennial Budgeting May Protect the Status Quo

Biennial budgeting also may hinder broader effects 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 represents change in the budget process, it can serve to *reduce* the degree of change in budget decisions.

### 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 bills on a much larger scale than in the past.

Budget revisions and supplementals 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 revision activity being conducted 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

### Limits on Discretionary Spending Heighten the Need for Annual Appropriations

Whether Congress establishes new statutory caps on discretionary spending or sets discretionary spending limits through the Congressional budget resolution process, limits on discretionary spending are likely to remain rather constraining. Finding even modest funding for promising initiatives is likely to remain difficult.

One way appropriators attempt to find resources to fund priority items is by closely scrutinizing the budgetary needs of each program on an annual basis. Occasionally, certain programs turn out not to need as much as they normally receive on an annual basis because of particular circumstances in a program in a given year. This can **free** up monies for other programs. For example, suppose a large transportation project that received funds last year has experienced delays in getting started. Last year's appropriation may not yet have been **fully** spent, resulting in extra **funds** being available to the project this year. Appropriators might decide to provide the project with a little less new funding this year, enabling themselves to shift some funding to another program or project with a temporary but pressing need, such as addressing **Y2K** computer problems.

The ability to find money in one program to shift to another program with a greater need is dependent to some degree upon appropriators' being able to conduct a detailed annual assessment of programmatic spending and needs. This would be less likely to occur under biennial budgeting. If extra money turned up in a particular project during a biennial budget cycle, there would be much less opportunity to shift these funds to a program with a more pressing need.

is divorced from the purse strings may be less effective than oversight conducted through annual appropriations hearings linked to agency funding requests.”\*

In addition, the General Accounting Office has noted: “We have long advocated regular and rigorous Congressional oversight of federal programs....However, it is not necessary to change the budget and appropriations cycle to have effective Congressional oversight.”<sup>3</sup>

### Will Biennial Budgeting Improve Program Planning?

Another argument sometimes made for biennial budgeting is that it will 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 most education programs — already are “forward-funded” (that is, funded a year in advance). Forward-funding does provide for more certainty and advance planning, but if it is desirable to expand the list of forward-funded programs, that can be done without moving the entire federal budget to biennial budgeting.

### State Actions to Drop 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 have a clear pattern of abandoning biennial budgeting and moving to annual budgeting*, rather than moving in the other direction.

As **Lawton Chiles** observed a decade ago, some 44 states used biennial budgeting in 1940, but fewer than half that number do now. Most of the states still using biennial **budgeting** are small or medium-sized states.

The experience of the larger states is essentially one of having tried biennial budgeting and dropped it in favor of annual budgeting. The GAO has reported that over the past three decades, the number of states that have moved **from** biennial to annual budgeting is nearly four times the number that have moved from annual to biennial budgets. The GAO has written that according to **officials** in states that changed to annual budgeting, “reasons for doing so included gaining greater accuracy in estimating revenues and financial needs, improving legislative control over budgetary

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matters, and being better able to respond to rapid changes in revenues and program needs.”

There may be a lesson here. If biennial budgeting was tied and found wanting by large state governments 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?

In short, 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, as the GAO has suggested. (See box on page 3.) Another possibility worth exploring may be to institute biennial budget resolutions but maintain annual appropriations; if new, realistic discretionary spending caps are established several years in advance, biennial budget resolutions may be a possibility. A decision to switch the entire federal government to both biennial budget resolutions and biennial appropriations 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.

#### Notes:

1. See “Issues in Biennial Budget Proposals,” Testimony of Susan J. Irving before the Senate Committee on Governmental Affairs, GAO, July 24, 1996.
2. Statement of CBO Director June E. O’Neill on S.26 1, The Biennial Budgeting and Appropriations Act, submitted to the Senate Committee on Governmental Affairs, April 23, 1997.
3. *Ibid.*

4. See "Biennial Budgeting for the Federal Government," Testimony of Susan J. Irving, GAO, before the Senate Committee on Rules and Administration, April 28, 1994.

1. See "Issues in Biennial Budget Proposals," Testimony of Susan J. Irving before the Senate Committee on Governmental Affairs, GAO, July 24, 1996.

2. 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.

3. *Ibid.*

4. See "Biennial Budgeting for the Federal Government," Testimony of Susan J. Irving, GAO, before the Senate Committee on Rules and Administration, April 28, 1994.