
IRET Op Ed

June 29, 1987
No. 35

The Budget Process Is Broke, So Fix It

President Reagan is quite right -- the Congressional budget process needs to be fixed. It's a pity that it has taken him so long to tell the public that Congressional budget making doesn't work; it never has. If one test of its working properly is that it achieves budget balance or at least persistently and significantly reduces deficits, then the process has been a failure ever since it was first implemented in producing the budget for the 1976 fiscal year. Show a man from Mars the federal budget results from the beginning of the republic to today and ask him when federal budgets were under control; he would surely conclude that we did a fair job during peace time until 1976. Ever since, it would look to him as if the objective of budget policy were to run the largest deficits the federal government could get away with.

It really is about time to try to devise a budget-making process that works -- that restricts government outlays to the resources the public is willing to commit to the government.

What we have now is a process that operates in exactly the opposite -- and wrong -- way. The Congress first sets spending levels, or more realistically, determines increases in the coming fiscal year's spending over the current year's level. Having made this determination, the Congress then holds a gun to the public's head, telling us, in effect, to pay up. The message is pony up the taxes or we'll deficit you to death. To make the threat more effective, we are repeatedly assured that federal budget deficits will do the economy great harm, never mind the fact that it is government spending, not the deficit, that burdens the economy. To avoid all the dire economic consequences that deficits allegedly entail, we are told, we simply have to raise taxes.

We ought to subject this fiscal prescription to the most searching scrutiny. What we'll find is that most Congressmen and Senators, irrespective of party, have fretted under the constraint of the budgetary stringency the President has insisted upon for the last six fiscal years. They've been unable to resist the supposed

political advantage of declaiming against budget deficits for which someone else, of course, is responsible, but at the same time, those deficits have laid a tighter and tighter lid on the new spending they believe they need in order to show the folks back home that their man or woman in Washington is looking after their interests. The way out of this dilemma is to get more taxes to finance the spending initiatives without being exposed to the charge that these additional outlays are budget busters that increase those naughty deficits.

This is the scenario that's been played out ever since 1981. Unless and until the budget-making process is drastically revised, until the whole approach to federal budget policy is basically altered, we'll see the same dreary budget drama year after fiscal year.

A small but useful start toward constructive revision of the budget process would be to reverse the present sequence of Congressional decision-making on the budget. The Congress should take a lesson from the way in which households and businesses -- or at least those that manifest even a small degree of financial prudence -- go about the job of figuring out how much they can spend and on what.

The first thing the folks in the private sector have to do is to estimate what their resources will be in their budget period, i.e., how much income they'll be able to obtain. That's the budget constraint they must deal with, that tells them how much they can spend. Inside that limit, they must then determine the best way to allocate their resources -- their income -- among all the competing demands they recognize. Of course, there may well be times when it pays to go into debt in order to expand the household's or the business's resources, but the prudent household or business decision-maker will do this only when he's satisfied that the benefits from the additional spending are at least equal to the cost of servicing the debt and that he will have adequate resources to do so.

Applying this lesson to the government would require the Congress in its budget making first to decide on the amount of taxes it is prepared to ask the public to pay. Only after the tax-writing committees in both chambers have reached an accord on this matter should the budget committees turn to the next step of determining how the expected tax revenues should be allocated to funding the federal government's numerous and varied spending programs. This process would not preclude incurring a deficit, but the decision to spend more than expected revenues should call for the same kind of validation that a prudent business or household must provide. Among other things, this validation should include identification of the revenues that will be needed to service the deficit and how these revenues are to be obtained.

Of course, this approach would not resolve all the budget policy problems the Congress faces. The budget

will continue to be riddled with uneconomic uses of the economy's resources so long as the beneficiaries of government spending don't have to pay for the benefits they receive. But introducing the rudimentary concepts of economizing into the Congressional budget process, along the lines sketched above, would surely be a useful start.

Norman B. Ture
President