

***“Federal Budgeting After September 11th: A Whole New Ballgame, or is it
Déjà vu All Over Again?”***

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Budgeting—as a process of allocating scarce societal resources--is always about dueling priorities. The country has been reminded of this since September 11th, but it is hardly a new phenomenon. In particular, the competition between domestic government and national defense has surfaced (in different ways) in every decade since World War II.

Consider the following Presidential statement about federal budget policy:¹

..faced with a costly war abroad and urgent requirements at home, we have to set priorities. And “priority” is but another word for “choice”. We cannot do everything we wish to do. And so we must choose carefully among the many competing demands on our resources.

Although these words sound like they might have come from President Bush’s most recent budget proposal, they were actually uttered by another President—Lyndon Johnson---in his transmittal of the fiscal year 1969 budget almost 35 years ago. Budgeting is inherently about competition among different uses of funding. This was true in 1968. It was true on September 10, 2001. It still is true today. It is fashionable to think that the world of federal budgeting—as the world outside of budgeting—is a lot different since September 11th. A lot of things of things have changed since September 11th, in particular our sense of collective security as a nation. And the federal budget, which had been dominated by large surpluses, is now projected to be in deficit for the foreseeable future. This change in the budget outlook results from a complex and varied set of factors, however, and it is difficult to hold the terrorist attacks responsible for even the majority of changes that have occurred in federal budgeting.

In this paper, I will argue that the current federal budget environment has certainly been affected in fundamental ways by the events of September 11th and

the nation's response to them. But in many other ways, the changes that have occurred in the budget outlook and budget process have little to do with these events, and federal budgeting is much the same after these terrorist acts as it was before them. In doing so, the paper will make three broad points:

- The overall budget outlook has worsened considerably in the past 18 months. While part of that has been affected by September 11th, the majority of this deterioration results from other factors, such as the weakened economy and the Bush tax cut. The federal budget environment has nonetheless been fundamentally affected by the response to September 11th. The political process has lost its consensus on a goal for overall fiscal policy, at the same time that priorities are shifting toward more resources for defense and homeland security. Quite aside from the question of overall priority setting, the country is wrestling, as it always does during wartime, with the question of how much authority to give the President. This question is complicated by the open-ended nature of the current "war", since any grant of power to the President is as likely to be permanent as temporary.

- While fundamental shifts have occurred, in many ways the budget process has not changed at all. The recent increase in defense spending has not come through decreases in domestic spending, which has (at least in aggregate) been fundamentally unaffected by efforts to reduce the deficit since the mid-1980s. Further, the federal government continues to have difficulty completing budget work prior to the beginning of the fiscal year; this does not seem to have been made better or worse by the events of September 11th. Finally, the federal government's means of dealing with emergency spending was the same in the aftermath of September 11th as for

other, more routine emergencies—the passage of supplemental appropriations creating a net increase in federal spending.

- The failure of the Congress to agree on a budget resolution for fiscal year 2003 suggests that the budget process may be at a crisis point, and this crisis may be exacerbated by the uncertainty associated with the cost and the duration of the war on terrorism. If a consensus is not reached on a goal for fiscal policy, the Budget Committees and the budget resolution are in danger of becoming irrelevant. Now, as always, policymakers must resolve what they want the budget process to do, and must craft a set of budget rules that fulfill those aims.

How has Federal Budgeting Changed Since September 11th?

One thing that we can say without fear of contradiction is that the overall budget outlook has gotten a lot worse since September 11th. While some of this can be credited to the country's response to the threat of terrorism, much of the deterioration of the budget outlook is due to other factors. Comparing the current OMB and CBO estimates to budget estimates made when the Bush administration took office in January of 2001, the outlook could not be more different.

Table 1--Comparing Budget Projections in 2001 and 2002

	FY01	FY02	FY03	FY04	FY05	FY02-11	FY03-07
CBO January 2001	281	313	359	397	433	5610	2267
CBO August 2002	127	-157	-145	-111	-39	336	-229
Difference	154	-470	-504	-508	-472	-5274	-2496
OMB Baseline February 2001	284	283	334	387	440	5644	2263
OMB July 2002	127	-150	-71	1	117	1507	392
Difference	154	-433	-405	-386	-323	-4137	-1871
CBO Less OMB, 2002	0	-7	-74	-112	-156	-1171	-621
<u>Exhibit: Baseline Revenues, July/August 2002</u>							
CBO August 2002	1991	1860	1962	2083	2244	24718	11183
OMB July 2002	1991	1868	2035	2180	2369	25381	11654
CBO Less OMB, 2002	0	-8	-73	-103	-125	-763	-471

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011* (January 2001); Congressional Budget Office, *The Budget and Economic Outlook, An Update: Fiscal Years 2003-2012* (August 2002); Office of Management and Budget, *A Blueprint for New Beginnings* (March 2001); Office of Management and Budget, Midsession Review, Budget of the United States Government: Fiscal Year 2003, (July 2002).

Both the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) agree that the budget outlook is strikingly different now than it was a mere 20 months ago. CBO, which in January of 2001 had estimated \$5.6 trillion in cumulative surpluses between fiscal year 2002 and 2011, now projects that surpluses over that same period have decreased to \$336 billion, a staggering reduction of \$5.3 trillion (almost 95 percent). While OMB concurs on the trend, OMB's estimates of the remaining surpluses over the 10 years--\$1.5 trillion--are higher than CBO's, largely due to more optimistic estimates of economic growth after 2003. CBO says that the budget will remain in deficit

through at least 2006, while OMB projects that, under current policies, the budget would return to surplus two years earlier.

The deterioration in estimates between these two times results from multiple factors. The economy weakened throughout the period, which had the particularly damaging effect of depressing federal revenues, which fell in nominal terms between fiscal year 2000 and fiscal year 2001, and are projected to do so again between fiscal year 2001 and fiscal year 2002. Part of this short-term decrease in federal revenues is attributable to the Bush administration's tax cut, but the majority of it has resulted from the weak economy. The decline in earnings by the wealthiest Americans is the single biggest factor for the short-term reduction in revenues. Conversely, the rise of the stock market and top executive compensation was the biggest cause of the unprecedented sustained growth in federal revenues between fiscal year 1993 and fiscal year 2000, when federal revenues grew by an average of 8.4 percent annually. But over ten years, the Bush tax cut plays a more significant role in the deterioration of the outlook. Further, certain technical changes in forecasts for programs such as Medicare and Medicaid have increased deficit projections. Finally, of course, federal spending has increased, primarily in response to the terrorist attacks. While no more recent estimate is available, CBO's January 2002 report indicated that, out of the total reduction in cumulative surpluses since January 2001:

- Approximately 32 percent resulted from the tax cut;
- Approximately 24 percent resulted from the deterioration of the economy;
- Approximately 16 percent resulted from "technical" changes;
- Approximately 14 percent resulted from increased discretionary appropriations, many of which were in response to the war on terrorism; and
- Another 14 percent occurred because of increased debt service costs associated with reduced surpluses resulting from these other factors.

The point, of course, is that even assuming that all of the increases in discretionary appropriations are in response to the terrorist attacks (they aren't), and that the economy worsened only because of the attacks (it didn't, as the economy was in recession for at least a half a year before the attacks) not more than 40 percent of the change in the budget outlook resulted from the aftermath of September 11th. Rather, much of this change would have occurred even if the planes had never hit the World Trade Center or the Pentagon.

The Loss of Budgetary Consensus

As significant as the change in the budget forecast has been, perhaps a more significant change has occurred in the overall environment for priority setting. In short, the major change that has occurred in the budget environment—as least hastened by September 11th, if not caused by it—is that the nation and its political leaders have lost any sense of consensus around a macro-budgetary goal or target. From 1985 through 1998, budget nirvana was defined as the achievement of an overall balanced budget. After 1998 (and continuing until approximately 9 AM on September 11, 2001) this target was replaced by a consensus that the budget should be balanced excluding the surpluses in the Social Security trust funds. Now, however, there is no consensus, and the lack of consensus means that the budget process is operating without a notional budget constraint.

When the Congressional Budget and Impoundment Control Act of 1974 (the Budget Act) established a Congressional budget process, that process was self-consciously neutral as to budget outcomes. The budget resolution, intended to establish a framework for annual budgeting, could sanction deficits, or surpluses, or overall budgetary balance. The budget might allow for relatively high levels of spending, or relatively low levels. In other words, the Budget Act gave the Congress a process, but did not presuppose a particular budget outcome.²

All of that changed after the mid-1980s. Beginning with the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) the norm of the balanced budget was elevated and became, in a sense, the *sine qua non* of federal budgeting. While the Gramm-Rudman process itself was a failure, its lasting legacy was the establishment of the balanced budget as the overall goal of fiscal policy. Subsequent more successful fiscal policy prescriptions—budget summits coupled with procedural limits such as discretionary caps and pay-as-you-go codified in the Budget Enforcement Act of 1990—were all aimed at achieving this single fiscal policy goal. This goal was never formally endorsed as sensible by most economists and budget experts, who viewed as perfectly appropriate the running of deficits during times of economic hardship or other distress. But it was a powerful force influencing the actions of policymakers, virtually none of whom questioned the appropriateness of the goal.³

By the late 1990s, a series of legislative actions coupled with unprecedented economic growth led to the achievement of this heretofore elusive goal. Almost without warning, budgetary balance was achieved in fiscal year 1998, a full four years before the Congress and President Clinton had predicted when they passed the Balanced Budget Act of 1997, the last of the three multi-year deficit reduction bills passed during the 1990s.⁴ The achievement of this goal left in its wake an inevitable question—“what’s next?” If budgetary balance had been achieved, what was the new goal of fiscal policy to be?⁵

A response to this question emerged late in the Clinton administration, and continued in the context of the 2000 Presidential campaign. Faced with competing demands for more spending, tax cuts, and running surpluses (otherwise known as “paying down the debt”), Democrats and Republicans essentially agreed on the outline of a new macro budget policy. The budget was

to remain balanced, *excluding the surpluses in the Social Security trust funds*. In old-fashioned language, this meant running unified budget surpluses equivalent to these trust fund surpluses. This approach likely had its genesis in President Clinton's call to "save Social Security first". While once again there was no particular economic significance to this specific goal, the political popularity of Social Security made this a very powerful norm for politicians to embrace.

President Bush took office in 2001 pledging to abide with this agreement. In fact, while no one knew whether (and how large) a tax cut would be enacted, and no one knew whether (and how large) a prescription drug benefit might be enacted, *everyone* knew that neither party wanted to be the one that was caught raiding Social Security. Therefore, tax cuts and increased spending had to fit within an overall budget constraint that still preserved a surplus large enough to protect the Congress and President Bush from charges of "spending the Social Security surplus". CBO and OMB projections of the effect of the tax cut issued in the summer of 2001 were watched closely to determine whether this magic line had been crossed.

September 11th changed all that in a hurry. While there was some indication even prior to that point that the tax cuts and the economic downturn were putting the stated goal in jeopardy, the rapid agreement between the President and the Congress to provide \$40 billion of immediate assistance blew the lid off of the so-called "lockbox." Essentially, and understandably, fiscal discipline took a back seat to other concerns. While some members of Congress still wanted to abide by the earlier agreement (essentially arguing that other spending should be cut to pay for the spending increase), it would not have been possible to get a majority of either the House or the Senate in support of the specific cuts necessary to enforce such a position. Providing for long-term security for the country and its citizens trumped budgetary balance as the primary goal of fiscal policy. In such an environment of "crisis", spending is much more acceptable, and budgetary constraints are less clear.⁶ By the time the

President's fiscal year 2003 budget was submitted, it was clear to virtually everyone that budgetary balance (either in the unified budget or excluding the trust funds) was unattainable. At the same time, the specific budget constraints that had existed since 1990—the discretionary spending caps and PAYGO—were also allowed to expire at the conclusion of fiscal year 2002.

In particular, the events of September 11th have created an environment where spending on national and homeland security is considered much more important than it was prior to that date, and budgets for fiscal years 2002 and 2003 have been crafted consistent with this shift. The defense budget, which had been declining throughout the 1990s, has shifted dramatically upward since 2000. In fact, if the CBO's most recent estimate for fiscal year 2003 defense spending holds, defense outlays will have increased by \$79 billion, or 27 percent, since fiscal year 2000 (see Table 2).⁷ To be fair, the Bush administration desired more defense spending even prior to September 11th; it would be incorrect to associate all of this increase to the war on terrorism. But after September 11th, it was virtually certain that the President would get a defense budget more or less at the level that he wanted.

The shift in priorities has certainly not been lost on federal agencies, who have almost certainly shifted their budget strategies toward arguing for resources on the basis of security rather than for other reasons. This is a time-honored budget strategy. Aaron Wildavsky, in his classic book *The Politics of the Budget Process*, discussed the use of such “crisis strategies” in the budget process:⁸

(N)ational defense...is ideal for crisis strategies. The temptation to say that almost anything one can think of has implications for national defense is overwhelming and few agencies have been able to resist it. The National Labor Relations Board in 1952 was no exception: “I recognize that every agency of the government will come before you and say, ‘Well, we may not nominally be a defense agency, but what we do is essential to the war effort.’ In spite of that, I am going to make that statement.

This was, to emphasize, written almost 20 years ago about a strategy in use *50 years ago*. Once national defense is expanded to include “homeland security”, there are seemingly few limits to the ability of agencies to tie new spending proposals to current budget priorities.

It is perfectly understandable—indeed appropriate—indeed unavoidable--for the federal government to have abandoned the norm of the balanced budget and spent more money on national and homeland security in the immediate aftermath of the terrorist attacks. In the long run, however, the absence of any macrobudgetary norm has an effect on the budget environment that is hard to overstate. It creates an environment where no one knows how much is enough—or too much spending. And nobody knows—or everybody knows, but nobody agrees—when the deficit is too large or the surplus too small.

This loss of an overall norm would not be as significant were the annual budget resolution being used as an effective tool of priority-setting. This, in fact, is what the budget resolution was designed to do. Each year the Congress could consider the President’s budget and determine the path of fiscal policy for the next year or the next several years. However—as will be discussed further below--the budget resolution has become impotent at precisely the same time that the macrobudgetary consensus has been lost. The fiscal year 2003 budget process represents only the second time in the history of the Congressional Budget Act (but also the second time in five years) that the Congress has failed to enact a budget resolution. It is also the first process since fiscal year 1990 to be conducted without the legislative limitations imposed by the Budget Enforcement Act, whose discretionary spending caps and pay-as-you-go process expired at the end of fiscal year 2002.

For those people who view budgeting as the allocation of scarce resources, the lack of an effective overall budget constraint is an alarming development.⁹ And until a new paradigm is established—whether it is a return to

balanced budgets by a certain point, or a reconstitution of the BEA caps and PAYGO, or some other consensus—federal budgeting is likely to continue to be a rather haphazard, open-ended process.

The absence of an overall budget target also has implications for Presidential-Congressional relations. The lack of a consensus on an overall level of discretionary spending is likely to provoke more veto fights on appropriation bills. Continued debates about the desirability of further tax cuts are likely to exacerbate problems between the branches. Further, President Bush, who views the 2001 tax cuts as the centerpiece of his economic policies, does not necessarily have an incentive to pursue a consensus on an overall budgetary target. Agreeing that the budget should be balanced by fiscal year 2005, for example, as the bipartisan Committee for a Responsible Federal Budget has recommended, would likely increase the pressure to scale back, or at least fail to extend, the President's tax cuts.¹⁰

Further, it would not overstate reality to state that all Presidents believe that they should be given more budgetary power over spending all the time. They are most likely to be successful, however, during times of economic or national security crisis. Presidents Johnson and Nixon argued for such increased budgetary flexibility during the Vietnam War. President George H.W. Bush did so during the Persian Gulf War. And President George W. Bush would like greater budgetary control now.

The current controversy has played out primarily in two places. First, should the President be given more power in the budget process because of the war? For example, President Bush has argued that he should be given increased capacity to transfer funds between line items without the assent of the Congress. Further, he has argued that the Congressional budget resolution be converted to a joint resolution (requiring the President's signature). In the interest of space, I will not debate the desirability of these specific reforms,

except to say that each of them would transfer budgetary power to the President.¹¹

The potential for giving the President more power, of course, leads to inevitable debates concerning whether—or under what circumstances—the President should be given expanded budgetary control. Most would agree that a temporary grant of additional budgetary power to the President is an appropriate response during wartime. But we must ask whether the current conflict fits the traditional definition of “war”, given its open-ended nature. It is one thing to give a President more power during a defined and declared war—World War II, for example. What the nation is currently facing is a war with no specific defined enemy or timetable, and a very ambitious objective. Further, it is a defensive war as much designed to prevent future acts of terrorism as it is to punish the perpetrators of past acts.

For this reason, the Congress is appropriately quite reluctant to grant the President any open-ended power at the expense of the legislative branch. It is likely that we face a long-term struggle against terrorism that may not end in one year, or five years, or anytime in the foreseeable future. For that reason, it is important for the President and the Congress to determine how power—including budgetary power—will be shared during that period.

What has Stayed the Same Since September 11th?

While some significant changes in the overall budget outlook have been influenced by September 11th, various other aspects of the federal budget process have been relatively unchanged in the aftermath of the terrorist attacks. Three of them seem most relevant to our discussion today:

- Nondefense discretionary spending, which was largely unaffected by the overall efforts to reduce the deficit during the 1990s, seems likely to continue to increase in aggregate after the attacks. Within this area of spending, however, there may be shifts toward “homeland security” concerns and away from other spending.
- The federal government continues, as it has in recent history, to have a difficult time meeting statutory budget deadlines. This seems unlikely to change unless there are specific political incentives to do so.
- The federal government handled the budgetary fallout from the terrorist attacks in the same manner that it has budgeted for lesser emergencies—through the passage of supplemental appropriations. While the attacks were an extremely unpredictable manifestation of an emergency, the budgetary response of the federal government was largely the same as with other emergencies.

The Sanctity of Nondefense Discretionary Spending

Nondefense discretionary spending has increased steadily since 1980. In fact, there have been only four years since 1980 where the increase in the nondefense discretionary part of the budget has been less than 2 percent--- three of these were in the 1980s and are associated with Reagan-era cutbacks (1982, 1986, and 1987) and the fourth was fiscal year 1996, primarily caused by the long government shutdowns during the first fiscal year after the Republican takeover of the Congress. Table 2 indicates that the average annual growth in nondefense spending has increased from the 1980s (3.1 percent) to the 1990s (5 percent) to the 2000s (8.7 percent so far). Contrast this with defense spending which *decreased* by an average of .4 percent in nominal terms in the 1990s, sandwiched between average *increases* of 9.6 percent and 7.6 percent,

respectively, in the 1980s and thus far between fiscal year 2000 and the projected level in fiscal year 2003.

During the 1990s, when overall discretionary spending increased at a rate slower than inflation (1.9%) these reductions in real spending were achieved almost solely through cuts in the defense budget. Now that defense spending is increasing, it is unlikely that nondefense spending will be reduced in aggregate terms. During the first three years of the current decade, in fact, the growth of nondefense spending has exceeded defense spending growth. The likelihood, therefore, that defense spending increases will be offset by nondefense spending cuts has no historical precedent since at least 1987. Realistically, therefore, any increase in defense will be a net increase in federal spending.

Further, thus far this analysis has only covered nondefense *discretionary* spending. Mandatory spending—virtually none of which is defense related—increased more than three-fold between 1980 and 2001, representing a more or less constant percentage of 11 percent of GDP over the period. Nondefense discretionary spending, on the other hand, actually declined fairly substantially—from 4.7 to 3.1 percent—from 1980 to 1989, but has stayed fairly constant since then.¹²

Of course, the fact that aggregate domestic spending is increasing does not tell us anything about the composition of that spending. At least in the short run, agencies that can argue that their activities contribute to national defense or homeland security (see above) are likely to be advantaged in the budget process. Clearly some agencies are having a more difficult time being heard because their missions do not touch on homeland and national security. It is too early to tell, however, just how great a shift may occur, or to what extent agencies may be able to use a “crisis” strategy successfully to gain more resources.

Table 2-- Discretionary Outlays, by Category, FY80-FY03

<u>Fiscal Year</u>	<u>Defense</u>	<u>% Change</u>	<u>NonDefense</u>	<u>% Change</u>	<u>Total</u>	<u>%Change</u>
1980	134.6	N/A	141.7	N/A	276.3	N/A
1981	158	17.4%	149.9	5.8%	307.9	11.4%
1982	185.9	17.7%	140	-6.6%	326	5.9%
1983	209.9	12.9%	143.4	2.4%	353.3	8.4%
1984	228	8.6%	151.4	5.6%	379.4	7.4%
1985	253.1	11.0%	162.7	7.5%	415.8	9.6%
1986	273.8	8.2%	164.7	1.2%	438.5	5.5%
1987	282.5	3.2%	161.7	-1.8%	444.2	1.3%
1988	290.9	3.0%	173.5	7.3%	464.4	4.5%
1989	304	4.5%	184.8	6.5%	488.8	5.3%
1990	300.1	-1.3%	200.5	8.5%	500.6	2.4%
1991	319.7	6.5%	213.6	6.5%	533.3	6.5%
1992	302.6	-5.3%	231.3	8.3%	533.8	0.1%
1993	292.4	-3.4%	247	6.8%	539.4	1.0%
1994	282.3	-3.5%	259.1	4.9%	541.4	0.4%
1995	273.6	-3.1%	271.3	4.7%	544.9	0.6%
1996	266	-2.8%	266.7	-1.7%	532.7	-2.2%
1997	271.7	2.1%	275.6	3.3%	547.2	2.7%
1998	270.2	-0.6%	281.9	2.3%	552.1	0.9%
1999	275.5	2.0%	296.5	5.2%	572	3.6%
2000	295	7.1%	319.9	7.9%	614.8	7.5%
2001	306.1	3.8%	343.3	7.3%	649.3	5.6%
2002*	349	14.0%	384	11.9%	733	12.9%
2003*	374	5.4%	416	7.8%	790	6.7%
Average 1980-1989		9.6%		3.1%		6.6%
Average 1990-1999		-0.4%		5.0%		1.9%
Average 2000-2003		7.6		8.7%		8.2%

Source: Calculated from Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003-2012* (January 2002), Table F-7, page 164. Estimates for 2002 and 2003 taken from Congressional Budget Office, *The Budget and Economic Outlook, An Update: Fiscal Years 2003-2012* (August 2002).

Untimely Budget Adoption

The federal appropriations process is chronically late. In the 26 fiscal years since the Budget Act became law, only three of them—fiscal years 1977, 1989, and 1995—have seen all appropriation bills enacted prior to the start of the fiscal year. Further, in seven of these years—including the most recent one (fiscal year 2002) not a single appropriation bill became law on time. (In six other years, only one bill became law prior to the fiscal year's start.) On average over the 26 years, only 3 of 13 appropriation bills have met the deadline.¹³

One theory advanced immediately after September 11th held that the sense of shared crisis brought about by the terrorist attacks would lead to a spirit of bipartisanship that would contribute to a greater likelihood of meeting budget deadlines. This certainly did not occur in fiscal year 2002, and does not seem likely to occur in fiscal year 2003.

Roy Meyers, in a 1997 article on the topic, offered several possible explanations for the problem of late appropriations:¹⁴

- The beginning of the fiscal year is not a real deadline, at least not one with real consequences. Ironically, the Budget Act pushed the fiscal year back from July 1 to October 1 to make the budget more likely to be enacted on time. The truth is that only a deadline which creates incentives for the Congress to act will be effective. If a majority of the Congress feels a need to get out of Washington to campaign for reelection, for example, that is a real deadline; October 1 is just another day.
- The appropriations process involves many detailed and controversial decisions. Bills typically include a great many earmarks and directives

to agencies, and these take time to craft. Further, bills are routinely saddled with “riders” concerning issues that have little to do with taxing and spending, but make the bills very difficult to get passed (and even harder, in recent history, to get signed).

- Most appropriations processes since the Budget Act took effect occurred against the backdrop of divided government. The same party has controlled the White House, the House, and the Senate for only 6 out of the 26 fiscal years between 1977 and 2002. Reaching agreement in this environment is not impossible, but it has proved to be time consuming.

None of these factors has been affected—positively or negatively—in the post-September 11th budget environment. We have no reason to expect, therefore, the situation to improve. In fact, it seems possible—indeed likely--that the lack of political consensus on an overall goal for the budget process will make the budget more difficult to enact in a timely manner.

Budgeting for Emergencies

In essence, the way the federal government has dealt with budgeting for September 11th is no different than the way it has dealt with budgeting for other emergencies, such as natural disasters, in the past 15 or more years. September 11th was less predictable than a hurricane or flood, but the fundamental approach to budgeting for its aftermath is the same. The difference in the case of September 11th was the size of the disaster and the size of the check.

Historically, the Congress and the President have understated the budgetary effects of disasters before the fact but enacted large supplemental

appropriations later, often using the “emergency” safety valve created by the Budget Enforcement Act. In fact, between fiscal years 1991 and 1998, over \$100 billion in “emergency” appropriations were provided for in supplemental appropriations. Excluding funds for the Persian Gulf War, 60 percent of these funds went to agencies engaged in disaster assistance.¹⁵ This method has been followed even in cases where there is a long history of disaster funding, such as for hurricanes or floods. Some have argued for changing the way that disasters are funded by, for example, requiring them to be budgeted at average levels in the regular appropriations process.

Very few people, of course, anticipated the type of terrorist attack that occurred in September 2001. Further, it is probably unrealistic to expect our method of budgeting for disasters, be they domestic or international, to change. And the new reality that we face suggests that the “war” has costs that cannot be anticipated with even the certainty associated with the funding of a transportation project. So the Congress and the President probably will continue to engage in a process of large annual supplementals for the foreseeable future.¹⁶

The downside of such an approach is that, without any specific timetable, this *may* signal a fundamental shift in budgeting, where an increasing portion of the budget is unpredictable even on an annual basis. A reasonable response to the question, “When will the war on terrorism be over” may be “Not in our lifetime”. This is particularly true because the “war” on terrorism includes keeping the country safe from terrorism. If the war has no end in sight, and if it is budgeted for on a continuing basis through large supplemental appropriations, this approach calls into question the effectiveness of any annual budget constraint. In other words, if the President and the Congress know that the budget enacted every year is not the real budget, but only 95 to 98 percent of that budget, then the enacted budget—and any deficit or surplus targets associated with it—becomes a fiction. This may be all right—even inevitable—

for one or two years, but if it becomes systematized, it compromises the effectiveness of the budget as an instrument of fiscal policy.

Conclusion--What Does the Future Hold for the Federal Budget?

Crystal balls—and mine is no better--are notoriously hazy where the federal budget process is concerned. But I think that the main issues likely to occupy the nation's budgeting in the aftermath of September 11th have to do with the need for a new budgeting consensus, on the one hand, and the allocation of resources and the budget procedures that will be most appropriate in light of these fiscal goals, on the other.

The administration, in its midsession review of the budget, implies that the budget, left on autopilot, will return to equilibrium by approximately fiscal year 2004. If that were true, and there was agreement that such a goal was desirable, we might be left with only the question of what procedural safeguards would be necessary in order to preserve such an outcome. The likelihood of the budget becoming balanced within that timeframe without any additional policy actions seems remote, however. The Congressional Budget Office's budget projections differ significantly from OMB's. CBO projects a budget deficit of \$111 billion in fiscal year 2004, which is a far cry from the \$1 billion surplus projected by OMB (see Table 1). Most of the differences appear to be on the revenue side, where OMB's estimates appear to be somewhat speculative.

So the budget is unlikely to reach equilibrium on its own. Absent a macrobudgetary consensus, the budget process as it currently exists is in danger of collapse. This is not, in my opinion, primarily the fault of the budget process. It is certainly not the fault of the Budget Committees. In order to understand why, consider a 1993 CBO report that outlined a series of precepts about the budget process based on the experience of Gramm-Rudman-Hollings

and the Budget Enforcement Act.¹⁷ Two of those conclusions continue to seem particularly relevant today.

First, the report argued that the budget process was good at enforcing compliance with budgetary actions that had been agreed upon, but was not good at forcing those actions to be taken. In the current environment, this means that we cannot expect the Budget Committees and the current budget process to arrive at particular budget outcomes (such as a balanced budget) if the political process (the President and the Congress as a whole) have not reached a consensus that this is a desirable result to be achieved.

Second, the budget process must include enough flexibility to allow for unanticipated events, or any fiscal path that has been agreed upon will collapse. Some kind of a budgetary safety valve is necessary so that the nation can pursue priorities viewed as most important within the existing budget process. Again, in the current context, this means that we need to arrive at an agreed-upon path for taxing and spending (particularly for national security and homeland security) while allowing for greater-than-anticipated spending for unplanned-for events.

The trick, much more difficult than usual in the current environment, is to arrive at a meaningful consensus on goals in an environment of great uncertainty about future budgetary requirements. Past experience suggests that such a consensus is unlikely to be reached without leadership from the President. Fisher has argued that it is unrealistic to expect the Congress to lead in cases—such as reducing the deficit—which involve inflicting substantial pain on the citizenry.¹⁸ Given the potential threat that a path toward deficit reduction would pose to past and future efforts to cut taxes, however, the President currently lacks the incentive to lead. Only if a consensus develops in the country that the deficit is a problem—as occurred in the context of the 1992 Presidential campaign, largely because of the threat that Democrats and Republicans

perceived because of Ross Perot's showing—should we expect the President to embrace deficit reduction as a top priority.

But whether the consensus on such a path is difficult or not, the bottom line is that the only way to reestablish a meaningful budget process is for the nation to confront the hard job of determining what the desired fiscal path looks like in the post-September 11th world. This will not happen in the current fiscal year. The most that can be hoped for immediately is to reach a short-term truce on fiscal year 2003 appropriation bills. I believe that, however, the fiscal year 2004 budget process will need to confront four difficult questions: 1) what fiscal goals do we want to achieve?; 2) what is the expected funding path for national and homeland security over the next three to five years?; 3) what is the desired path for other spending, given expected spending on security issues?; and 4) what kind of budget process do we want to enforce that consensus?

In the current chaotic environment, it may seem like a lot to expect a such a consensus to develop, and a meaningful budget process to reemerge. But take heart. As Bill Hoagland pointed out in a recent speech on budgeting during wartime, at times in our history a lack of discipline has led to budget discipline.¹⁹ This was certainly true after World War I, when a concern for economy and efficiency led to the Budget and Accounting Act. It was certainly true in the early 1970's, when what Schick has called the "Seven Year Budget War" led to the Budget Act of 1974.²⁰ And it was true in 1990, when continued large deficits coupled with the failure of the Gramm-Rudman process, gave us the Budget Enforcement Act.²¹

So there is hope, but there is also great risk. The stakes are quite high. They potentially include the health and productivity of the U.S. economy if we are unable to avoid a continued structural deficit. They certainly include the ability of the country to combat terrorism while still attending to domestic concerns. And finally, the credibility of the Congressional budget process as a means of

effectively setting overall fiscal policy and providing a framework for priority-setting is in jeopardy.

Endnotes

¹ Allen Schick, *Congress and Money: Budgeting, Spending and Taxing* (Washington: Urban Institute Press, 1980), p. 26.

² Schick, *Congress and Money*, pp. 72-74.

³ See Philip G. Joyce, “Congressional Budget Reform: The Unanticipated Consequences for Federal Policymaking,” *Public Administration Review* 56, Number 4 (July/August 1996), pp. 320-321.

⁴ I make no attempt here to discern how much each of the three bills—the Omnibus Budget Reconciliation Act of 1990, the Omnibus Budget Reconciliation Act of 1993, and the Balanced Budget Act of 1997—contributed to deficit reduction. It is worth noting, however, that the 1997 action was coupled with a tax cut; therefore the effect of these actions would have to be considered simultaneously.

⁵ Philip G. Joyce and Roy T. Meyers, “Budgeting During the Clinton Presidency,” *Public Budgeting & Finance* 21, Number 1 (Spring 2001), pp. 1-21.

⁶ Stan Collender, “Deficit Deafness,” *Government Executive*, November 28, 2001, <http://www.govexec.com/dailyfed/1101/112801bb.htm>

⁷ Office of Management and Budget, *Midsession Review, Budget of the United States Government: Fiscal Year 2003*, (July 2002).

⁸ Aaron Wildavsky, *The Politics of the Budget Process*, 4th edition (Boston: Little, Brown and Company, 1984), pp. 121-122.

⁹ For specific evidence of this alarm, see an August 1, 2002 memorandum, entitled “Budget Issue Update—Summer Recess—The Year of the Budget Nightmare” from the Committee for a Responsible Federal Budget, which argues for a budget strategy aimed at achieving balance in the unified budget by fiscal year 2005: “Budget rules are important because without them the budget situation will likely deteriorate further and make it harder to deal with the serious challenges that will arise as the baby boom generation retires.”

¹⁰ Committee for a Responsible Federal Budget, “Budget Issue Update”.

¹¹ For a more detailed review of issues surrounding these reforms, see Louis Fisher, *Presidential Spending Power* (Princeton: Princeton University Press, 1975), pp. 75-122 ; and Roy T. Meyers, “The Budget Resolution Should be a Law,” *Public Budgeting & Finance* 10, Number 3 (Fall 1990), pp. 103-112.

¹² Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003-2012* (Washington: U.S. Government Printing Office, 2002), p. 165.

¹³ Sandy Streeter, “Continuing Appropriations Act: Brief Overview of Recent Practices,” *CRS Report for Congress* (Washington, DC: Congressional Research Service, January 11, 2002), p. 6.

¹⁴ Roy Meyers, “Later Appropriations and Government Shutdowns: Frequency, Causes, Consequences, and Remedies,” *Public Budgeting & Finance* 17, Number 3 (Fall 1997), pp. 25-38.

¹⁵ Amy Donahue and Philip Joyce, “A Framework for Analyzing Emergency Management with an Application to Federal Budgeting,” *Public Administration Review* 61, Number 6 (November/December 2001), pp. 728-740.

¹⁶ G. William Hoagland, “Priorities and Challenges in a Nation at War,” speech before the American Association for Budget and Program Analysis, May 2, 2002.

¹⁷ Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998* (Washington, DC, U.S. Government Printing Office, 1993), pp. 83-93.

¹⁸ Louis Fisher, "Federal Budget Doldrums: the Vacuum in Presidential Leadership," *Public Administration Review* 50, Number 6 (November/December 1990), pp. 693-700.

¹⁹ Hoagland, "Priorities and Challenges in a Nation at War".

²⁰ Schick, *Congress and Money*, pp. 17-49.

²¹ Philip G. Joyce and Robert D. Reischauer, "Deficit Budgeting: the Federal Budget Process and Budget Reform," *Harvard Journal on Legislation* 29, Number 2 (Summer 1992), pp. 429-454.