

Biennial Budgeting for the Federal Government:
Lessons from the States

by

Charles J. Whalen*

Working Paper No. 149

December 1995

*The author is Resident Scholar, The Jerome Levy Economics Institute of Bard College, Annandale-on-Hudson, NY 12504. He is editor of and contributor to *Political Economy for the 21st Century* (M.E. Sharpe, 1995).

ABSTRACT

Proposals that would establish a two-year budget and appropriations cycle for the U.S. government have been offered by both Democrats and Republicans in recent years. This article analyzes the potential impact of such budgeting. The first section examines the budget period in theory and practice. The second section introduces federal biennial-budgeting proposals and the core arguments offered in support of this reform. The next three sections draw heavily on studies of state budgeting -- including a new biennial-budgeting survey prepared by the state of New Jersey -- to evaluate these arguments. The article concludes the federal budget process can be structured in a way that permits the advantages of biennial budgeting to outweigh its disadvantages.

Throughout the 1990s, America's two major political parties have been competing to show their interest in a more effective and efficient federal government. One type of reform that has received considerable attention from members of both parties is biennial budgeting. A two-year budget and appropriations cycle was endorsed by the Clinton Administration in its 1993 National Performance Review (NPR) report (Gore 1993). This reform was also favored by most members of the 103rd Congress's Joint Committee on the Organization of Congress, and recommended in a January 1995 report assembled for Senate Majority Leader Robert Dole by the Senate budget committee (Joint Committee on the Organization of Congress 1993; Budget changes planned 1995).

The purpose of this article is to analyze the potential consequences of biennial federal budgeting. Central to this analysis is an examination of lessons provided by the experience of the states. The article's first section considers the length of the budget period in theory and practice, including a brief history of state trends. The second section introduces federal biennial-budgeting proposals and the core arguments offered in support of this reform. The next three sections draw heavily on studies of state budgeting -- including a new biennial-budgeting survey prepared by the state of New Jersey -- to evaluate these arguments. A concluding section outlines policy implications and offers suggestions for future research.

Looking to the states for lessons on federal biennial budgeting is not novel. The approach has been employed by a number of budget analysts in articles and reports; the present article follows their lead (see, for example, Kirkman 1987; Meyers 1988; Irving 1993; Snell 1993a).¹ At the same time, this work offers its own contribution to the

literature by providing not only an updated assessment but also an examination that draws on a larger pool of evidence than most previous studies.

The Budget Period and State Trends

A budget period of one year has long been the norm in public finance. In fact, researchers seeking to explain the budgetary principle of annuality have often stressed custom and tradition, not fiscal theory. Renee Stourm's landmark work, for example, emphasizes that "this period corresponds with the customary measure of human estimates" (Stourm 1917, 319; see also Sundelson 1935).

There is no doubt that the year has deep roots in the history of human calculation. But the practice of annual budgeting also has long-standing fiscal significance because it measures a cycle of fundamental importance to agriculturally-oriented communities (Buck 1934, 127-130). Planning according to this natural cycle was crucial in pre-industrial societies and remains essential in the rural communities of today.

In England, adoption of annuality as a public budgeting principle can also be explained partly by the historical development of parliamentary authority. Since involvement in state finance has always been the source of their power, members of Parliament chose to take up the Crown's tax and spending proposals each year not only to permit frequent review of the monarch's fiscal activities but also to ensure that their grievances would be heard regularly. Seen from the perspective of a young Parliament engaged in an ongoing struggle with its king, one can easily appreciate the desire for a budget period of no longer than a year (Maitland 1920, 444; Ogg 1944; Punnett 1968, 280-

282).

The federal government of the United States has always adhered to the norm of annuality with respect to the budget period.² In fact, annual fiscal statements were issued even before the nation's budgetary system was formalized by the Budget and Accounting Act of 1921. The original thirteen states also employed this principle. Nearly all the states convened their legislatures annually and practiced annual budgeting prior to 1840.

In the 1840s, however, states began to harness their legislatures by moving to biennial sessions and budgets. Historical research identifies six reasons for this development. One is the rise of a belief that state assemblies needed less time to meet due to increased popular participation in public decision making. In particular, citizens had increasingly been given the right to elect public officials who were previously appointed, and to alter state policies through constitutional conventions and referenda.³

The nineteenth-century trend toward biennial state action was also due to declining public confidence in the legislative branch. Like the federal government of our era, assemblies were often criticized for passing too many laws that conferred benefits upon special interests. Other arguments for the move to constrain state legislatures included the following: government costs would be reduced since most legislators were paid on a per diem and mileage basis; assemblies would be encouraged to increase the pace of their work (as a further inducement, many states placed restrictions on the length of legislative sessions); and biennial sessions would yield not only more regular attendance but

also less frequent changes in state laws. Just four state legislatures -- New Jersey, New York, South Carolina, and Rhode Island -- were meeting annually by 1940.

The century-long trend toward biennial budgeting came to an end after World War II. Many state assemblies returned to annual sessions and budgets in response to increasing demands for public programs and facilities. An added incentive in the 1960s and 1970s was that annuality enabled more rapid adjustment to changes in federal policies and expenditures, especially in the realm of grants to states (Meyers 1988, 23). The year 1968 was the first since the 1850s to see annual legislative sessions in a majority of states.

During the past decade, however, signs of a revived interest in biennial state budgeting have appeared across the nation -- interest motivated largely by an attempt to focus greater attention on program reviews and long-range policy goals (Kirkman 1987; Credible proposal in a time of fiscal crisis 1992; Eckl 1993; Snell 1993b). Nebraska and Connecticut adopted two-year budgeting in 1987 and 1991, respectively, and the idea has been under consideration more recently in Michigan, California and New Jersey. Today a biennial budget and appropriations cycle is employed in 20 states -- including 13 with annual legislative sessions (see Table 1).

Proposals and Arguments

The first federal bill to propose a biennial budget and appropriations cycle was introduced by Leon Panetta during his first term in the U.S. House of Representatives. His proposal, presented initially in the fall of 1977, sought to improve Congress's ability to

control the budget and conduct oversight by altering various aspects of the process and timetable outlined by the Congressional Budget Act of 1974 (Panetta 1977). Bipartisan support for this idea grew considerably during the 1980s, partly as a product of frustration caused by rising fiscal deficits (Whalen 1994). As indicated above, biennial budgeting remains popular in the 1990s due to widespread interest in streamlining and "re-inventing" government.

Researchers and federal legislators have offered a wide variety of biennial-budgeting proposals since 1977. Two models dominate: the "stretch" model and the "split-sessions" model.⁴ The first stretches action on the budget resolution over a period of two years. Panetta's "Biennial Budgeting Act of 1977" is an example of this type of proposal.

The budget schedule contained in Panetta's bill began with the President's submission of both a current services budget and a biennial budget at the start of each two-year congressional term (the odd-numbered year). The first six months of that year would be devoted to formal oversight of programs and agencies by the committees of each house. During the second six months, budget committees would report the first budget resolution and legislative committees would report all authorizing legislation. In the second year, Congress would first act on authorizing bills and then pass both budget resolutions and appropriations legislation; the biennium would begin October 1 of each even-numbered year (Panetta 1977).

The split-sessions model confines budget resolution and appropriations actions to the first session of a Congress. Its objective is to start the biennium on October 1 of each odd-numbered

year (or by the following January 1 in some versions) and leave each even-numbered year free for oversight and authorization activities. Proposals of this sort have been introduced by a number of legislators, including Senator William Roth (R-Delaware) and Representatives Lee Hamilton (D-Indiana) and Ralph Regula (R-Ohio).

Although a rash of missed budget deadlines helped generate interest in biennial budgeting during the 1980s, proponents of this reform often stress that budgeting will remain difficult. Budgetary decisions are political decisions -- they cannot be made easier by procedural revision. The case for two-year budgeting does not involve the promise of bipartisan fiscal harmony and timely budget agreements (Meyers 1988, 26).⁵ The case centers instead on the belief that a biennial budget and appropriations cycle will streamline the budget process; make federal policies more effective; and promote economic stability.⁶

Streamlining the Budget Process

Federal budget cycles are complex and overlapping. Each cycle involves agency and White House preparation; budget submission; legislative authorization; development and approval of a budget resolution and appropriations; execution; and oversight and auditing. Since each budget cycle requires approximately 39 months, three or four cycles are likely to be in progress at any time (Lee and Johnson 1989, 45).⁷

Supporters of biennial federal budgeting argue that a two year budget and appropriations period would relieve participants of many routine and repetitive activities and allow them to use their time more efficiently. In particular, proponents maintain that biennial budgeting

would make more time and resources available for service delivery, agency management, legislative oversight and long-range analysis. This view is bolstered by numerous studies which suggest that the present budget process burdens officials with meaningless duplication; restricts time available for program reviews and other government activities; and discourages a focus on the long-term consequences of decisions (Congressional Budget Office 1977; Margeson and Saturno 1987; Bowsher 1988; General Accounting Office 1989 and 1992).

Opponents respond by maintaining that two-year budgeting will lead only to more work at nearly every stage in the budget cycle. They contend that there would be additional work in the preparation stage due to the extended fiscal period; that budget agreements would be more difficult to fashion because moving to a biennial process raises the stakes; and that unexpected but inevitable changes (due to a war, recession, or natural disaster) would lead to frequent fiscal adjustments during the budget period. Another concern is that budget work will expand to fill the time available.

Since states provide natural "laboratories of democracy," researchers and policymakers interested in federal policy have often examined state experiences in search of legislative and administrative insights. Indeed, framers of the national budget system established in 1921 were influenced heavily by state practices (Buck 1934, 41). The recent release of a new survey of biennial state budgeting, conducted by the state of New Jersey, makes the present an especially appropriate time to look once again toward the states. Reference to various studies of state budgeting will be made throughout the remainder of this

article.

Before examining state-level experience for insight into the question of whether biennial budgeting will streamline the budget process, however, it is necessary to offer a comment on the suggestion that biennial budgets require more work than annual budgets. The flaw in that argument is that both the President and Congress are required to prepare multi-year budgets under the present system. Moreover, according to the Office of Management and Budget (OMB), second-year numbers are not only as precisely worked out as those for the fiscal year at hand but they also serve as ceilings for the next year's budget request (discussed in Rauch 1986, 2319).

Previous Studies

In recent years, federal budget participants and observers have often indicated that roughly 90 percent of the nation's annual budget and appropriations actions represent a repetition of the previous year's work (see, for example, Domenici 1987; Joint Committee on the Organization of Congress 1993, 117; and Scully 1995). But concrete estimates of the potential savings of biennial federal budgeting do not exist. Moreover, most predictions on the workload impact of such budgeting are offered by observers -- such as Greenstein (1993) Irving (1994) -- who ground their estimates in little or no supporting evidence and analysis. State studies provide the grounding these predictions lack.

An early biennial budgeting study was conducted by the Council of State Governments (CSG) in 1972 (CSG 1972). Its analysis was based on a survey of executive and legislative officials in 11 states that had

significantly altered their budget processes between the end of World War II and the early 1970s. The one state moving to biennial budgeting, Hawaii, reported that the change reduced budget preparation work and allowed executive budget staff time to conduct analyses required for the implementation of new budget-planning procedures. It was also reported that biennial budgeting enabled Hawaii's legislature to scrutinize program accomplishments and problems more closely, and that state officials expected the change to lead to a "substantial" reduction in budget-related work (CSG 1972, 20-21).

In contrast, states moving to from biennial to annual budgeting provided evidence of an increased budget workload -- especially in executive agencies. Numerous respondents from these states indicated that annual budgeting allowed less time for consideration of substantive issues, provision of management services, and research into the improvement of agency structures and program operations (CSG 1972, 4-5). Officials from Wisconsin, meanwhile, reported that although the addition of a thorough off-year review to their two-year budget system had some adverse effect on policy development and administration, budgeting in the second year was still only one-third as time consuming as full budget preparation (CSG 1972, 21-22).

A 1984 study conducted for the Texas House of Representatives by the Public Policy Resources Laboratory of Texas A&M University contains two sections relevant to the current discussion (Wiggins and Hamm 1984). One section is the product of field interviews with public officials and observers in five states that shifted from biennial to annual budgeting between the late 1960s and early 1970s. The Texas A&M interviewers

found that state agencies experienced increased budget-preparation workloads and costs, though estimates of these costs were not provided and their magnitude was said to vary from state to state. The researchers also reported that although annual budgeting caused legislators to devote greater time to budget issues, interviewees stressed that this additional time sometimes came at the expense of program reviews and was not necessarily used to produce better budgets. The researchers illustrate this perspective by quoting one legislator who recommended a return to biennial budgeting so lawmakers would be better able "to consider the budget deliberatively" (Wiggins and Hamm 1984, section III, 16-23).

The other relevant section of the Texas A&M study is based on responses to a questionnaire that surveyed 122 state agency heads and 309 lobbyists in Texas. Most respondents expected the work and cost of budget preparation would increase if Texas adopted annual budgeting. This view was held by three-fourths of both the administrators and lobbyists (Wiggins and Hamm 1984, section V, 6 and appendix B, 3).

Two General Accounting Office (GAO) studies produced during the 1980s also offer insights into the question of whether biennial budgeting permits a streamlining of the budget process. One study, released in 1984, was the result of interviews that GAO researchers conducted with officials in three large states employing biennial budgeting. The other, published in 1987, presented data from a survey of state budget officers and legislative officials in all 50 states. Both analyses were conducted to help shed light on issues raised during congressional consideration of federal biennial-budgeting proposals.

The GAO's case-oriented study found that a principal benefit of biennial budgeting is that it allows executive and legislative officials more time for management, oversight and other activities beyond budget preparation and approval (Bowsher 1984; see also Myers 1982). Similar findings are contained in the agency's 1987 report. According to the responses to that survey, states that changed from annual to biennial sessions have more time available for program reviews in the off-year, while states moving away from two-year budgeting report that problems associated with an annual process include its extensive use of resources and the fact that it diverts agency time from budget execution and program analysis (Kirkman 1987, 13 and 21-25).⁸

Previous studies also shed light on two additional issues. First, a number of the aforementioned studies have sought to go beyond discussions of overall budget work in an effort to gauge the impact of biennial budgeting on the use of budget adjustments (such as supplemental appropriations and rescissions). While the 1987 GAO report offers "a slight indication of decreased adjustments" in states with annual budgets, it concludes ultimately that no strong pattern emerges on this matter (Kirkman 1987, 19 and 25). The same conclusion is drawn by authors of the 1984 Texas A&M report and by a 1994 study by Ronald K. Snell of the National Conference of State Legislatures (NCSL). In fact, Snell notes that supplementals have been used just as often in states with annual and biennial budgets in recent years (Wiggins and Hamm 1984, section III, 14; Snell 1994, 8; and see also the discussion of action taken to close state budget gaps in Posner 1993, 25-35).

The final issue to be considered before turning to findings from

the new budgeting survey produced by the state of New Jersey is the suggestion that federal budget work will expand to fill the time available. States do not stretch budget action over a two-year period. Instead, they employ a split-session model that confines such action to a single year (Kirkman 1987, 26-28).

The New Jersey Study

New Jersey's state budget office (NJOMB) distributed a questionnaire to the chief budget officials in states with biennial budgeting in 1994. Eleven budget officers responded by the end of that year and the results were compiled and released by the NJOMB in February of 1995. Results of that survey -- conducted due to Governor Christine Todd Whitman's interest in moving New Jersey to a two-year budget -- provide new evidence on the question of whether biennial budgeting helps streamline fiscal decision-making.

The New Jersey survey invites budget officers to identify the advantages and disadvantages of biennial budgeting. Eight of the eleven officials reply that such budgeting saves considerable executive and legislative time relative to an annual process. Respondents add that this streamlined system makes more time available for policy evaluations, management studies and planning, staff training, and program operations (NJOMB 1995, 2-3).

The aforementioned view is reinforced by responses to a later question that asks how biennial budgeting affects time for program review, evaluation and improved outcome measurement. While two states do not think that the impact is significant, all others argue that a two-year process allows -- at least in the year not devoted to budget

approval -- more time for reviews, evaluations, measurements, audits and planning. It must be added, however, that respondents provide a wide range of answers to the question of how biennial budgeting affects the cost of preparing budgets (NJOMB 1995, 14).

Savings estimates associated with a two-year rather than a one-year budget period range from a few thousand dollars to the suggestion of two respondents that the former system cuts budget costs in half. Responses make it clear that cost estimates depend heavily on auxiliary assumptions such as whether budget agency staff would be augmented or merely reassigned to accommodate a shift from biennial to annual budgeting (NJOMB 1995, 14-15). This suggests that future research into the costs of biennial versus annual budgeting should be as precise as possible about the nature of the comparison being investigated.

Another question in the New Jersey study asks whether mid-term budget adjustments are as time consuming as preparation of a separate budget. Respondents are unanimous in their view that making adjustments during the two-year fiscal period requires less work than annual budgeting. Indeed, some note that the time saving is significant. Maine's budget office provides the most concrete estimate -- it reports that adjustments require between one-third and one-half the time necessary for preparation of the initial budget. Only one respondent (from Wisconsin) indicates that a revision can sometimes require an effort approaching that of annual budgeting (NJOMB 1995, 8-9).⁹

Discussion

The biennial-budgeting survey conducted by the NJOMB combines with previous state studies to support the argument that biennial budgeting -

- at least in its split-sessions form -- streamlines the budget process. This experience suggests that a two-year federal budget period (with split sessions) would eliminate much procedural repetition and enable executive agencies and Congress to devote more time to pursuits beyond developing and defending budgets. It also suggests that biennial budgeting would lessen somewhat the feeling among members of Congress that many budget decisions are made in haste and without adequate consideration given to their consequences.¹⁰

The need for budget adjustments might increase somewhat under a two-year budget and appropriations cycle. But state experience indicates that biennial budgeting is still less time consuming than annual budgeting. Moreover, some budget shortfalls that would cause states to act (due to balanced-budget requirements) might be accepted more readily by the federal government -- for even in the present anti-deficit era, many member of Congress still accept the notion that the national government should run at least a modest deficit during cyclical downturns (Mongia 1995, 31-32). This fact, combined with Snell's recent finding (mentioned above) that supplementals are not more common in biennial-budgeting states, weakens considerably the proposition that biennial budgeting will become overwhelmed by fiscal revisions.

The direct savings to be gained by adopting biennial budgeting at the federal level are not likely not translate into millions of dollars. Most legislative and agency employees affected by budget-work reductions would probably be reassigned, not dismissed. But if these workers' energies were directed toward matters such as oversight and the improvement of service delivery, substantial indirect savings could be

realized as a consequence of making federal policies more effective.

Making Policies More Effective

While the overall federal budget operates on an annual basis, experiments conducted by a small number of agencies and congressional committees have put some budget elements on a two-year schedule during the past decade. In the late-1980s, for example, members of the Senate broke with tradition and authorized funds for a biennial period for both the Justice Department and intelligence spending. Senators explained that the actions were taken to encourage greater executive-branch planning and to allow Congress additional time for non-budget issues, including the opportunity to conduct more thorough program reviews (*Congressional quarterly almanac* 1987, 283 and 1989, 546).

The only academic work to evaluate a federal experiment with biennial budgeting is one by Robert J. Art (1989) that reviews its adoption by the Department of Defense (DOD). The 1986 Defense Authorization Act directed the DOD to submit budgets biennially starting with the fiscal year 1988. According to Art, this experiment was a "half success" (Art 1989, 208).

Since Congress refused to authorize and appropriate funds for a two-year period, agency stability was not enhanced. Nevertheless, Pentagon comptrollers and service programmers were unanimous in the belief that biennial budget preparation was beneficial. Art reports that the two-year schedule reduced problems associated with the overlapping of budget cycles and enabled the introduction of analyses, evaluations and plans that were widely viewed as having improved agency operations. He writes: biennial budgeting allowed DOD officials time

"to do things they should have been doing but never could do because of the ratrace of annual budgeting" (Art 1989, 206).

Art indicates that although specifying dollar amounts is difficult, gains associated with better evaluation and planning are not trivial. Biennial budgeting's procurement savings, however, are much more easily calculated -- and Art suggests that per-unit savings here could be 50 percent or more for some weapons. In his view, better quality decisions and more efficient resource utilization are the ultimate benefits of biennial budgeting (Art 1989, 208-213).

State Studies

Among studies of state experience, New Jersey's survey seeks to most directly explore the question of whether biennial budgeting makes policies more effective. In particular, it asks if biennial budgeting improves program performance and planning. Eight budget officers respond in the affirmative, while two indicate only that two-year budgeting "should" engender such improvements (one wrote "we have no way of proving this assumption"). The remaining response is as follows: "I have no data on its impact on planning and performance" (NJOMB 1995, 15-16).

State studies conducted prior to the NJOMB inquiry shed little light on the matter of whether budgeting for two years helps make policies more effective. Some of these studies explored the relationship between biennial budgets and long-term planning, but their findings were largely inconclusive. Although the 1987 GAO study provides some evidence that biennial budgeting is associated with greater fiscal planning, other studies do not establish that a two-year

budget system has any impact on the amount or quality of long-range research and analysis (Kirkman 1987, 17-25; Wiggins and Hamm 1984, section III, 15-16; and CSG 1972, 9-10).

Discussion

A streamlined budget process cannot by itself guarantee better government policies. Programs and agencies can only be improved if members of both the executive and legislative branches commit themselves to making the public sector function more effectively. As one respondent in the Texas A&M study stated, "If you have no destination, any road will take you there" (Wiggins and Hamm 1984, section III, 15). Nevertheless, widespread criticism of the present process (see, for example, references cited in note 10) combines with the results of inquiries into state practices and federal experiments to suggest that biennial budgeting would yield at least some improvement in the development and execution of national policies -- especially if Congress and the White House take advantage of the opportunity to bolster policy planning and stabilize defense procurement.

A two-year process enables officials in both the executive and legislative branches to devote more time and resources to the goal of making policies more effective. In addition, it alleviates problems caused by the current need to prepare a budget without knowledge of action on a previous one. It may also reduce the benefits that special interests gain from the hurried nature of the present process.¹¹

In recent years, many economic-policy analysts have emphasized the need for the nation's lawmakers to achieve not only long-term deficit reduction but also a fiscal orientation that places greater emphasis on

public investment (see, for example, GAO 1992; and Sichel 1995). Biennial budgeting can contribute to the goal of reducing the federal budget deficit by providing legislators with an opportunity not only to give closer scrutiny to entitlements and other forms of "mandatory" federal spending but also to make a wide range of policies more effective.¹² Two-year budgeting also enables Congress to change fiscal priorities gradually -- multi-year plans can be more easily set and met when budgets are enacted biennially.

Promoting Economic Stability

Supporters of biennial federal budgeting suggest that two-year budgets can promote stability at not only the macroeconomic level but also at the level of specific individuals, agencies and corporations. Opponents respond that stability comes only at the expense of two important features of the present system: flexibility and congressional control (over the budget and the executive branch). The fact that economic priorities and policies may be maintained for two years at a time leads some to argue that a biennial system will be insufficiently responsive to both changing circumstances and the public interest.

State Studies

According to the GAO's 1984 biennial-budgeting report, officials in states with two-year budgeting expressed the belief that the system's benefits outweighed its problems. At the same time, they identified the following as disadvantages:

- the increased difficulty in estimating accurately revenues and expenditures in the second year and budgeting for "uncontrollable" items, such as changes in expenditures for

entitlement programs; and

-- the legislature's perceived loss of control over the executive and state agencies, since there are fewer opportunities to make program and budget decisions (Bowsher 1984, 2-3).

This provides some evidence supporting the view that biennial budgeting requires some loss of both flexibility and legislative control.

The NJOMB study reinforces the view that forecasting accuracy and fiscal flexibility are greater under annual budgeting (there is no discussion of legislative control).¹³ But it also indicates -- as discussed earlier -- that biennial budgets are less time consuming and less costly to prepare, even after accounting for mid-term corrections. The principal budget complications identified by states are the following: economic fluctuations; unstable federal funding; and unanticipated Medicaid expenses (NJOMB 1995, 2-12).

The New Jersey survey also asks whether biennial budgeting provides greater certainty for managers of public programs, schools, and local units of government that depend on state funding. All respondents indicate that two-year budgets increase stability and certainty, though some note that major changes in the economic and/or political climate can nullify the potential gains of a biennial system (NJOMB 1995, 15-16). These findings confirm a view expressed by Snell in his 1994 NCSL report (Snell 1994, 6-7).¹⁴

Discussion

State experience suggests that biennial federal budgeting can contribute to public agency stability -- stability that enables managers

to focus greater attention on matters including service delivery and the long-term implications of program operations. It also appears that state and local governments would be among the chief beneficiaries of the stability provided by two-year federal budgeting, for much of their budget uncertainty is traceable to matters that involve (or can be influenced by) federal action. Corporations might also benefit from this form of federal budgeting. In particular, biennial federal budgets might allow private firms to extend their own planning horizons somewhat -- a step identified by numerous research studies as necessary for continued improvements in U.S. competitiveness.¹⁵

State studies provide no guidance on the matter of whether biennial federal budgeting will promote macroeconomic stability.¹⁶ But two-year budgets can be compatible with both macro-level economic stability and fiscal discipline if policymakers place heavy reliance on automatic stabilizers and establish a budgetary structure that generates deficits only during recessions. While political economists have long been concerned about the destabilizing effects of unanticipated monetary policy fluctuations, we should not ignore the similarly disruptive impact of frequent and unpredictable fiscal policy changes.¹⁷

The approach to macroeconomic stabilization that has just been described would require Congress to accept increased uncertainty about the specific dollar amount of a given year's budget deficit. While the nation's tax and expenditure programs can be structured so that the deficit's size falls within a rather narrow range, biennial budgeting might make it more difficult to hit a particular target figure during a period of economic instability. But this is not a new problem;

legislators have always had to decide between balancing the overall economy and balancing the budget with precision. Macroeconomic stabilization does not mean that Congress has given up "control," merely that it has chosen to control *the economy* with greater precision than the annual budget deficit.¹⁸

An examination of state experience with biennial budgeting permits three additional comments on congressional control. One is that Congress's control over the budget may be *enhanced* by biennial budgeting because the process gives legislators an increased opportunity to review existing policies and expenditures. Another is that Congress can retain some control over apportionment of funds across the biennium by enacting two one-year appropriations (rather than a consolidated two-year budget) at the start of each budget period. According to Snell, 17 of the 20 biennial-budgeting states allocate appropriations in this manner (Snell 1994, 3).¹⁹ A third observation is that although some suggest biennial budgeting might cause Congress write even more "micro-management" provisions into law, evidence from the Texas A&M study contradicts that suggestion (Meyers 1988, 29; Wiggins and Hamm 1984, section III, 27). In short, executive-legislative relations should not be altered significantly by biennial federal budgeting. (For a similar view, see Mann (1993).)

While it is questionable that biennial budgets will reduce congressional control, one cannot deny that some tradeoff exists between the flexibility of annual budgeting and the stability -- and increased opportunity for policy analysis and planning -- of two-year budgeting. Nevertheless, there are a number of reasons for choosing the more stable

budget process over the more flexible annual system. First, budgetary stability is beneficial. As Alice Rivlin has written:

Too frequent changes can be counterproductive. Transfer payments need to be predictable so that peoples' lives are not disrupted. Military capability suffers if signals change too often. Procurement costs can go up, not down, if production lines are alternately speeded up, slowed down, or even halted pending Congressional action. . . . Indeed, almost all programs would work better if authorizations and appropriations were enacted for several years at a time. About the only exceptions are disaster assistance, military contingencies, or countercyclical programs where triggering mechanisms are not applicable (quoted in Ford 1981, 28954).

Second, biennial budgeting is not entirely inflexible. Supplemental appropriations, rescissions and other adjustments can be made in the event of changing circumstances that require immediate action. Moreover, because changes can be implemented gradually and policies do not need to go into effect as quickly as under annual budgeting, biennial budgeting permits large policy changes to be introduced in an orderly fashion. (For a similar view, see Wildavsky (1988, 415).)

Finally, scholarly articles by Rivlin and reports by the GAO both indicate that the current federal budgeting system is one that permits too much flexibility and suffers from too little stability, continuity and policy planning (Rivlin 1981 and 1984; GAO 1989 and 1992).²⁰ As U.S. Comptroller General Charles Bowsher stated during one congressional

hearing, flexibility in the current process comes "at a high price." In particular, his testimony identified a number of features that keep the process flexible and noted that such arrangements "invite revisitings of the issues and make the budget process vulnerable to extraneous and time-consuming delays." Bowsher concluded that this flexibility "gives members of Congress the feeling that the budget process is out of control and never-ending," and he encouraged lawmakers to experiment with two-year budgets (Bowsher 1988).

Conclusion

This article demonstrates that fiscal theory does not identify one budget period as universally appropriate. Annual budgeting is not inherently "superior" to multi-year budgeting. An appropriate budget period can be identified only after one weighs the advantages and disadvantages of alternate arrangements.

The evidence reviewed in this article suggests that biennial budgeting can indeed offer significant benefits if adopted at the federal level. Although use of supplementals and other budget adjustments might increase somewhat, biennial budgeting should streamline the budget process in a way that reduces overall budget work and allows more time for management, oversight, and consideration of the long-term consequences of fiscal decisions. Moreover, by taking advantage of the opportunity to focus more attention on non-budget matters, agencies and Congress can improve the effectiveness of federal policies. While direct savings from budget streamlining might be small, indirect savings resulting from efforts to make policies more effective could be substantial.

Biennial budgeting also promotes economic and social stability. While this stability requires little reduction in congressional control, flexibility will indeed be reduced under a two-year budget system. However, this author sides with Rivlin and others who argue that the benefits of increased stability would outweigh the small degree of flexibility lost.²¹

State experience suggests that biennial federal budgeting should involve not only split sessions but also separate appropriations for each year of the biennium. The former would allow each new Congress to enact a budget during its first session.²² The latter would help lawmakers retain some control over apportionment of funds.

Biennial budgeting does not make budgeting less difficult. Even under a biennial system, budgeting remains at the heart of the political process. Indeed, budgets are inherently both a product and source of political conflict. Moreover, much more than the budget period determines the effectiveness of budgeting -- relevant factors range from the legislature's committee structure to the degree to which participants in the process are committed to following established procedures.²³

There are a number of areas where federal policymakers might benefit from additional research on biennial state budgeting. The impact of biennial budgeting on budget preparation, for example, could use more investigation; this work might include an attempt to estimate the dollar savings associated with biennial versus annual budgets. There has also been little exploration of the nature and use of non-budget year fiscal reviews and adjustment mechanisms. Congress would be

acting carelessly if it adopted biennial budgeting without first studying and considering the federal applicability of state review and adjustment procedures -- including any that might be used to constrain supplementals.²⁴

There has also been little research into the particular practices employed by biennial-budgeting states in their effort to improve policy development and service delivery. Perhaps this work would be best undertaken in the form of case research. Connecticut and Nebraska should be given special attention due to their rather recent shift to a two-year fiscal period.

The types of research just mentioned could be especially useful in the present political climate -- one that appears highly conducive to procedural change and institutional reform. Perhaps Vice-President Gore's NPR report was not too far from the mark when it suggested that "the time is ripe" for biennial budgeting (Gore 1993, 17).

Notes

1. While budgeting details vary, state and federal budget processes are quite similar overall. In addition, Gerald H. Miller, executive director of the National Association of State Budget Officers, argues that many state budgets are every bit as complex as that of the federal budget (discussed in Rauch 1986, 2319).
2. Despite a system of annual appropriations, entitlements and other forms of "mandatory" spending account for about two-thirds of present-day federal budgets (Schick 1995, 130-132).
3. This review of state budgeting trends is based upon the historical discussion presented in Wiggins and Hamm (1984, section II).

4. The dominant biennial-budgeting models are discussed in Kirkman (1989). Kirkman's report also discusses a "summit" proposal fashioned after a 1987 executive-legislative branch agreement that set two-year goals for broad categories of federal spending. That discussion illustrates the fact that "biennial budgeting" has long been a label with no set meaning. Nevertheless, the term refers most often to a system involving a two-year budget and appropriations cycle (with multi-year authorizations) -- and this more common form of "biennial budgeting" is the subject of the present article.

5. Among the many budget deadlines missed often is passage of appropriations legislation by the start of the fiscal year. Since 1975, Congress and the White House have met this October 1 deadline only twice.

6. For a range of views on biennial budgeting, see: U.S. Senate (1987); and U.S. House of Representatives (1993).

7. For a detailed account of federal budgeting, see (Schick 1995).

8. Kirkman's study also surveyed officials in states with annual legislative sessions and biennial budgets to learn whether their legislatures devote less time to budgeting in the "off-year." Respondents in 11 of 12 states reported that their legislatures devote less time to budget matters in a non-budget year -- and two-thirds of the respondents indicated that their legislatures spend "much less time" in such activities during the off-year (Kirkman 1987, 28-29).

9. According to responses to another question posed by the NJOMB survey, fiscal corrections seldom represent a sizeable fraction of the annual budget (estimates provided range from .04 percent to 1 percent)

(NJOMB 1995, 5-7).

10. For a sampling of statements expressing the view that important budget issues receive inadequate attention under the present process, see the following: American Enterprise Institute (1983, 1); Margeson and Saturno (1987, 5); Nunn (1992, 5); and Domenici (1992, 2).

11. According to Wiggins and Hamm, lobbyists surveyed on the prospect of moving Texas to an annual budgeting system reported that such budgeting would provide them with "a greater chance to influence the budget" (Wiggins and Hamm 1984, section V, 5).

12. While a further discussion of the relationship between biennial budgeting and deficit reduction will be presented in the next section, two points are warranted at present. One is that the present-day goal of deficit reduction is not necessarily incompatible with a budgetary structure that generates deficits during recessions. According to the Congressional Budget Office (CBO), federal deficits have for over two decades been consistently greater than what countercyclical macroeconomic policy would have required (CBO 1994, 4 and 87). The other point is that although some have suggested agencies would pad their budgets under a biennial-budget system (due to the reduced reliability of two-year projections), state experiences reviewed by the Texas A&M study do not support this contention (Wiggins and Hamm 1984, section III, 14 and section V, 6). (This last point is also supported by the discussion of state spending found in Snell (1994, 8)).

13. It should be noted that one respondent to the New Jersey survey indicated *biennial* revenue forecasts are often more accurate than annual forecasts because short-term fluctuations tend to even themselves out

over a period of two years (NJOMB 1995, 10). This possibility was also mentioned in the GAO's 1984 study of biennial state budgeting (Bowsher 1984, 5).

14. Snell adds that even annual budgeting is rather predictable in stable times, because programs are seldom susceptible to sweeping changes (Snell 1994, 7). But the existence of such predictability is not necessarily an argument against biennial budgeting -- indeed, one could argue instead that it provides additional *support* for such budgeting.

15. For discussions of short-term time horizons in America, see Michael Dertouzos and the MIT Commission on Industrial Productivity (1989); Competitiveness Policy Council (1992); and Michael Porter (1992).

16. Although annual budgeting is used by nearly all our international competitors, other industrial democracies have parliamentary political systems and/or planning mechanisms that give fiscal policy greater stability than it has in the United States. For a discussion of multi-year direction setting in Japan, for example, see Ronald Dore (1986, 132-134).

17. For an early discussion of the need for stability in fiscal policy, see Lewis H. Kimmel (1959, 279-283).

18. For more on the choice between balancing the economy and the deficit, see Mongia (1995) and Meyers (1988, 28-30).

19. Under a system with two sets of one-year appropriations, Congress might choose to index certain second-year outlays to inflation.

20. According to the GAO, America's federal budget process "needs to adopt a longer-term planning horizon linking fiscal policy with broader

goals for the performance of the economy" (GAO 1992, 16).

21. In a letter to the author dated August 2, 1993, Rivlin reiterated her support for biennial budgeting.

22. For a fuller discussion of the timing of biennial budgeting (and implications for political stability), see Bowsher (1984, 6) and Irving (1993, 6). Also, note that extension of the budget period is constrained by the length of the election cycle in the House of Representatives.

23. For more comprehensive discussions of improving financial management within the federal government, see Bowsher (1984, 8-9); Gore (1993); NPR (1993); and Symposium on NPR recommendations (1995, 4-42).

24. A brief discussion of state budget review and adjustment mechanisms can be found in NJOMB (1995, 7-8).

References

American Enterprise Institute. 1983. *Proposals for a biennial budget*.

Washington, DC: American Enterprise Institute.

Art, Robert J. 1989. The Pentagon: The case for biennial budgeting.

Political science quarterly (104, no. 2), 193-214.

Bowsher, Charles A. 1988. *Budget reform for the federal government*.

GAO testimony before the Committee on Governmental Affairs, U.S. Senate (June 7).

_____. 1984. *Biennial budgeting: Summary of the major issues*.

Washington, DC: GAO Office of the Comptroller General.

Buck, A.E. 1934. *The budget in governments of today*. New York:

Macmillan.

Budget changes planned. 1995. *Investor's business daily* (January 24),

B1.

- Competitiveness Policy Council. 1992. *Building a competitive America*. Washington, DC: Competitiveness Policy Council.
- Congressional Budget Office. 1994. *The economic and budget outlook*. Washington, DC: U.S. Government Printing Office.
- _____. 1977. *Advance budgeting*. Washington, DC: Congressional Budget Office.
- Congressional Quarterly Almanac*. 1989. Washington, DC: Congressional Quarterly.
- _____. 1987. Washington, DC: Congressional Quarterly.
- Council of State Governments. *Annual or biennial budgets?* Lexington, KY: Council of State Governments.
- Credible proposal in a time of fiscal crisis. 1992. *Los Angeles times* (June 7), M4.
- Dertouzos, Michael and the MIT Commission on Industrial Productivity. 1989. *Made in America*. Cambridge, MA: The MIT Press.
- Domenici, Pete. 1992. Capitol Hill hearing. *Federal news service report* (September 30).
- _____. 1987. Reformation road. *The Washington post* (January 12, 1987), A13.
- Dore, Ronald. 1986. *Flexible rigidities*. Stanford, CA: Stanford University Press, 1986.
- Eckl, Corina. 1993. Annual versus biennial budgets. *National Conference of State Legislatures legisbrief* (v. 1, no. 17).
- Ford, Wendell. 1981. Two-year budget cycle would remove delays and chaos in budget process. *Congressional record -- Senate* (November

24, 1981), 28954.

General Accounting Office. 1992. *Budget policy: Prompt action necessary to avert long-term damage to the economy.* Washington, DC: GAO Office of the Comptroller General.

_____. 1989. *Managing the cost of government: Proposals for reforming federal budgeting practices.* GAO Accounting and Financial Management Division.

Greenstein, Robert. 1993. *Testimony before the Subcommittee on Legislation and National Security, Committee on Government Operations, U.S. House of Representatives (October 7).*

Irving, Susan J. 1994. *Budget process: Some reforms offer promise.* GAO Testimony before the Subcommittee on the Legislative Process, Committee on Rules, U.S. House of Representatives (March 2).

_____. 1993. *Budget policy: Biennial budgeting for the federal government.* GAO Testimony before the Subcommittee on Legislation and National Security, Committee on Government Operations, U.S. House of Representatives (October 7).

Joint Committee on the Organization of Congress. 1993. *Organization of Congress.* Washington, DC: U.S. Government Printing Office, 1993.

Kimmel, Louis H. 1959. *Federal budget and fiscal policy, 1789-1958.* Washington, DC: The Brookings Institution.

Kirkman, James L. 1989. *Budget issues: biennial budgeting bills in the 101st Congress.* Washington, DC: GAO Accounting and Financial Management Division.

_____. 1987. *Budget issues: current status and recent trends of state biennial and annual budgeting.* Washington, DC: GAO

Accounting and Financial Management Division.

- Lee, Robert D. and Ronald W. Johnson. 1989. *Public budgeting systems*, 4th edition. Rockville, MD: Aspen Publishers.
- Maitland, F.W. 1920. *The constitutional history of England*. Cambridge, England: Cambridge University Press.
- Mann, Thomas. 1993. *Testimony* before the Subcommittee on Legislation and National Security, Committee on Government Operations, U.S. House of Representatives (October 7).
- Margeson, Michael D. and James Saturno. 1987. *Congressional approaches to biennial budgeting*. Washington, DC: Congressional Research Service.
- Meyers, Roy T. 1988. Biennial budgeting by the U.S. Congress. *Public budgeting and finance* (8, no. 2).
- Mongia, Sanjay, editor. 1995. *Assessing the constitutional route to federal budget balance*, public policy brief no. 20. Annandale-on-Hudson, NY: Jerome Levy Economics Institute.
- Myers, Morton A. 1982. *Biennial budgeting: The state examples -- summary of the major issues*. Washington, DC: GAO Program Analysis Division.
- National Performance Review. 1993. *Monograph on financial management*. Washington, DC: The White House.
- New Jersey Office of Management and Budget. 1995. *Biennial budgeting survey*. Trenton, NJ: New Jersey Office of Management and Budget.
- Ogg, Frederic Austin. 1944. *English government and politics*. New York: Macmillan.
- Panetta, Leon E. 1977. *The Biennial budgeting act of 1977*.

Congressional record -- House (September 13), 29015-29016.

Porter, Michael. 1992. *Capital choices*. Washington, DC: Council on Competitiveness.

Posner, Paul L. 1993. *Balanced budget requirements*. Washington, DC: GAO Accounting and Financial Management Division.

Punnett, R.M. 1968. *British government and politics*. New York: W.W. Norton.

Rauch, Jonathan. 1986. Biennial budgeting taking root. *National journal*. (September 27), 2318-2319.

Rivlin, Alice. 1984. Reform of the budget process. *American economic review* (74, no. 2), 133-137.

_____. 1981. Congress and the budget process. *Challenge* (March-April), 31-37.

Schick, Allen. 1995. *The federal budget*. Washington, DC: The Brookings Institution.

Scully, Tom. 1995. Interview on National Public Radio's "Morning Edition" (February 6) on federal budgeting and his work in the Office of Management and Budget during the Bush Administration.

Sichel, Daniel E. 1995. What's in store? *The Brookings review* (13, no. 2), 20-25.

Snell, Ronald K. 1994. *Annual and biennial budgeting: The experience of state governments*. Denver, CO: National Conference of State Legislatures.

_____. 1993a. *Annual and biennial budgeting: The experience of state governments*. Prepared statement to the Subcommittee on Legislation and National Security, Committee on Government

Operations, U.S. House of Representatives (October 7). [A version of this testimony appears as a 1995 article in *Spectrum: The journal of state government* (68, no. 1), 23-27.]

_____. 1993b. State experiences with annual and biennial budgeting. *The fiscal letter* (September-October), 10-11.

Stourm, Rene. 1917. *The budget*, translated by Thaddeus Plazinski. New York: D. Appleton.

Sundelson, J. Wilner. Budgetary principles. *Political science quarterly* (50, no. 2), 236-263.

Symposium on NPR recommendations. 1995. *Public budgeting and finance* (15, no. 1), 4-42.

U.S. House of Representatives, Committee on Government Operations, Legislation and National Security Subcommittee. 1993. *The vice president's national performance review -- recommending a biennial budget process*. Washington, DC: U.S. Government Printing Office.

U.S. Senate, Committee on Governmental Affairs. 1987. *Biennial budget act*. Washington, DC: U.S. Government Printing Office.

Whalen, Charles J. 1994. Should the U.S. government adopt a biennial budget? *Levy Institute working papers*, no. 128. Annandale-on-Hudson, NY: Jerome Levy Economics Institute.

Wiggins, Charles W. and Keith E. Hamm. 1984. *Annual versus biennial budgeting?* College Station, TX: Public Policy Resources Laboratory.

Wildavsky, Aaron. 1988. *The new politics of the budgetary process*. Glenview, IL: Scott, Foresman and Company.

TABLE 1
BIENNIAL BUDGETING STATES IN 1995

<u>Annual Legislative Session</u>	<u>Biennial Legislative Session</u>
Connecticut	Arkansas
Hawaii	Kentucky
Indiana	Montana
Maine	Nevada
Minnesota	North Dakota
Nebraska	Oregon
New Hampshire	Texas
North Carolina	
Ohio	
Virginia	
Washington	
Wisconsin	
Wyoming	
<hr/>	<hr/>
Total of 13 States	Total of 7 States

Source: National Conference of State Legislatures, May 1995