

Should the U.S. Government Adopt a Biennial Budget?

by

Charles J. Whalen\*

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\*Resident Scholar, The Jerome Levy Economics Institute of Bard College

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## ABSTRACT

Proposals that would establish a two-year budget and appropriations cycle for the U.S. government have received increasing attention during the past two decades. This paper provides a historical overview of such recommendations. It also outlines and assesses -- with the aid of evidence that includes results from state-level studies -- arguments for and against this budget reform. While acknowledging that the budget period and process timeline do not determine the quality of policy outcomes by themselves, the author concludes that a two-year cycle is likely to offer some improvement over the present system. Expected gains include elimination of procedural repetition, and increased opportunities for program management, congressional oversight, and long-range planning. This reform might also contribute to both greater economic stability and efforts designed to achieve further deficit reduction.

Vice President Al Gore's National Performance Review (NPR) report -- *From Red Tape to Results: Creating a Government that Works Better and Costs Less* -- has called for the United States to adopt a two-year federal budget by 1996 [Gore 1993, 17]. This paper provides a historical overview of proposals for biennial budgeting. It also outlines and assesses arguments for and against this recommendation.

The essay concludes that a two-year budget and appropriations cycle is likely to offer a number of advantages over the present system. During the biennium, officials in Washington should experience a reduced budget workload. The combination of a longer budget period with this chance to devote additional attention to oversight and other nonbudget matters is one that provides new opportunities for making policies more effective, promoting economic stability and perhaps even for reducing the federal deficit. But we should not expect too much from this or any process reform. The best procedural reforms will only facilitate, not ensure, improved policy outcomes. Moreover, budget decisions are political decisions -- and political problems are rarely prevented by procedural revisions.

### ***Proposals***

Researchers and Washington legislators have presented a variety of biennial-budgeting proposals during the past two

decades. This section discusses five recommendations -- four congressional bills and the Clinton Administration's NPR proposal. An examination of these suggestions offers insight into both the history of this proposed reform and the diversity of alternate timetables. We begin with Leon Panetta's "Biennial Budgeting Act of 1977."

#### The Panetta Bill

One of the first bills seeking to put the U.S. government on a two-year budget cycle was introduced in September of 1977 by Leon Panetta, then a first-term Congressman from California. Panetta's bill retained the general framework established by the 1974 Congressional Budget Act, but stretched decision-making over a two-year period and built in time for congressional oversight.<sup>1</sup> "The congressional budget process is now little more than a blueprint for recurring fiscal crisis," he stated while introducing his proposal. "The heart of the problem is the one-year budget time frame" [Panetta 1977a].<sup>2</sup>

Panetta's "Biennial Budgeting Act of 1977" contained a budget schedule that would begin with the President's submission of both a current services budget and a biennial budget at the start of each two-year, congressional term.<sup>3</sup> The first six months of each congressional term 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 while legislative committees would report all authorizing legislation.

greater aggregate-demand stability.<sup>24</sup> While political economists have long been concerned about the destabilizing effects of unanticipated monetary fluctuations, we should not ignore the similarly disruptive impact of frequent and unpredictable fiscal policy changes -- especially in the present era of "Big Government" capitalism.<sup>25</sup>

Finally, a two-year budget would make it somewhat easier for corporations to extend their own planning horizons. The Competitiveness Policy Council, M.I.T.'s Commission on Industrial Productivity, and other research teams have recently underscored the need to extend decision-making vistas and end America's preoccupation with short-term results. Biennial budgeting can contribute to this important determinant of improved U.S. competitiveness [Competitiveness Policy Council 1992; Dertouzos et al. 1989; Porter 1992].<sup>26</sup>

#### IV. Reducing the Deficit

A number of features of two-year budgeting might help reduce the federal deficit. These include reduced opportunities for each of the following: alteration of long-range strategies; use of year-end budget gimmicks; and capitulation to the demands of special interests [House 1987, 89; Wiggins and Hamm 1984, V-5; CSG 1972, 13]. But since procedural reform is no substitute for political will, we should not expect too much in this realm. Nevertheless, two additional aspects of biennial budgeting might provide especially helpful if the will is indeed there. One, mentioned above, is the increased opportunity for oversight. The

introducing his proposal that the approach was "not entirely new." In particular, Panetta noted that Senator Warren Magnuson had proposed separate authorizing and appropriating periods within a single-year fiscal period; that other members of Congress had suggested that the two-year approach bears examination; and that a study conducted by the Congressional Budget Office (CBO) "was largely favorable and it recommended that the Appropriations Committees begin immediately by examining the budget for programs that could be most easily switched to a two-year cycle" [Panetta 1977a, 29016].

#### The Ford Bill

Panetta introduced his proposal regularly in the years following 1977. By 1981 he had 35 cosponsors. In addition, in the fall of that year Kentucky's Senator Wendell Ford introduced a similar proposal.

The Ford bill was introduced at a time of great budgetary chaos. In fact, when Ford spoke on the Senate floor on behalf of his bill late in November of 1981, he noted that none of the regular appropriations bills had been enacted yet; that the second budget resolution had not even been reported out of committee; and that President Reagan's veto was blocking a continuing resolution. Ford's conclusion:

In my opinion, the tragic stalemate we have reached in providing funds for the operation of the Government stems quite largely from our retention of the archaic annual budget system

-- a system which simply does not afford time for the executive and legislative branches to budget and appropriate effectively [Ford 1981, 28828].

Like Panetta, Ford reintroduced his proposal in subsequent years. In 1983, for example, Ford had 10 cosponsors, including Senators Dan Quayle, Nancy Kassebaum, Dale Bumpers, Sam Nunn, and Paul Tsongas. Major differences between the 1983 Ford bill and the aforementioned Panetta bill were as follows: Ford scheduled action on the first budget resolution by July 31 of the first congressional session -- eight months before such action would be mandated by Panetta's proposal; Ford would require the bulk of legislative oversight to occur during Congress's second session; and Ford allowed more time for preparation and consideration of reconciliation (i.e., his bill would complete action on the second budget resolution more than a month before the date set by Panetta) [American Enterprise Institute (AEI) 1983, 6-10].<sup>4</sup>

#### The Roth Bill

Another federal legislator proposing a biennial budget in the early 1980s was Delaware Senator William Roth. Upon reintroducing his proposal in January of 1985, Roth noted, "It is clear that there is growing momentum for a two-year budget process" [Roth 1985, 69]. In particular, he noted that the Senate Governmental Affairs Committee had recently held hearings during which Alice Rivlin (the CBO's first director), Charles Bowsher (Comptroller General) and others testified favorably on the legislation. He

also noted that the National Association of Public Administration, the Grace Commission, and the National Governors Association endorsed the two-year budget concept.

The Roth proposal would have Congress prepare and approve a biennial budget during the first year of each new congressional term. This bill required action on a single, binding budget resolution by May 31. It also required action on a two-year, omnibus appropriation bill by October 15. The biennial fiscal period would begin January 1 just prior to the start of Congress's second session -- a session devoted to oversight and consideration of authorizations.

Roth noted that this timetable would not only provide more time for oversight but also permit each new President and Congress "to put their policies into place in the first year of their respective terms." In contrast, under the Panetta and Ford bills, budget decisions would not go into effect until only a month before the election of a new Congress [Roth 1985, 69-70]. Like the other bills discussed so far, however, Roth's proposal would permit supplemental appropriations.

#### The Hutto Bill

Yet another version of the two-year budget has been offered by Congressman Earl Hutto of Florida. This bill offers still another date for the start of the budget period -- October 1 of the first congressional session.

In 1985, Hutto explained his proposal as follows:

Unlike previous bills that have been

introduced, under our proposal, the Congress will complete all authorizing and appropriating actions during the first year of the cycle. A single concurrent resolution on the budget for the two fiscal year period will be completed by May 15 [of the first congressional session]. The second year of the cycle will be devoted to planning, evaluation, oversight and supplemental funding and emergency authorization [Hutto 1985, 1142].

Speaking for himself, and cosponsors Les Aspin, Trent Lott, and James Courter, Hutto added: "We believe the primary issue for [this] Congress is to get a handle on Federal spending, and we are convinced that going to a two-year budgeting cycle will help considerably" [Hutto 1985, 1142]. The *Congressional Record* indicates at least 22 additional sponsors were added to Hutto's bill in early 1985.

#### The NPR Proposal

The "growing momentum" for a biennial budget that Senator Roth noted in 1985 appears to have continued to the present. *National Journal*, a weekly news magazine devoted to national politics and policy, drew attention to the issue in a September 1986 story entitled "Biennial Budgeting Taking Root." In the story, reporter Jonathan Rauch stated that to call the present budget process "time-consuming or inefficient hardly does it justice." He

suggested both that biennial budgeting would be an improvement and that "the idea is likely to keep appearing, given that the annual budget has seemed to become almost interminable in recent years" [Rauch 1986, 2319].

Rauch's article identified a number of biennial-budgeting supporters, including Gerald Miller of the National Association of State Budget Officers (NASBO), then White House chief of staff Donald Regan, and Senator Pete Domenici of New Mexico. In fact, Domenici -- the ranking Republican of the Senate Budget Committee -- underscored his support for a two-year budget cycle in a *Washington Post* op-ed essay in January of the following year [Domenici 1987]. Others expressing support for biennial budgeting since 1986 include: Senators Charles Robb and David Boren; Congressmen William Gray, Frank Horton, Ralph Regula, and Jamie Whitten; James Miller, Director of the Office of Management and Budget (OMB) during the Reagan Administration; Nicholas Brady, Treasury Secretary for the Reagan and Bush Administrations;<sup>5</sup> Democratic members of the 1988-1989 National Economic Commission; economists Lawrence Chimerine (of Chase Econometrics), Ronald Utt (of the U.S. Chamber of Commerce), Charles Schultze and Murray Weidenbaum; and policy-scholars Aaron Wildavsky and Thomas Lynch.<sup>6</sup>

The Clinton Administration's 1993 NPR report notes that seven out of ten members of Congress now favor a budget process with multi-year authorizations and a biennial budget resolution. With biennial budgets, the report suggests, legislators and other public officials "might spend more time examining which programs actually

work." Moreover, NPR argues that annual budgets "consume an enormous amount of management time -- time not spent serving customers" [Gore 1993, 17].

The NPR report recommends biennial budget resolutions and appropriations and multi-year authorizations. It calls for the first biennium to begin on October 1, 1996 and cover fiscal years 1997 and 1998. The report also states: "In off years, the President would submit only amendments for exceptional areas of concern, emergencies, or other unforeseen circumstances" [Gore 1993, 17]. Since that report was published, the Joint Committee on the Organization of Congress expressed bipartisan support for biennial budgeting and at least three new bills have been introduced before Congress [Cohen 1994, 33; "At a Glance" 1994, 376].

#### Review

The preceding discussion provides evidence of the wide range of proposals that have been developed in an effort to establish a two-year federal budget cycle. The five proposals discussed are not a comprehensive catalogue of alternatives.<sup>7</sup> Still, they present a variety of recommendations regarding the start of the budget period and the timing and/or frequency of congressional action with respect to authorizations, appropriations, budget resolutions and legislative oversight (see Table 1 for a comparison of these proposals). One must keep this array of variables and combinations in mind when evaluating the arguments of both those who advocate and oppose biennial budgeting.

TABLE 1  
BIENNIAL BUDGETING PROPOSALS COMPARED

	Panetta 1977	Ford 1983	Roth 1985	Hutto 1985	NPR 1993
Would Lengthen Budget Approval (including Appropriations) Process?					not stated
yes	X	X	X		
no				X	
Would Expand Budget Approval Process over a Two-Year Period?					not stated
yes	X	X			
no			X	X <sup>a</sup>	
Designated Congressional Oversight Period:					not stated
in 1st Session	1st 6 months				
in 2nd Session		X	X	X	
The First Full Congressional Session Covered by a New Biennium:					
1st Session	X	X			X
2nd Session			X	X	
Biennium Begins:					
October 1	X	X		X	X
January 1			X		
Allows Rescissions and Supplemental Appropriations?					
yes	X	X	X	X	X
no					

<sup>a</sup>Unlike the Roth bill, this proposal permits spending authorizations during the second year of a biennium only in emergencies.

### *Issues*

This section is divided into two parts. Part one presents arguments made in favor of a two-year federal budget. Part two identifies arguments against this process reform. The following section ("Evaluation") will assess these arguments by considering both evidence from state-level studies and the views of federal budgeting participants and observers.<sup>8</sup>

#### Arguments for Biennial Budgets

Supporters argue that a two-year budget and appropriations cycle would streamline the budget process by eliminating much procedural repetition. They suggest this cycle will also make federal policies more effective. In particular, proponents suggest biennial budgeting allows public officials more time for program oversight and goal-setting; encourages serious long-range planning; helps improve the quality of budget debates and decisions; and enables better integration of policy needs and fiscal objectives.<sup>9</sup>

Supporters also maintain that such a system would engender greater economic stability than we have at present. For example, they suggest that less frequent changes in taxes and expenditure programs would reduce uncertainty and prevent disruptions that are often costly to both the public and private sectors. At the same time, legislators would have a better opportunity to consider major policy changes and new programs.

Finally, many advocates of this approach believe it would make budget-deficit reduction easier to achieve. There are at least three reasons offered in support of this perspective. First,

multi-year targets might be more easily set and met because change could be imposed gradually. Second, the system would give officials fewer chances to scrap or modify long-term strategies. Third, biennial budgets would reduce the number of opportunities for legislators and organized interests to press for enactment of special projects.

#### Arguments against Biennial Budgets

Opponents argue that biennial budgets will not make budgeting any easier. The inherent difficulty of making budget choices in the face of competing economic interests, priorities and political alliances ensures that meeting deadlines will continue to be a problem.<sup>10</sup> Further, Congress's attention to the budget will not be reduced, for legislators will expand the debate to fill whatever time is available.

In fact, opponents suggest a two-year budget period means more budget work throughout the cycle. There is more work in the preparation stage because officials would need to forecast budgetary needs for two years. But there is also more work after a budget is enacted -- because changing economic conditions and unexpected demands would lead to frequent budget adjustments and greater use of supplemental appropriations. Such tinkering, opponents argue, would be inevitable due to the unreliability of two-year budget projections. Opponents also note that mid-cycle revisions do not merely mean more work -- they also complicate planning and undermine economic stability.

Some suggest that biennial budgeting reduces congressional

control over both the budget and the executive branch. There have even been concerns expressed regarding the difficulty of apportioning funds over a two-year period. One is that a desire to avoid a shortage of funds at the end of a two-year fiscal period might encourage agencies to seek even greater funding levels. This strategy, and the reduced accuracy of fiscal estimates, could make deficit reduction even more difficult.

Another argument against this form of budgeting is that it causes us to lose an important feature of the present system: flexibility. 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 the public. Flexibility seems especially important in the realm of appropriations. Many recent analyses have expressed support for a biennial budget resolution and multi-year authorizations while rejecting two-year appropriations for precisely this reason.<sup>11</sup>

The timing of the start of a biennial-budget period is yet another problem. Opponents argue that a budget period beginning during the first congressional session would be inappropriate because it would require too much too soon. But they also argue that a budget period that commences later would create problems as well. In particular, it would make newly-elected officials wait even longer before they could shape a budget consistent with their campaign pledges. Indeed, some biennial-budget proposals would establish a system whereby one Congress appropriates funds for nearly the entire duration of the next Congress. As a study by one

congressional committee noted in 1987, "The delayed impact of a biennial budget would probably be felt hardest by the members of the House of Representatives where the election cycles are the shortest" [House 1987, 12].

Two final concerns noted by opponents of two-year budget proposals are as follows. First, as Robert Reischauer warned in 1985, "mandating a radical change in the scope or the timetable of the process could lead to its collapse" [quoted in AEI 1983, 2].<sup>12</sup> Finally, some maintain that talk about budget-process reform detracts from the more pressing task of constructing a meaningful one-year budget for the next fiscal year. Those who view next year's budget as their top priority consider discussions of biennial budgets to be an annoying distraction.<sup>13</sup>

### ***Evaluation***

#### Assessment of Arguments for Biennial Budgets

##### I. Streamlining the Process

In the 1983 edition of *Public Budgeting Systems*, Robert Lee and Ronald Johnson wrote that the major problem with annual budgeting is that little "breathing time" is available: "both the executive and legislative branches are continuously in the throes of budgeting." In contrast, they concluded that the biennial approach "relieves participants of many routine budget matters and may allow greater time for more thorough analysis of governmental activities" [Lee and Johnson 1983, 63]. Many other observers -- see, for example Wiggins and Hamm [1984, III-20 and V-6] -- have reported similar findings and conclusions throughout the past two

decades.

One of these observers is Alice Rivlin, now the director at OMB. Rivlin has for years argued that the present process causes officials to "spend enormous amounts of time going over the same decisions" -- often leaving us little time for other matters [quoted in Rauch 1986, 2319; Rivlin 1981]. She acknowledges that although biennial budgeting would not make decisions any easier, "at least you wouldn't have to do them as often" [quoted in House 1987, 91].<sup>14</sup>

In fact, since deadlines are often missed and budget preparation begins more than a year in advance, problems with our process often go beyond fighting the same battles again and again.<sup>15</sup> As Rivlin's predecessor, Panetta, noted during congressional testimony in October of 1993,

While we haggle over the details of the remaining several Fiscal Year 1994 appropriations bills, the OMB and the various departments and agencies are already devoting a substantial amount of their time and resources to the development of the President's fiscal year 1995 budget [Panetta 1993, 2].

A two-year budget, Panetta concluded, "would undoubtedly reduce the amount of resources put into budgeting" [Panetta 1993, 2].

Senator Pete Domenici agrees. In his January 1987 *Washington Post* essay, he wrote:

There is no reform that will substitute for the responsibility of the individual committee

or member to conduct the business of government in an orderly or timely manner. But there are changes that could lessen the burdens of the current procedures [Domenici 1987, A13].

According to Domenici, Congress spends about 90 percent of the annual appropriations process in activity that "is a repetition of the previous year's work" [Rauch 1986, 2318]. Domenici would put an end to this practice:

[W]e ought to let members of Congress spend a year doing other business and a year doing the business of the fiscal policy of the nation. . . . I see no reason why we couldn't do it all [i.e. the budget work] on a two-year cycle," [quoted in Rauch 1986, 2318].

A 1987 *National Journal* article on budget-reform proposals indicated that biennial budgeting had considerable support in Congress and "is widely viewed as important to unclogging the overburdened budget process" [Haas 1987, 1714].<sup>16</sup> This view is supported by a House of Representatives report on budget-reform hearings held in the Spring of 1987. Numerous witnesses and legislators participating in these hearings argued that biennial budgets would indeed reduce the time federal officials devote to budgeting [House 1987].<sup>17</sup>

Their conclusion is also shared by Susan Irving, a budget specialist at the General Accounting Office (GAO), and James Blum,

deputy director of the CBO. During congressional testimony in March of 1994, Irving observed that much of the budget work inside government agencies "is repetitious" and that "the savings in agency time could be significant" under a biennial budget [Irving 1994, 7]. Blum's remarks at the same hearing indicated that two-year budgeting would be beneficial to executive agencies because it would enable managers to focus their time and attention more effectively on management, evaluation and planning [Blum 1994, 6].

GAO research on state experiences with biennial budgets also provides support for this view. A 1989 report issued by the Comptroller General noted that in the states with biennial budgeting, "off-year budget adjustments did not consume as much time as regular budgeting, leaving more time for other legislative activities" [GAO 1989b, 28]. Additional evidence is contained in a 1987 GAO survey-based study that examined state budget-period changes since 1967. Among its findings are the following: officials in most of the states changing to annual budgets reported significant increases in executive and legislative time spent on budgeting activities;<sup>18</sup> and most officials in states changing to biennial budgets reported an increase in the time devoted to their nonbudgeting activities [GAO 1987]. The 1987 study also notes that nearly all officials in states with annual legislative sessions and biennial budgets reported that their legislature devotes significantly less time to budget matters in the off-year relative to the year in which a budget is approved -- and 2/3 of the respondents indicated that in the off-year their legislature spends

"much less" time in such activities [GAO 1987, 29].<sup>19</sup>

Finally, the assertion that biennial budgeting would be impractical at the federal level is rejected categorically by the executive director of the body representing state budget officers. NASBO's Miller argues that many state budgets are every bit as complex as the federal budget, and he concurs with those who argue that biennial budgeting would significantly reduce work on the federal budget in Washington [Rauch 1986, 2319].

## II. Making Policies More Effective

Would a streamlined process improve oversight, program management, policy analysis and planning? The answer, of course, depends in part on executive and legislative-branch leadership and the demands officials place on public agencies [Irving 1993, 5]. Nevertheless, there are grounds for believing that biennial budgeting will have a positive influence on both fiscal policy and other realms of federal decision-making and action.

For example, the current budget process is widely viewed as a major obstacle to making policies more effective. Members of Congress and outside observers both maintain that the present process expects the impossible in terms of simultaneous analyses of budgets and existing and proposed programs. As a result, Ford argues, legislators make poor, hasty decisions -- "with inadequate consideration of the need or the consequences" [AEI 1983, 1].<sup>20</sup> In fact, a 1984 GAO study analyzed perceptions regarding the federal budgeting workload and the crowding-out of time for oversight and other activities. The report concluded that "the

problems are serious and need to be solved" [Bowsher 1984, 9].<sup>21</sup>

While biennial budgeting will not solve these problems by itself, officials working with a two-year process will at least have an opportunity to devote more time and resources toward the improvement of public policy. It will also alleviate problems caused by the current need to prepare budgets without knowledge of action on previous ones. Moreover, it may also reduce the benefits that special interests gain from the hurried nature of the present process.

State-level experience provides another reason for believing that policies can be made more effective by adopting a biennial budget. According to the National Conference of State Legislatures (NCSL), advantages of biennial state budgets are that they encourage greater attention to program review and evaluation and are conducive to long-term planning.<sup>22</sup> A NCSL policy brief on the subject adds that such budgets enhance stability in state agencies [Snell 1993; Snell testimony in House 1993, 88; Eckl 1993, 2].

Research by the GAO and Council of State Governments (CSG) supports these views. For example, the GAO indicates that states changing to an annual budget report problems including adverse impacts on budget execution, program analysis, and long-range planning. States adopting a biennial system, meanwhile, report positive developments in these areas [GAO 1987]. Similar findings in states with biennial budgets are reported in both a 1982 GAO paper and a 1972 CSG study [GAO 1982; CSG 1972]. These considerations led Connecticut to adopt two-year budgeting in 1992.

### III. Promoting Economic Stability

As we have already mentioned, biennial state budgets contribute to agency stability. In fact, evidence indicates that annual budgeting "encourages short-term fiscal decisions," while biennial budgeting causes both executive-branch officials and legislators "to consider the long-range implications" of budget requests and program operations [GAO 1987, 14, 22]. This suggests similar outcomes could be obtained at the federal level as well. But agency performance is actually only one of many dimensions to the matter of stability under two-year budgeting. Issues here range from the question of whether biennial budgeting will reduce the use of continuing resolutions, to the possibility that such budgets may encourage private-sector actors to adopt longer decision-making time horizons.

Some have suggested that a biennial system would make it easier to meet budget deadlines and thus eliminate the need for continuing resolutions to prevent funding gaps. While a streamlined process might make meeting deadlines somewhat easier, members of the House Committee on Government Operations were certainly correct when they stated in 1987 that biennial budgeting would not necessarily eliminate these missed deadlines and gaps. Nevertheless, as the committee also observed, such budgeting would "reduce the frequency with which those deadlines are faced and therefore reduce the number of times that Congress would have to face continuing resolutions and government shutdowns" [House 1987, 10].

Proponents of biennial budgeting also argue that an important benefit of such a system would be increased financial security for state and local governments. In fact, many states adopting an annual budget in the past few decades have done so partly to allow a quick response to federal policy changes; and community officials have long been concerned that the vagaries of the federal budget process make local budgeting difficult [Eckl 1993; CSG 1972; Moore 1986]. Unless combined with some form of advance budgeting, two-year federal budgets would, of course, bring greater funding certainty to states and localities only every other year. Still, the fact that this reform is a step in the direction of greater stability cannot be ignored.

According to NASBO's Miller, two-year federal budgeting "would be a positive step, not only for the federal government, but also for the states that have to deal with the federal government" [quoted in Rauch 1986, 2319]. A study considering the impact of federal budgeting on states, conducted for the CBO by the accounting firm of Peat, Marwick, and Mitchell during the 1970s, led that Office to the same conclusion [Panetta 1977a, 29016]. Moreover, states, local governments and other recipients of federal money were identified as among the "main beneficiaries" of biennial budgeting by the CBO's Reischauer during 1993 testimony on the NPR proposal [Reischauer 1993, 5-6].

The added stability of biennial budgets would probably also have a positive impact on other realms of fiscal policy. As Rivlin notes:

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].<sup>23</sup>

Moreover, while multi-year budgeting provides fewer scheduled opportunities for policy changes than an annual process, Wildavsky observes that the former permits larger changes "to be effected in a more orderly way" [Wildavsky 1988, 415].

The macroeconomy might also be more stable in an era of biennial budgeting. This is especially true if public officials prepare for future cyclical fluctuations by increasing reliance on policies triggered by economic conditions and on other forms of automatic stabilizers. Even with off-year inflation adjustments, biennial budgets should allow participants in financial and other markets to experience not only reduced policy uncertainty but also

other is that a decision taking effect in two years "could be easier for people to adjust to than one that takes effect in a few months" [Panetta, quoted in Kilborn 1988, B8].<sup>27</sup>

#### Assessment of Arguments against Biennial Budgets

##### I. Budgeting Will Remain Difficult

Wildavsky has written that budgeting "lies at the heart of the political process" [Wildavsky 1988, 8]. Since this process is a key mechanism by which citizens seek to resolve conflicts of interests and priorities, budgeting will indeed remain difficult -- especially in the present era of problems that require tough fiscal choices. But while biennial-budgeting supporters acknowledge that "procedural changes will not make these choices easier," one finds very few observers who see no benefit in a streamlined process [Rivlin 1984, 137; Kilborn 1988, B8].

##### II. Budget Work Will Increase

Since both the President's budget and congressional budget resolutions now contain multi-year estimates, budget preparation in a biennial system will not increase as much as some fear. In fact, OMB officials report that numbers in the President's budget "are as precisely worked out as for the fiscal year at hand and serve as the ceilings for the next year's budget request" [Rauch 1986, 2319]. Further, while moving to a two-year system is likely to both produce less accurate fiscal forecasts and cause some increase in budget adjustments, state experience discussed above suggests that considerable workload reductions can still be found in off-years.<sup>28</sup> Moreover, as many observers note, "the reality is that

changes in hundreds of accounts are relatively small and predictable" [Panetta 1993, 2]. In short, work under a biennial process is unlikely to come close to the burden of an annual budget and appropriations cycle [Panetta 1993, 5; Panetta 1977b, 36407].<sup>29</sup>

But what of the fear that Congress will expand the budget debate to fill whatever time is allotted? Since there is probably some merit to this argument, federal officials might choose to follow the lead of states and avoid biennial-budgeting proposals that stretch the process out over two years. In fact, one finds that what some have called the "split-sessions" approach (which devotes an entire session to oversight) is found in nearly all recent proposals for a two-year budget. The Roth bill discussed above comes the closest to offering a compromise between the "stretch" and "split-sessions" alternatives in that it would allow more budget attention during a single session by moving the start of the fiscal year to January 1. This change could be quite useful since current law requires a newly-elected President to submit a full budget within two weeks of inauguration.

### III. Reducing Control

The concern over reduced congressional control presumes control exists at present; but many argue that the budget process itself has taken control of Congress for well over a decade. By streamlining the process and providing an opportunity to improve policies through greater oversight and planning, biennial budgeting may actually help give members of Congress a chance to both exert greater control over public-sector activity and consider more

carefully the budget's impact on the economy.<sup>30</sup> In fact, views similar to this have been expressed by both CBO and GAO researchers [Panetta 1977a, 29016; GAO 1989b, 28].<sup>31</sup> The points to be underscored here are that congressional "control" must be conceived as involving more than the frequency with which budget decisions are made, and that control in that narrow sense comes at the expense of lost opportunities for greater economic stability and efficiency.<sup>32</sup>

#### IV. Budget-Period Problems

Choosing a starting date for the budget period is difficult -- especially if one seeks to avoid a process that reverts back to an annual one due to political pressure for supplementals and other policy changes. While the NPR recommends that the biennium begin October 1 of even-numbered years, most federal proposals (and states with biennial budgeting) call instead for two-year budgets that take effect before the start of the legislature's second session. In her 1993 testimony, Irving indicated the GAO prefers an arrangement that concentrates budget activity in the first session of each Congress and oversight in the second. As she explained:

Under this approach, the biennium would begin October 1 of odd-numbered years, and thus budgets would be adopted during the first year of a President's term and at the start of each new Congress. This would prevent a situation in which a new Congress and a new President would face the prospect of operating for nearly 2 years

under an earlier approved budget. Otherwise, the pressure for major changes in the off-year would be great.<sup>33</sup>

Approving a new budget during Congress's first session makes sense. To accommodate those who worry that this arrangement would require too much budget action too soon, legislators might choose to move the start of the biennium to January 1 of even-numbered years -- as recommended in a 1984 report submitted to Congress by Bowsher [Bowsher 1984, 6]. This would still offer the benefits of the approach described by Irving.

#### V. Other Concerns

There is no reason to expect that biennial budgeting will lead to a collapse of the budget process. In fact, even reduced budget flexibility should not be a major concern because supplemental appropriations, rescissions and other adjustments can be made in the event of changing circumstances that require immediate action [Panetta 1993, 2].<sup>34</sup> Further, as Rivlin [1981, 37] suggests, our present budgeting system is one that permits *too much flexibility* and suffers from *too little stability, continuity and policy planning*.<sup>35</sup> Indeed, fluctuations caused by changing economic conditions can often be addressed effectively by increasing our reliance on automatic triggering mechanisms (as mentioned above) and shifting our focus toward cyclically-adjusted (or "high-employment") measures of budget deficits. By taking these steps to introduce increased "rigidity" into the budget process, officials might be liberated in a way that permits greater attention to the

more fundamental challenges confronting our society.

Finally there is the concern of those who view discussions of biennial budgeting as an annoying distraction -- a distraction from the more pressing task of crafting a meaningful one-year budget for the next fiscal year. The fact that this concern has been expressed by legislators in *November* (see Kilborn [1988]) speaks volumes about the present process -- though the message is not the one intended by those who voice it. An expression of this concern so soon in the fiscal year suggests there is indeed a need to streamline the budget process.

### ***Summary and Conclusion***

This paper has traced the history of proposals for a two-year federal budget. It has also outlined and assessed the arguments for and against this budget-process reform. While one might propose a budget period that differs from that proposed in the NPR report -- indeed, approving a two-year budget during the first congressional session (and perhaps moving the start of the biennium to January 1) seems superior to what NPR proposes -- this author concludes that the U.S. government should adopt a biennial budget and appropriations process and engage in multi-year authorizations. In particular, the best reform of this type seems to involve a cycle that locates budget submission, approval and appropriations activities in one session of Congress, and devotes the other to analysis, oversight and planning.<sup>36</sup>

The two-year cycle is likely to offer a significant improvement over our present federal budgeting system. Although

use of supplementals and other budget adjustments may increase somewhat, a streamlined budget process should reduce much procedural repetition and lessen overall budget work. Biennial budgets might also help make federal policies more effective -- not only by allowing more time for management and oversight but also by both encouraging long-range planning and facilitating efforts that can bring greater coherence to government action. In addition, such budgets are likely to promote economic stability.<sup>37</sup> Two-year budgets might even make a small contribution to the goals of reducing the federal deficit and extending the time horizons of actors in America's private sector.

Biennial budgeting is not a panacea. An effective budget process involves more than the budget period and timeline. It also requires intelligent budget preparation, execution, management and auditing.<sup>38</sup> And even the best public-budgeting system will only produce good results if participants are willing to adhere to the process and are committed to its successful operation. Moreover, the budget is inevitably both a source and product of political conflict -- a fact that remains regardless of procedure.

Still, while a two-year budget may be a small step, it is nevertheless a step in the right direction for a nation seeking to "re-invent" government. A January 1, 1994 *National Journal* article on public-sector reform stated that members of Congress "showed more interest in talk than in action" during 1993, and predicted -- accurately -- that "more of the same" was in store for 1994 [Cohen 1994, 33]. Citizens interested in a government that really does

'work better and cost less' must hope that the 104th Congress will bring to Washington a greater interest in action.

***Endnotes***

1. While budgeting involves many phases -- including preparation and submission, approval (including appropriations), execution, and audit -- most recent discussions of budgeting in the United States have focused on the transition from submission to approval. The 1974 Budget Act outlined the following timetable for this portion of the process:

<u>On or Before</u>	<u>Action</u>
November 10	President submits current services budget
15th day after Congress meets	President submits the annual budget
March 15	Congressional committees submit views and estimates to budget committees
April 1	Congressional Budget Office submits its annual report to budget committees
April 15	Budget committees report first concurrent resolution to their house
May 15	Committees report bills and resolutions authorizing new budget authority
May 15	Congress completes action on first concurrent resolution on the budget
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority
September 15	Congress completes action on second required concurrent resolution on the budget

September 25                    Congress completes action on reconciliation bill or resolution, or both, implementing second concurrent resolution

October 1                        Fiscal year begins.

Despite some subsequent changes, the preceding timetable provides a roughly accurate description of the present process. For more on public budgeting in general and federal budgeting in particular, see Lee and Johnson [1983] and Shuman [1988], respectively.

2. According to J. Wilner Sundelson's [1935] "Budgetary Principles," there is little reason why the year was taken as the normal budget unit except that it corresponds with the customary measure of human calculation -- a measure especially appropriate for an agriculturally-oriented society. Many U.S. states, however, have adopted biennial budgets in part due to their history of convening legislatures every other year. While a large number of states moved to annual budgets in recent decades, the past few years have seen a revival of state interest in two-year budgeting. In particular, Nebraska and Connecticut adopted two year budgets in 1987 and 1992, respectively; and Michigan has given serious attention to the matter during the past year. Today 20 states have biennial budgets (13 have annual legislative sessions).

3. The "current services budget" (or "baseline budget") is an estimate that the President is required to submit to Congress under the 1974 Budget Act. It projects the level of spending and revenues that would result if existing programs and policies were continued unchanged during the next five fiscal years ("with all programs adjusted for inflation so that existing levels of activity

are maintained") [Shuman 1988, 310].

4. Ford's 1983 bill did not differ significantly from his original (1981) proposal. It should be noted, however, that Panetta had eliminated the second budget resolution from his bill by 1983 [AEI 1983, 6]. This change was made in the wake of a 1981 congressional decision to include reconciliation instructions in the first budget resolution.

5. According to Susan Irving [1993, 1] of the General Accounting Office, Presidents Ronald Reagan and George Bush also called for biennial budgeting. Michael Boskin, Bush's chief economic adviser, expressed support for multi-year budgeting in a 1986 *Wall Street Journal* editorial [Boskin 1986].

6. Three notes are warranted at this point. First, in her 1989 book on U.S. budgeting, Annette Meyer writes that of the nearly 20 budget-process reforms proposed during the 1980s, biennial budgeting "has received the most attention in Congress" [Meyer 1989, 159]. Second, a 1989 GAO report indicates that at the end of April 1989, six biennial budgeting bills had been introduced to the 101st Congress. Three proposals would assign most or all budgeting activities to a single congressional session (like the Roth and Hutto bills discussed in this paper); two would stretch the budgeting process over two years (like the Panetta and Ford bills discussed above); and one would retain annual appropriations but called for "a macro-level joint budget resolution in the first session of a Congress" [General Accounting Office (GAO) 1989a, 2]. Finally, for evidence that the various individuals mentioned in the

text above are supports of biennial budgeting, see: House [1987]; Kilborn [1988, A1]; Weidenbaum [1988, 58-59]; Wildavsky [1988, 414]; "Lawmakers Back Two-Year Budget Concept" [1989]; Lynch [1989]; National Economic Commission [1989, 81]; "One Budget Reform Step that Would Pay a Double Dividend" [1987, 80]; Robb [1991]; "At a Glance" [1994].

7. In fact, some scholars and legislators have suggested even more varied proposals, including those that call for a two-year budget period with annual appropriations (some making this suggestion advocate detailed biennial budget resolutions while others call for only broad, "macro-level" budget decisions), and a biennial period with one year devoted to operating budget decisions and the other devoted to capital budget decisions [AEI 1983, 12-13; GAO 1989b, 27; Lynch 1989, 50].

8. The major state-level studies considered in this work are: GAO [1987; 1982]; Bowsher [1984]; Wiggins and Hamm [1984]; and Council of State Governments [1972]. Also relied on are Eckl [1993] and Snell [1993]. In addition to state experience, one might wish to consider federal experience with biennial budgeting. There are, unfortunately, few federal experiments and fewer analyses of their results. The NPR report and an earlier General Accounting Office (GAO) study both refer to the 1987 agreement between the President and Congress -- which set spending levels for major programs in fiscal years 1988 and 1989 -- as a success [NPR 1993, 17; GAO 1989b, 27]. Both reports also note that Congress has directed the Department of Defense to submit two-year budgets for 1988-1989 and

beyond. However, authorization committees have not approved a full two-year defense budget, and appropriations committees have not provided second-year funding [Irving 1993, 5]. According to Robert J. Art, a scholar specializing in defense issues, the Pentagon's first biennial budget was a "half success" -- it yielded "no payoff for program stability but a great deal of programmatic and policy oversight" [Art 1989, 208].

An examination of whether the public sector in other nations offers any lessons on this topic might also be valuable. That type of exploration, however, is beyond the scope of the present work.

9. Two excellent sources of a range of views on biennial budgeting are reports issued by the House of Representatives [1993] and Senate [1990].

10. Of course, political views will sometimes be more polarized than at other times, leading to variability in the intensity of budget conflict.

11. See, for example, Irving [1993] and testimony by Thomas E. Mann of the Brookings Institution in House [1993, 70].

12. Robert Reischauer is presently the director of the CBO. The aforementioned statement was made by Reischauer in 1982, while he served as senior vice-president of the Urban Institute.

13. For an example of this perspective, see the remarks by former CBO director Rudolph Penner in Kilborn [1988, B8].

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

15. 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.

16. A *National Journal* article from January 1994 provides evidence that congressional support for biennial budgeting remains strong [Cohen 1994, 33].

17. The report issued on the hearings mentioned above, *Reform of the Federal Budget Process: An Analysis of Major Proposals*, quotes from remarks of one participant (a supporter of biennial budgeting) who believed that supplemental appropriations and rescissions would "limit somewhat the expected benefit of increased efficiency" under a two-year budget system [House 1987, 89]. Yet the report does not indicate that any participant rejected the argument that biennial budgets would reduce the overall time devoted to budgeting.

18. The GAO reports that many respondents in states moving from biennial budgets saw problems in the change, including the fact that annual budgeting "requires the almost continual involvement of agency and budget division staff in budget formulation to the detriment of effective budget execution and program analysis" and that it "requires the executive and legislative branches to use extensive resources to prepare and approve budgets" [GAO 1987, 13].

19. A study conducted by the Council of State Governments (CSG) in 1972 yielded a number of findings similar to those of the 1989 GAO report -- as did a small-scale GAO study published in 1982 [CSG 1972; GAO 1982]. Moreover, recent reports by the National

Conference of State Legislatures (NCSL) indicate that state officials continue to see the streamlined nature of a biennial process as an advantage over annual budgeting [Snell 1993; Eckl 1993]. As Ronald Snell writes, a "major advantage" of biennial budgeting is that it is "less expensive and time consuming than that of annual budgeting" [Snell 1993, 10]. This is especially significant when one recalls that nearly all states must balance their budgets -- a fact that could lead to the need for off-year changes.

20. For more recent expressions of the same view of the current budgeting process, see Nunn [1992, 8] and Domenici [1992, 34].

21. The need for budget reform was reiterated by the GAO in 1988 [Bowsher 1988] and more recently in a 1992 document which noted that changes in the budget process "are necessary to facilitate and encourage focus on the long-term consequences of decisions" [GAO 1992, 16]. While there is some evidence that formal oversight activity increased significantly since the early 1970s, the author of that study acknowledges that most scholars agree the quantity and quality of contemporary oversight is inadequate [Aberbach 1990].

22. Some support for this view on long-range planning can be found in Wiggins and Hamm [1984, III-15 and V-12].

23. In 1993 congressional testimony on biennial budgeting, CBO director Reischauer makes the following point which complements the statement by Rivlin found above: "[C]ontracts between the federal government and private contractors might be negotiated at terms

more favorable to the government if more stable funding could be guaranteed" [Reischauer 1993, 6].

24. On the matter of indexing, Ford has commented, "Indexing a two-year budget has got to be less inflationary than adjusting at the end of each year" [Ford 1981, 28953].

25. For a discussion of Big Government capitalism, see Minsky [1986].

26. For more on the "chronic myopia" of America's economic actors, see Jacobs [1991].

27. For views similar to Panetta's, see AEI [1983, 16] and Rivlin [1981, 37].

28. It is interesting to note that in a 1987 survey of officials in two states that had moved to biennial budgeting, GAO researchers found evidence that the move may have actually had no impact on supplementals and other budgetary adjustments [GAO 1987, 25]. While this finding by itself is an insecure foundation for suggestions regarding likely federal-level outcomes, it indicates that biennial budgeting does not guarantee a flood of off-year adjustments. Moreover, officials can help discourage such adjustments by choosing to require a "super majority" (of three-fifths) for their enactment.

29. A concern related to the one mentioned above is that Congress might respond to the change to biennial budgeting by writing even more "micromanagement" provisions for agencies [Meyers 1988, p. 29]. But the state-level study by Wiggins and Hamm finds that "legislators appear to write more specific program objectives into

appropriations bills when using annual budgets" Wiggins and Hamm [1984, III-27].

30. A related concern regarding the difficulty of apportioning funds over a two-year period might be addressed by providing (once every two years) separate appropriations for each year of the budget period. This arrangement, combined with greater oversight, could reduce agency efforts to increase budget padding. Moreover, a survey-based study of state experiences conducted for the Texas House Appropriations Committee suggests that agency cushions in a biennial budgeting environment are not necessarily higher than in a system with annual budgets [Wiggins and Hamm, 1984, III-14 and V-6].

31. While a biennial budget and appropriations cycle may not reduce congressional control over the executive branch, power relations *within* the legislature may indeed be altered by this process reform. This may explain, for example, why members of the appropriations committees "have never been crazy about the idea" [Rauch 1986, 2319].

32. While recent testimony by Reischauer suggested that biennial budgeting should be implemented only "once the deficit problem is behind us," his view is similar to the one expressed in the text above in that he writes of

a trade-off between the ability of agencies to manage programs and recipients of federal aid to plan for the future, on the one hand, and the ability of Congress to control the budget and make more frequent changes in it,

on the other [Reischauer 1993, 5].

Rivlin has gone even a step further and suggested that Congress "can contribute more to changing the future of the nation by directing overall policy, than by controlling details." She argues that Congress would do better by aspiring "to be an effective board of directors, rather than an ineffective national management" [Rivlin 1984, 135].

33. During the same hearings, Reischauer [1993, 13] expressed similar concerns regarding a system that would require a new President or Congress to wait longer than one year to put in place a new budget.

34. In fact, one should remember that a common argument of biennial-budgeting opponents is that budget adjustments will be frequent. Studies on state experience, meanwhile, are not very instructive on this matter. While some states shifting to annual budgets indicated that the move was undertaken to obtain greater flexibility, we find in two of three studies that states with biennial systems did not indicate flexibility was a problem in their system [GAO 1987; Bowsher 1984; and CSG 1972].

35. A recent GAO report agrees with Rivlin on the need for more policy planning: "At the macroeconomic level, the budget process needs to adopt a longer term planning horizon linking fiscal policy with broader goals for the performance of the economy." Long-term economic goals (such as real GNP growth), the report continues, "should become the focus of policymaking which should then drive subsequent fiscal policy choices needed to attain these goals" [GAO

1992, 16].

Also, a 1988 report by Bowsher notes that while the existing budget process is highly flexible, this flexibility comes "at a high price." In particular, he writes that present arrangements "invite revisitings of the issues and make the budget process vulnerable to extraneous and time-consuming delays." His conclusion: "I think that this gives members of Congress the feeling that the budget process is out of control and never-ending" [Bowsher 1988, 11].

36. Action on authorizations could be taken during either congressional session.

37. As mentioned previously, some opponents are concerned that two-year budgeting will lead to problems caused by reduced flexibility, while others suggest it will fail due to increased reliance on budget adjustments. The reality seems more likely to be found somewhere between these extremes. In particular, biennial budgeting seems likely to provide a well-balanced process that fosters increased stability while retaining a degree of budget flexibility.

38. For a number of suggestions designed to improve federal budgeting, see Bowsher [1984]; Rivlin [1984]; Domenici [1987]; Haas [1987]; GAO [1989b]; Gore [1993]; and NPR [1993].

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