

**TESTIMONY OF
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BEFORE THE
HOUSE BUDGET COMMITTEE
ON THE BUDGET ENFORCEMENT ACT**

Mr. Chairman, Representative Spratt, Members of the Committee, I am pleased to be here this morning to discuss the possible extension of the Budget Enforcement Act of 1990.

I will make a short statement and then I would be pleased to answer any questions that you might have.

A More Orderly and Responsible Budget Process

I want to compliment the Chairman and the Congress for the progress we've made this year. You moved quickly to adopt a budget resolution that funds the nation's priorities and restrains the growth in spending. Next, the House passed a supplemental appropriations bill that stays within the BEA's spending cap for 2001. Unlike past supplementals, this legislation has not become a vehicle for questionable spending or a method of evading the BEA limits. These successes demonstrate that the Act does work, and its basic mechanisms ought to be extended and continued. Together we have demonstrated that the President's commitment to a more orderly and responsible budget process can be achieved.

The Budget Enforcement Act

Current Status: CAPs and PAYGO

The Administration believes we must moderate the growth in discretionary spending by staying within the \$661 billion level the Congress, and the Administration, agreed to, plus the \$18 billion in additional funding the President will request this week for the Department of Defense. In order to ensure that this absolutely necessary funding for defense is not diverted to other programs in 2002, we propose to have a separate category for defense with a cap of \$344 billion. This funding would cover all programs within the National Defense Budget Function.

The current statutory cap for FY 2002, under the BEA, is \$552.8 billion. Assuming Congress appropriates funds consistent with the Budget Resolution and the President's Defense Amendment, the additional discretionary spending would trigger a sequester of roughly \$127 billion.

In addition, OMB's current assessments show that a deficit of \$121.2 billion exists on the

“paygo” scorecard. This paygo deficit is due to legislation enacted in previous years, as well the recent enactment of tax relief. Like the discretionary cap, if the paygo requirement is not waived or modified, OMB would be required to issue a sequester of mandatory programs such as Medicare, Agriculture, and the Student Loan Program.

Clearly, the BEA will have to be amended. In fact, the current discretionary caps have been obsolete for at least the last two years, and neither the Administration nor the Congress expected to reduce mandatory programs when we considered the tax bill this Spring, or even at the beginning of the 107th Congress.

Modernizing the Act

The need for both of these changes does not mean the BEA is not working. In fact, I believe the Act has been successful in transforming the federal budget process. It has made a significant contribution to today’s large budget surpluses. However, the machinery associated with the current BEA should be changed to reflect the era of surpluses that the Act has helped to create.

Currently, the BEA’s requirements force us to sequester federal spending when legislative provisions lead to a reduction in the size of the Government’s surplus. However, the BEA was developed in order to constrain increased spending and discourage tax reductions in a time of deficits. Therefore, the Administration believes that the BEA should be modernized in order to guide budget decisions in an era of surplus.

The Administration would like to work with the Budget Committees and the Congress to find a more appropriate basis from which to measure BEA requirements. One potential position that we believe could be supported in a broad, bi-partisan fashion, would be to set a goal of ensuring on-budget balance. One could see this approach as “protecting the Social Security Trust Fund Surplus.”

Once this minimum threshold is set, new discretionary spending “caps” and “paygo” requirements could be determined on an annual basis through the vehicle of a Joint Budget Resolution. In fact, if one considers the various changes to the BEA since 1990, it could be argued that the Executive Branch and the Legislative Branch have, from time to time, entered into agreements that amounted to de facto joint budget resolutions. I refer here to the Executive-Legislative Summit agreements of 1990, 1993, and 1997. We should consider regularizing this step as an annual process.

Advance Appropriations and Emergency Spending

If we can agree on the need for the discipline and constraint that the BEA provides, we should agree to also end the practices that have been used to circumvent the limits it sets. For example, we must stop using advance appropriations to shift budget authority from one year to

the next, just to avoid the cap for the budget year. In addition, we must work together to limit the illegitimate use of the emergency designation.

Conclusion

I look forward to working with the Committee and Congress to ensure that we enforce the 2002 and future budgets, and that we fashion new mechanisms that continue the Congress' recent fiscal success in the new era of surpluses.

Mr. Chairman, that concludes my statement. I would be happy to answer any of the Committees' questions.