



**The Knesset
Research and Information Center**

Two-Year (Biennial) Budgets

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Introduction

On July 15, 2009, the Knesset approved the first two-year budget in the history of the State of Israel, for the years 2009-2010. To a large extent the budget was a necessity resulting from circumstances: towards the elections to the 18th Knesset that took place on February 10, 2009, the Budget Bill for 2009 was not approved, and the 32nd Government, headed by Binyamin Netanyahu, began its term on March 31, 2009, without an approved annual budget¹, with an expectation that the Government would have to get the budget for 2009 approved, and immediately start discussions on the budget for 2010. With the approval of the Attorney General, and after the enactment of Basic Law: the State Budget (special instructions for the years 2009-2010) (ordinance), a two-year budget was approved.² The Minister of Finance in the Netanyahu Government, Dr. Yuval Steinitz, argued that the two-year budget "is apparently the first budget of its kind, also in the history of the whole Western world".³

The Minister of Finance was right to choose his words with care. Two-year budgets are not common, but they are known in the world. We are usually speaking of the budget of international organizations such as the UN, UNESCO, the OECD or WHO, but such budgets have been common for many years in many of the US States (see below). In Hungary a two-year budget was approved under exceptional circumstances for the years 2001-2002, and was mentioned in various IMF and

¹ In Israel the budget for the approaching financial year is usually approved by December 31 of the previous year, and must be approved at latest on March 31. If it is not approved by March 31, new elections must be held.

² See <http://www.knesset.gov.il/Laws/Data/law/2196/2196.pdf>

³ The Knesset Record (Hebrew), budget debate, July 15, 2009.

OECD publications, and in the United States, on the Federal level, every so often a proposal is raised to adopt the system of two-year budgets in order to solve various problems in the budget approval procedure in Congress. In Bahrain two-year budgets have been in use since 1978.⁴ In the past, two-year budgets were common in Spain and in Peru, but both these States moved to annual budget many years ago.⁵

It should be noted that not every budget that is called a two-year budget, or a biennial budget is indeed a full budget for a two year period. Very frequently one is dealing with a rolling budget – in other words, a full budget for the coming year, with varying degrees of detail for the following years, when for these years one is usually talking more of general forecasts than of an actual budget.

In Austria, for example, where the term "two-year budget" was used to describe a rolling budget, it was customary to prepare a full budget for the approaching budget year on the basis of the time-table mentioned in the Constitution, and at the same time prepare a partial budget for the following year, which was brought separately for the approval of parliament several months later, and together with which general programs for further years were also brought.⁶ However, recently, within the framework of far reaching reforms in the procedure for preparing and passing the budget, the Constitution of Austria was amended and article 51(3) now enables the presentation to parliament of two budget – for the coming year and the year after that – simultaneously. The fact that the option exists to pass a two-year budget does not mean that it will necessarily be used. It should be noted that Austria has a tradition of restraint in using extreme measures, even if they are legally permissible. This is the case with regards to omnibus laws containing amendments to existing legislation that are attached to the Budget Law, and are similar to the Israeli Arrangements Law. In

⁴ See for example publications of the Economist Intelligence Unit concerning Bahrain, C:\Documents and Settings\Administrator\Desktop\EIU online store - Bahrain.mht

⁵ A. Premchand, *Government Budgeting and Expenditure Control: Theory and Practice*, International Monetary Fund, 1984, p. 138, f.n. 7
CBO document from 1988: Biennial Budgeting, p. 24,
<http://www.cbo.gov/ftpdocs/50xx/doc5010/doc02-Entire.pdf>

⁶ See Jón R. Blöndal & Daniel Bergvall, "Budgeting in Austria", *OECD Journal on Budgeting*, Vol. 7, No. 3, 2007, pp. 4-5 <http://www.oecd.org/dataoecd/57/47/40961371.pdf>

Austria use is made of such laws only on rare occasions, when there is a harsh economic crisis, or when the Government wishes to introduce a far-reaching structural reform, even though the Austrian Ministry of Finance could pass such a law every year, as is the case in Israel.⁷ One of the goals of the budgetary reform in Austria is to drastically reduce the degree of detail in the budget, and lay down global sums for general categories. The global sums can be determined several years in advance. The first stage of the reform has already been implemented, and the second stage will enter into force in 2013.⁸

Slovenia is also mentioned as an example of the State that has a two-year budget, but upon careful examination it becomes apparent that it has a rolling budget.⁹ Canada too has a two year rolling budget since 1993-94. According to a document of the Economic Department of the OECD, every year the Federal Government in Canada presents to Parliament two detailed budgets in nominal terms, but the budget for the second year is not legally binding.¹⁰

⁷ See, Susan Hattis Rolef, "The Arrangements Law: Issues and International Comparisons", The Knesset Research and Information Center, January 2, 2006, pp. 29-30
http://www.knesset.gov.il/mmm/eng/doc_eng.asp?doc=me01237&type=pdf

⁸ E-mail from Dr. Philipp Lust from the Austrian Ministry of Finance from October 13, 2009. Dr. Lust supplied a brief description of the reform as follows:

"Our current reform has two steps: the first phase is in force since 2009 (basically new budget structure, medium-term expenditure framework) and a second phase will start in 2013 (bringing performance budgeting and a more modern accounting system which does not only focus on cash-flow but incorporates the system of accrual accounting)".

A detailed description of the reform may be found in the following document:

Veronika Meszarits & Johann Seiwald, "Budgetary Reform in Austria: Towards tighter coupling within the financial and management system", EGPA Conference 2008, Innovation in Public Sector, 3rd-6th September 2008.

http://www.eur.nl/fileadmin/ASSETS/fsw/Tufan/EGPA2008/Papers/PSG12/Seiwald_Meszarits.pdf

And also in the form of a slide presentation:

Federal Ministry of Finance, Veronika Meszarits, "Performance Budgeting in Austria as Part of a General Comprehensive Federal Budget Reform, EIPA, Warsaw, 6 March 2009.

http://english.bmf.gv.at/budget/theaustrianfederalb_399/eipa_printversion.pdf

See for example IMF document about Slovenia: "IMF Concludes 2001 Article IV Copnsultation with ⁹ the Republic of Slovenia,

<C:\Documents and Settings\Administrator\Desktop\IMF - Slovenia.mht>

¹⁰ Isabelle Joumard, Per Mathis Kngrud, Young-Sook Nam & Robert Price, "Enhancing the Cost Effectiveness of Public Spending: Experience in OECD Countries", OECD Economic Department, ECO/WKP(2004)3, 12 February 2004, p. 19

The two-year budget in Hungary in the years 2001-2002

The idea to move to a two-year budget in Hungary was raised in the year 2000 and was tried only once, in relation to the budget for 2001 and 2002. In fact, the two-year budget was part of a whole set of reforms brought by the Government of Viktor Orbán (1998-2002), whose goal was to deal with the economic situation of Hungary towards its attempt to become a members of the EU, on the one hand, and to strengthen the status of the Government *vis-à-vis* the parliament, on the other. In addition to far reaching administrative changes in the Government offices and laying down a two-year budget, the Government decided to limit the meetings of parliament's plenum from weekly meetings to meetings every three weeks.¹¹

In the report of the Fiscal Affairs Department of the IMF published in 2001, it was stated that multi-year planning and a two-year budget are to turn into a fixed feature in the fiscal management of Hungary. It was explained that the two-year budget is meant to strengthen the role of the medium range budgetary framework, in that the second year of the program will turn into actual allocations, and the Government will not have to return to Parliament every year in order to receive an approval for the budget.¹²

The Hungarian two-year budget for the years 2001 and 2002 was, in fact, two separate budgets that were approved by Parliament simultaneously. Two separate budgets were presented in order to circumvent the instruction of the Public Financing Law of Hungary, which does not provide for multi-year budgets.¹³

http://www.mfcr.cz/cps/rde/xbcr/mfcr/ECO_PublicExpend_CostEffectiveness_Composite_2004.pdf

¹¹ See biography of Viktor Orbán in http://en.wikipedia.org/wiki/Viktor_Orb%C3%A1n

¹² "Report on the Observance of Standards and Codes (ROSC) Hungary" Prepared by the Fiscal Affairs Department of the International Monetary Fund, April 18, 2001, p. 7

¹³ In addition to the attempt to make the processing of approving the budget more efficient, the Prime Minister of Hungary decided that since elections were to be held in May 2002, it was worth trying to prevent his Coalition partner from raising special budgetary demands towards those elections, by approving the budget for 2002 in advance. This information was supplied by Mr. Balazs Romhanyi, who worked in the Budgets Department in the Hungarian Ministry of finance, in an e-mail from

The Hungarian two-year budget failed because it did not take into account the changes in the macro data, and no automatic readjustment rules were set for the event of the basic assumption of the budget proving to be erroneous, as in fact happened as a result of the 2001 world economic crisis. And so, the 2002 fiscal year started with a budget that did not correspond to the needs, and the Government was forced to present an additional budget. After the elections a new Government was formed, which returned to annual budgets.

Two-year budgets in U.S. States

Despite the fact that the Federal Government in the United States operated from the very start on the basis of annual budgets, already in the 1840s various States in the U.S. started to adopt two-year budgeting.¹⁴ One hundred years later – in 1940 – 44 of the 50 States had two-year budgets. Today the number is 20, but there are still those who argue that the advantages of two-year budgets are greater than their shortcomings.¹⁵

Originally the custom of the State legislatures approving budget biennially resulted from the fact that most of the State legislatures only met once every two years, or even less frequently.

September 30, 2009. This information does not represent the opinion of the Hungarian Ministry of Finance, but that of the writer himself only.

¹⁴ For an historic discussion of the issue see Charles J. Whalen, " Biennial Budgeting for the Federal Government: Lessons from the States", Working Paper No. 149, December 2, 1995, <http://129.3.20.41/eps/mac/papers/9810/9810008.pdf>

¹⁵ Most of the information in this chapter comes from a document published by the National Conference of State Legislature on biennial budgeting, which was last updated in 2009:

Ronald K. Snell, "Annual and Biennial Budgeting: the Experience of State Governments, National Conference of State Legislatures, updated April 2009.

<http://www.ncsl.org/default.aspx?tabid=12658>, as well as a document dealing with the biennial budgets of Arizona, Connecticut and Ohio, that was present by the Director for Federal Budget Issues, Strategic, Mrs. Susan J. Irving, to the Rules Committee in the Federal House of Representatives in 2000, when the latter examined the issue of biennial budgets:

United States General Accounting Office, Report to the Chairman, Committee on Rules, House of Representatives, "Biennial Budgeting – Three States' Experiences", October 2000.

<http://www.gao.gov/new.items/d01132.pdf>

The current situation regarding annual and biennial budgets in the 50 U.S. States is as follows:

| States with annual legislative and budget cycles (30 States) | States with annual legislative and biennial budget cycles (15 States) | States with biennial legislative and budget cycles (5 States) |
|---|--|--|
| Alabama | Arizona | Montana |
| Alaska | Connecticut* | Nevada |
| Arkansas (as of 2010) | Hawaii | North Dakota |
| California | Indiana | Oregon |
| Colorado | Kentucky | Texas |
| Delaware | Maine | |
| Florida | Minnesota | |
| Georgia | Nebraska | |
| Idaho | New Hampshire | |
| Illinois | North Carolina | |
| Iowa | Ohio | |
| Kansas** | Virginia | |
| Louisiana | Washington | |
| Maryland | Wisconsin | |
| Massachusetts | Wyoming | |
| Michigan | | |
| Mississippi | | |
| Missouri** | | |
| New Jersey | | |
| New Mexico | | |
| New York | | |
| Oklahoma | | |
| Pennsylvania | | |
| Rhode Island | | |
| South Carolina | | |
| South Dakota | | |
| Tennessee | | |
| Utah | | |
| Vermont | | |
| West Virginia | | |

* Went back to biennial budgeting after having annual budgets

** Some items are budgeted annually and some biennially

The gradual movement of the States to annual budgets results resulted from the fact that today in all but five States the legislatures meet on an annual basis (in 1940 the number of legislatures that met annually was only four) and the power of the legislatures vis-à-vis the Governors has risen; the fact that it is very difficult to forecast revenue from taxes and economic developments more than two years in advance; and the fact that the State budgets have grown and have become much more

complex than they ever were in the past. With few exceptions (North Carolina, Ohio and Texas) all the States that still have two-year budgets have small populations.

Various studies that have been carried out about the advantages and disadvantages of annual and biennial budgets in the U.S. States, do not reach clear and unequivocal conclusions as to the advantages of one system over the other. According to those who favor two-year budgeting, their main advantages are: the encouragement of long term planning by the administration; more time available for reviewing and estimating plans and projects by the administration and the legislators; and the fact that the procedure itself is more economical in terms of time and expenditures devoted to the preparation and approval of the budget, than in the case of annual budgeting. In their opinion, the main shortcoming of two-year budgeting is the fact that the budget is based on forecasts that are inaccurate, and it is frequently necessary to introduce a major update in the budget for the second year. The problem is smaller when the Governor of the State has the authority to shift funds among clauses in the budgets – and indeed, some of the Governors have such authority

Two-year budgets in the U.S. on the Federal level¹⁶

On the Federal level in the United States, annual budgeting has been customary since independence (and even beforehand), following the British example. However, since the 1970s several Bills have been brought, many of them with the support of the President in office, to shift to two-year budgeting. The main problem that concerned the proposers was the fact that the process for approving of the budget is a long and cumbersome process, with repeated debates on the same subjects, which is made up of numerous stages, takes up a lot of time, and the Appropriation Acts are usually approved well after the required date.

¹⁶ Unless otherwise indicated the information in this chapter comes from James V. Saturno, "Biennial Budgeting: Issues and Options" Congressional Research Service, Report RL30550, August 10, 2006 <http://wikileaks.org/wiki/CRS-RL30550>, and from Robert D. Lee Jr., Ronald W. Johnson & Philip G. Joyce, *Public Budgeting Systems*, Jones & Bartlett Publishers, seventh edition, 2004. pp. 287-89

The main arguments in favor of moving to two-year budgeting are the need to reduce the heavy work load in Congress, that results to a large extent from annual budgets; the need to increase the amount of time that Congress has to debate the Administration's programs and to oversee them; the need to enable the Administration to engage more efficiently in long-term planning.

The main arguments against moving to two-year budgeting are: the hope for improvement in the work of Congress and the Administration following the transfer to two-year budgeting is a vain hope, especially since it is impossible to make accurate economic forecasts two years in advance, and therefore in any case it will be necessary to present additional budget before the end of the two years to which the two-year budget applies, or to grant the President extensive powers to change the budget without the approval of Congress – in other words, to expand the powers of the President at the expense of Congress.

As mentioned, since the 1970s there have been numerous proposals for changing the existing procedure to approving annual budgets. Towards the approval of the 1973 budget a groups of researchers from the Brookings Institute proposed that a three-year budget be approved, in order to enable a more careful examination of the Administration's economic programs by Congress.¹⁷ After the Congressional Budget Act was passed in 1974, various proposals were made in Congress for moving to two-year budgets. Some of these proposals dealt with all stages of the approval process, and others only with part of them.¹⁸ In the process of the deliberation on proposals for general reforms in the procedure for approving the budget by Congress, and concrete Bills on the subject of the two-year budget, the following bodies participated: The House Rules Committee and Budget Committee, the Senate Administration Committee, Rules Committee and Budget Committee, and this in addition to various committees and commissions established by the Administration

¹⁷ Charles L. Schultz, Edward R. Fried, Alice M. Rivlin & Mary H. Teeters, *Setting national Priorities: The 1973 Budget*, Brookings Institute 1972.

¹⁸ One of the first proposals, in September 1977, was a Bill by Representative Leon Penetta of California. For a review of th various Bills see:

Charles J. Whalen, "Should the U.S. Government Adopt a Biennial Budget?" Working paper No. 128, November 1994. <http://www.levy.org/pubs/wp128.pdf>

This document was published following an initiative by Vice-President Al Gore, that called for the adoption of a biennial budget.

under various Presidents to deal with the issue. Most of the Bills never reached the floor of the House or Senate, due to differences of opinion among the various bodies dealing with the issue. In one case where a proposal for two-year budgeting came up in the Chamber of the House as an amendment to an existing Act dealing with the budget approval process, on May 16, 2000, it was rejected by a majority of 217 to 201.¹⁹

Over the years the Congressional Budget Office (CBO) was asked to express its professional opinion in most of the hearings and deliberations held on the subject of the two-year budget, and this usually in the form of evidence by the Director of the Office, or another senior representative on its behalf. Throughout, the CBO presented all the arguments in favor and against the shift to a two-year budget, where all the pitfalls that could appear in the process should the two-year budget be adopted, received a detailed description. The last evidence of the CBO that we found was by its director, Mr. Douglas Holtz-Eakin, who appeared as a witness before the Subcommittee on the Legislative and Budget Procedure of the House Rules Committee on 23 March, 2004.²⁰ The evidence that Holtz-Eakin gave on the subject of two-year budgets is given in Appendix No. 2. The last document prepared in Congress on the subject was prepared by the Congressional Research Service (CRS) in 2006.²¹

References to two-year and multi-year budgets in IMF, OECD and World Bank publications

We did not find any documents of the IMF, OECD and World Bank that deal exclusively with two-year and multi-annual budgets, but there are references to the subject in articles and documents issued by them that deal with the general issue of budgeting.

¹⁹ See vote No. 186 in the Congressional Record, Vol. 146, p. H 3127, <http://www.thomas.gov/cgi-bin/query/F?r106:1:./temp/~r106GFg9yh:e344684>

²⁰ http://www.rules.house.gov/Archives/cbo_test.pdf

²¹ See footnote No. 16

In a book published by the IMF in 1984 on the subject of Government budgeting, the author expressed reservations regarding multi-annual budgeting, arguing that the long the time that goes by between the beginning of the process of preparing the budget and the period to which the budget applies, so the likelihood of discrepancies resulting from out-of-date data, grows.²²

In a more up-to-date article published on behalf of the OECD in 2003 it was argued that:

While an extended planning horizon has clear advantages, the use of medium-term projections and multi-year budgets has some drawbacks. Most seriously, forecasts of fiscal variables are subject to great uncertainty, in particular since they require an assessment of the economy's potential growth as well as its position in the cycle. Medium-term projections are indeed often revised substantially... Furthermore, medium-term planning could also make it more difficult to adjust spending if expenditure forecasts are viewed by spending agencies as an entitlement to future fund...²³

Since the mid 1990s The World Bank and the IMF have dealt with a topic which they define as Medium Term Expenditure Frameworks (MTEF) in connection with developing countries – especially in Africa.²⁴ What is being talked about is in fact multi-year planning and budgeting, whose goal is to contend with the economic problems of developing countries that lack a planning horizon. In an extensive document prepared on the subject by two World Bank employees, they discuss the role of the World Bank in encouraging the use of MTEFs.

If the Africa region has been the laboratory for MTEF development, the World Bank has been the principal researcher. In the vast majority of cases the World Bank was involved in the decision to adopt and implement an MTEF, many of which came about as a result of a public expenditure review. In fact, the MTEF has become a standard item in the Bank's public expenditure management (PEM) toolkit. More and more, MTEFs are considered the *sine qua non* of good PEM. The World Bank, however, is not the only advocate of this

²² See A. Premachand, footnote no. 5

²³ See article by Isabelle Joumard, Per Mathis Kngsrud, Young-Sook Nam & Robert Price, footnote 10, pp. 10-20.

²⁴ Thanks to Ami Zadik, Director of the Department for Budgetary Control in the research and information center, for referring us to this subject.

approach, which has also been advocated by the Asian Development Bank and the International Monetary Fund, though with some reservations.²⁵

However, as already mentioned, this does not have anything to do with industrialized states.

Conclusions

Two-year budgets, that are not rolling budgets, do not exist only in Israel 2009. However, it seems as though except for Bahrain, that is an autocratic oil producer, and part of the 50 States of the U.S., whose number is constantly falling, there are today no states that use two-year budgets on a regular basis. In the last decade the Hungarians passed such a budget once, under special circumstances, and they did not repeat the experiment. The United States examined the issue in depth several times in the last 30 years, and every time rejected its implementation. Austria has decided to open the option of passing two-year budget in the event that the need should arise, but means of an amendment to its Constitution, but it has no intention of using this option except under unique circumstances.

One cannot disregard the argument that there are clear advantage to two-year budgeting, especially in terms of the quantity of time invested annually in approving the budget, and the lack of time left to debate the policy on which the budget is based in depth. However the shortcomings – especially in the sphere of forecasting and basic assumptions – are the main reason for the reservations regarding the adoption of two-year budgeting by states (as opposed to organizations) on a regular basis.

Jerusalem, October 19, 2009

²⁵ Philippe Le Houerou & Robert Taliencio, "Medium Term Expenditure Frameworks: From Concept to Practice. Preliminary Lessons from Africa", February 2002, Africa Region Working Paper Series No. 28. <http://siteresources.worldbank.org/INTPEAM/Resources/MTEFfinal.doc>

Philippe Le Houerou & Robert Taliencio, "Medium Term Expenditure Frameworks: From Concept to Practice. Preliminary Lessons from Africa", February 2002, Africa Region Working Paper Series No. 28. <http://siteresources.worldbank.org/INTPEAM/Resources/MTEFfinal.doc>

Appendix No. 1

The arguments in favor and against the use of two-year budgets on the Federal Level in the United States, as they appear in a CRS document of August 10, 2006.²⁶

Arguments Favoring and Opposing Biennial Budgeting

Arguments Made by Proponents of Biennial Budgeting

Supporters of biennial budgeting generally advance three arguments. They contend that a two-year budget cycle will (1) reduce congressional workload by eliminating the need for annual consideration of routine or repetitious matters; (2) allow Congress to reserve time to promote improved oversight and program review; and (3) allow better long-term planning by the agencies that spend federal funds, at the federal, state, or local level.

Advocates assert that reducing the number of times that Congress has to consider budget questions will reduce the percentage of congressional time consumed by the process. They assert that this would allow more time for Congress to conduct agency and program oversight. By effectively dividing each Congress into a budget year and an authorization/oversight year, a two-year cycle might reduce competition for Members' time and attention and allow for more effective use of authorizations to establish policy. Congress would not have to resort to

appropriating in the absence of a current authorization as often, since the authorizations would not be crowded out of the congressional schedule by appropriations questions. Another

anticipated benefit is that executive branch agencies, relieved of the need to develop and defend budget proposals as frequently, could better manage federal programs.

One of the chief arguments of proponents of biennial budgeting is that it increases certainty about the level of future funding and thus, allows better long-range planning by federal agencies and by state and local governments. The Reagan, George H. W. Bush, Clinton, and George W. Bush Administrations expressed support for biennial budgeting. The 1993 report of the National Performance Review (the Gore Commission) noted, "Considerable time could be saved—and used more effectively—in both the executive and legislative branches of government if budgets and appropriations were moved to a biennial cycle."²⁷ The Clinton Administration's

²⁶ See footnote No. 16

²⁷

U.S. Office of the Vice President, *Creating a Government That Works Better and Costs Less: Mission-Driven, Results-Oriented Budgeting*, accompanying report of the National Performance Review (Washington: GPO, 1993), p. 59

final budget submission in 2000 reiterated its support for biennial budgeting.²⁸ The George W. Bush Administration has also included support for biennial budgeting (as well as other budget process reforms) in the President's annual budget submission to Congress. The FY2004 Budget stated that:

... a biennial budget would allow lawmakers to devote more time every other year to ensuring that taxpayers' money is spent wisely and efficiently. In addition, Government agencies would receive more stable funding, which would facilitate longer range planning and improved fiscal management.²⁹

Supporters point to the multiyear nature of the budget summit agreements between Congress and the President that have been a major part of the budget process for more than a decade as evidence of the efficacy of multiyear budgeting, and as a major factor in recent years for promoting more efficient consideration of budgetary legislation.

Arguments Made by Opponents of Biennial Budgeting

Critics of biennial budgeting have countered with several arguments as to why some of the

projected benefits could prove to be illusory. Reducing the number of times that Congress

considers budget matters, they suggest, may only raise the stakes, and thereby heighten the

possibility for conflict and increased delay. In addition, enacting a budget resolution and spending legislation every other year could be effective in reducing congressional workload or aiding longer-term planning only in the second year of the cycle. Even that benefit may not accrue without accurate budget projections. Making accurate projections of revenues and expenditures is always difficult, and, because a two-year cycle requires forecasting as much as 30 months in advance (rather than 18 under an annual budget cycle), biennial budgets would be more susceptible to error. Less accurate forecasting, they argue, could result in providing either too much or too little money for individual programs, and some fear that this would increase the need for supplemental appropriations or other adjustments that would effectively undercut any intended improvements in planning.

28

U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2001, Analytical Perspectives* (Washington: GPO, 2000), p. 287.

29

U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2004, Analytical Perspectives* (Washington: GPO, 2003), p. 318.

With only a limited ability to anticipate future conditions, critics argue that a two-year cycle could require Congress to choose between allowing the President greater latitude for making budgetary adjustments in the off-years or engaging in mid-cycle corrections to a degree that would nullify any anticipated time savings or planning advantages. Furthermore, they argue that annual review of appropriations requests is an important part of oversight that would be lost under a biennial budget, with no guarantee that committees would take advantage of a separate oversight session or that oversight separate from review of funding decisions would be as effective.

In addition, they contend that the institutional incentives for supporting two-year budgets can vary based on the expected budgetary outcome. A budget plan that would lock in an amount for the second year of a biennium will draw relatively little support from program advocates in a time of increasing budgets (because the program might receive more generous funding later), and, alternately, will draw relatively little support from program cutters in times of decreasing budgets (because the program would be somewhat insulated from possible later cuts). In other words, an action to lock in future budgetary resources may draw opposition when some decision maker believe that a “better” decision may be arrived at in the future.

Appendix No. 2

The evidence of the Director of the Congressional Budget Office on the subject of the two-year budget before the Subcommittee on the Legislative and Budget Procedure of the Rules Committee in the U.S. House of Representatives, on March 23, 2004.³⁰

Convert to a Biennial Budget Cycle

Proposals for biennial budgeting generally call for policymakers to enact budget legislation one year and to oversee and evaluate activities in the next. Supporters of biennial budgeting are increasingly concerned that the requirements of the annual budget process are overwhelming policymakers and public officials. They argue that the seemingly incessant demands of that process detract from other functions of government – such as long-range planning and oversight – that are equally, if not more, important.

However, changing to a two-year cycle could have significant drawbacks. It could diminish the effectiveness of Congressional control of spending in the appropriation process and could make adjusting to rapidly changing budgetary and economic conditions more difficult. If the economic and technical assumptions underlying a two-year budget resolution were not revised before the end of the biennium, the information and estimates that policymakers used would be far less reliable. Budget discipline and Congressional oversight might suffer if major policies were reviewed less frequently, and large supplemental appropriation bills could be more likely under a biennial budget process. Finally, it is unclear whether the root cause of the problems cited by proponents of biennial budgeting is the annual timetable or other factors that would be largely unaffected by a switch to two-year budgeting. Slightly less than half of the states, which are cited by proponents as a proving ground for biennial budget, use a biennial budget cycle. Many of the larger states tend to budget annually.

³⁰ http://www.rules.house.gov/Archives/cbo_test.pdf, pp. 10-11