



2008 FALL SYMPOSIUM

## Navigating Transition, Leading Change

SESSION SUMMARY

# Change is Coming: The Budget World During a Period of Transition

Shannon Munro, Reporter

As Americans awaited the inauguration of President-elect Barak Obama, members of the budget community pondered the impact the presidential transition will have on the world of budgeting. At AABPA's Fall Symposium, panelists **Philip Joyce**, Professor of Public Policy and Public Administration at the George Washington University, and **Beth Robinson**, Assistant Director for Budget at the Office of Management and Budget, led a discussion concerning the budget issues the new president will most certainly face.

Professor Joyce began the session by giving an overview of some of the current challenges President Obama will inherit from previous administrations. He explained that the manner in which the new president chooses to handle each problem will have substantial budgetary implications in both the short and long term. Some of the issues he reviewed include:

- Uncertainty over the future war costs in Iraq and Afghanistan, and the budgetary

impact of withdrawing U.S. troops,

- How to deal with the upcoming expiration of the Bush tax cuts,
- Whether the Alternative Minimum Tax should be permanently fixed, and
- How to handle entitlement spending problems and rapidly rising health care costs.

Professor Joyce went on to state that some of the most daunting budgetary challenges don't come from policy issues, but rather from the politics of the budget process. He spoke of late appropriations becoming the norm instead of the exception. He illustrated this by showing that over the past 33 years, appropriations have been on time in only 4 instances.

Professor Joyce explained how budget resolutions have evolved into vehicles for fiscal irresponsibility instead of fiscal responsibility. Giant omnibus packages, continuing resolutions, and multiple supplemental bills, each bursting with thousands

of earmarks, are now considered "business as usual." He went on to assert that these issues are not "cute political problems," but major flaws in the budget process that have real negative impacts for all stakeholders involved.

Professor Joyce explained that President Obama is going to quickly learn that he cannot afford to pursue all of his priorities without adding to the already dreary financial outlook. He stated that many of the new president's campaign promises are going to run up against the hard fiscal reality of an uncertain economy and inherited constraints. Because of this, Professor Joyce said there are incentives for the new president and his budget team to front-load the bad fiscal news and make the first budget as large as possible, then make reductions from there.

Finally, Professor Joyce spoke about the looming deficit projections that the incoming administration faces. He described the problem by stating that deficits "are never the wolf

at the door, but are the termites in the basement,” slowly eating away at the economy. However, Professor Joyce explained that concern over deficits have taken a backseat in political priorities, and, even with deficit projections topping a trillion dollars in the coming fiscal year, now is not the time to address deficit reductions from a political standpoint. Professor Joyce concluded that it is therefore highly unlikely the budget community will see anything resembling a balanced budget by the end of Obama’s first administration.

Beth Robinson began her discussion by conveying some of what the budget community can expect to see in the very near future. She stated that OMB would release a document detailing President Obama’s policy priorities in February, which will in turn act as a blueprint for the president’s full budget, released in late April. She explained that between now and then, there would be an incredible amount of process-related activity taking place. For example, Obama’s tran-

sition teams are currently conducting a very comprehensive review of each agency’s performance and budgetary needs. She also stated that while the last two presidential transitions had incredibly productive lame duck sessions, that would not be the case this time around.

Ms. Robinson also spoke about some of the more uncertain issues surrounding the future budget. As she explained, there is uncertainty about whether the Obama administration would start asserting its priorities during the FY 2009 appropriations process—if those appropriations are even completed. There is also a question over the timing and possible scaling-back of the new administration’s priorities. What should be included in an FY 2009 stimulus package, and what should be held until later? There is also uncertainty over basic budgetary information, such as the baseline, offsets, and economic projections, and how the incoming administration will use that information.

Finally, Ms. Robinson asserted that FY 2010 would be an extremely important year for the budget. In FY 2010, the impacts of the bailout packages and economic initiatives from the Bush administration will begin to be evident. There will also be budgetary impacts of the expiring tax cuts, as well as effects on entitlement spending as baby boomers begin to retire. According to Ms. Robinson, in FY 2010, it will be crucial to take stock of the increasing out-year deficits and debt of this country in order to determine whether the U.S. is on a sustainable or unsustainable fiscal path. It is essential, she said, to begin addressing this growing budgetary problem in order to bring hope to our economic future.

Both Professor Joyce and Ms. Robinson concluded that 2009 and 2010 would be two of the most interesting years for the budget community, from both an academic and a practitioner standpoint. Their biggest takeaway – One way or another, change is definitely coming!

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