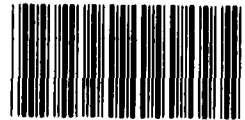


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UNITED STATES GENERAL ACCOUNTING OFFICE
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Statement of
Harry S. Havens
Assistant Comptroller General of the United States
before the
Task Force on Entitlements, Uncontrollables and Indexation
of the
Committee on the Budget
U.S. House of Representatives



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on

[Alternatives for Modifying the Indexation of Federal Programs]

Mr. Chairman and Members of the Task Force:

We appreciate the opportunity to appear before you to discuss our report on indexing and entitlement programs.

As the Comptroller General testified last week, we believe that some means of limiting the present indexing system is absolutely essential. This view is based on the following considerations:

1. Explicitly indexed programs now account for about 30% of the budget. To exclude from consideration the issue of indexation would unnecessarily limit the options available to the Congress as it seeks ways to act now to constrain the budget.

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2. The actions necessary to bring down the rate of inflation will require some sacrifice by most Americans. During the present period of emphasis on this issue, to continue insulating one group--those receiving indexed benefits--would be inequitable and would increase the sacrifice required of the rest of the American people.
3. The indexation of entitlement programs has been a major factor in the growth of that portion of the budget which is uncontrollable in the short run. Constraints on indexation are, we believe, indispensable if the Congress and the President are to regain permanently an increased measure of short-run control over the budget.

Our report on this subject is entitled "What Can Be Done to Check the Growth of Federal Entitlement and Indexed Spending?" (PAD-81-21). Advance copies of the report have been supplied to you and other members of the committee. It will receive general distribution shortly. Therefore, I will not take your time now to review the details of that report. Rather, I will only emphasize the recommendations we offer for your consideration.

We believe there are three basic options available for constraining the indexation process.

1. Give the President authority to modify the amount of

the index through the budget process. This would be analogous to the approach now taken with respect to Federal pay and should, of course, be subject to congressional review.

2. Limit the annual adjustment to the average increase in worker pay, or the CPI, whichever is less. This would eliminate the current inequity of workers losing ground to inflation while Federal program beneficiaries are insulated from that sacrifice.
3. Correct present deficiencies in the CPI or choose another index which avoids those deficiencies and defines more adequately the degree of protection against inflation which the Congress wishes to provide to Federal program beneficiaries. In a forthcoming report, we will be discussing the most serious present weakness in the CPI--its treatment of housing costs--and expect to recommend a different approach. In addition to this, however, the Congress also has the option of choosing an entirely different index. Over the past decade, for example, the Personal Consumption Expenditures index, which is used in the GNP deflation series, has moved upward at a somewhat slower rate than the CPI, for reasons inherent in the design of the index. The Congress might conclude

that this represents a more appropriate basis
for protecting Federal benefits.

These options are not mutually exclusive. They could be blended in various combinations and each of them could be modified in various ways. Of the three, however, we prefer the first--giving the President authority to implement an alternative plan or plans for adjusting benefits through the budget process. We recommend the adoption of that approach.

That completes my prepared statement. My colleagues and I would be pleased to answer any questions.