

CBO TESTIMONY

Statement of
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before the
Legislation and National Security Subcommittee
Committee on Government Operations
U.S. House of Representatives

July 18, 1991

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CONGRESSIONAL BUDGET OFFICE
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Mr. Chairman and Members of the Subcommittee, I am pleased to be able to present the views of the Congressional Budget Office (CBO) on the treatment of Social Security's administrative expenses under the Balanced Budget Act. I will begin by reviewing the provisions of the original 1985 legislation and the 1990 amendments. Then, I will describe CBO's interpretation of the amendments and contrast it with that of the Administration. I will conclude with some comments on the bill introduced by Mr. Conyers and Mr. Horton.

Each year, the Labor-HHS appropriations bill places a limit on spending on administrative expenses of the Social Security Administration (SSA). Not all of SSA's administrative expenses, however, are financed by the two Social Security trust funds. Only about three-fifths of the limitation on administrative expenses is chargeable to the old-age and survivors insurance and disability insurance trust funds. Most of the remainder is paid out of the appropriation for Supplemental Security Income (SSI), and a small portion is charged to the two Medicare trust funds. All agree that the portion of the limitation on administrative expenses charged to SSI and Medicare is included in the Balanced Budget Act calculations. But what about the portion paid out of the Social Security trust funds?

WHAT DOES THE BALANCED BUDGET ACT SAY?

The Balanced Budget and Emergency Deficit Control Act of 1985 removed the two Social Security trust funds from the budget totals, but it continued to include the trust funds in the most important budgetary calculations. First, Social Security was counted in assessing compliance with the Balanced Budget Act's deficit targets. Second, if automatic sequestration were needed to achieve the deficit target, Social Security administrative expenses (but not the benefits) were subject to reduction.

From an economic perspective, the treatment of Social Security in the 1985 version of the Balanced Budget Act made sense. The best simple measure of the federal budget's effect on the economy is the deficit excluding deposit insurance. This comprehensive measure of the deficit, including the Social Security and other trust funds, determines the government's fiscal stance, its drain on credit markets, and the amount of private saving that it absorbs.

In the Budget Enforcement Act of 1990, however, the Congress took a different position. Both the House- and the Senate-passed versions of the bill included provisions removing Social Security from the Balanced Budget Act's deficit estimates and sequestration calculations. As enacted, the relevant provision is simple and brief.

Section 13301(a) states, "Notwithstanding any other provision of law, the receipts and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall not be counted as new budget authority, outlays, receipts, or deficit or surplus for purposes of--(1) the budget of the United States Government as submitted by the President, (2) the congressional budget, or (3) the Balanced Budget and Emergency Deficit Control Act of 1985."

The text of the law seems clear and appears to exclude all of Social Security--both benefits and administrative expenses--from all budgetary calculations, but the report accompanying the conference agreement adds a note of **ambiguity**. In revising the budget process, the Budget Enforcement Act established two new **requirements--a** pay-as-you-go rule for revenues and mandatory spending and dollar limits or caps on discretionary spending. In an attempt to clarify the scope of these new provisions, the conference report contains lists of mandatory and discretionary appropriations. The list entitled "Appropriated Domestic Discretionary Accounts for Fiscal Year 1991" includes the appropriated portions of the two Social Security trust funds--that is, Social Security administrative expenses.

WHAT DOES THE BALANCED BUDGET ACT MEAN?

An inconsistency therefore arises. On the one hand, the Balanced Budget Act states that Social Security should not be counted for purposes of the Balanced Budget Act. On the other hand, the conference report appears to include Social Security administrative expenses among the programs subject to the new discretionary spending limits.

The Congressional Budget Office's View

How should this inconsistency be resolved? CBO believes that the Budget Enforcement Act gives two **answers--one** for 1991 and another for 1992 and thereafter. From the start of the fiscal year 1991 budget process, Social Security's administrative expenses were counted as discretionary spending. The Congressional budget resolution for fiscal year 1991, adopted in the wake of the budget summit agreement, assumed that Social Security administrative expenses were included in the domestic discretionary spending category. And the conference report on the Budget Enforcement Act, as noted earlier, included Social Security administrative expenses on the discretionary list for **1991**. Therefore, in our end-of-session sequestration report, CBO included the

administrative expenses of Social Security as domestic discretionary spending subject to the statutory limit in fiscal year 1991.

Fiscal years 1992 and later, however, are another story. For these years, the law was clear, and the slate was clean. The Budget Enforcement Act requires that the discretionary spending limits be adjusted to reflect changes in budgetary concepts or definitions. In CBO's view, removing Social Security from the Balanced Budget Act calculations constitutes just such a change in budgetary concepts. In our sequestration preview report for fiscal year 1992, CBO therefore excluded all the revenues and outlays of the Social Security trust funds, including administrative expenses, from the maximum deficit amounts and discretionary spending totals for 1992 and thereafter. Correspondingly, CBO reduced the domestic discretionary spending limits for 1992 through 1995 by our baseline projection for Social Security administrative expenses. This reduction in the caps assured that the appropriations committees were neither **hurt** nor helped by the change in budgetary concepts.

The Administration's View

The Administration, however, reached a different conclusion. In the President's budget for 1992, the Office of Management and Budget

(OMB) continued to include Social Security's administrative expenses as domestic discretionary spending subject to the cap. CBO believes that OMB's interpretation is inconsistent both with the letter of the law and also with Congressional intent.

To interpret a statute, one need look at the conference report or legislative history only when the law itself is unclear. But the Budget Enforcement Act is not unclear. It states that Social Security spending should not be counted as adding to outlays or the deficit. OMB's interpretation has the effect of treating Social Security's administrative expenses as part of on-budget spending and the on-budget **deficit--a** result clearly at odds with the law.

Congressional intent is equally clear. In the debate over the Budget Enforcement Act, there was never any suggestion that Social Security's administrative expenses should be treated differently from the benefit payments. The House-passed version of the bill would have kept Social Security's interest receipts on-budget, but the Senate explicitly rejected this stance when it **adopted the Moynihan-Hollings-Heinz** amendment. "The conference agreement incorporates the Senate position on the budgetary treatment of the Social Security trust funds," says the statement of managers, "reaffirming their off-budget status and removing all their transactions from the **deficit** estimates and the calculations made in the sequestration process."

While CBO disagrees with OMB's interpretation of the Balanced Budget Act, OMB is charged with administering the law, and OMB's view will stand unless overturned by law or judicial ruling. In order to make our estimates relevant and useful for the Congress, therefore, CBO's budget projections now follow OMB's approach. For the same reason, the Congressional budget resolution for fiscal year 1992 also assumes that Social Security's administrative expenses are included in the domestic discretionary spending totals.

THE EFFECTS OF THE CONYERS-HORTON BILL

The bill introduced by Mr. Conyers and Mr. Horton amends the Balanced Budget Act and the Budget Enforcement Act to clarify the off-budget status of Social Security's administrative expenses, their exclusion from the discretionary spending limits, and their exemption from sequestration. In these respects, the bill is consistent with **CBO's** interpretation of the 1990 legislation, as I have outlined above. In addition, the bill **specifies** that no adjustment be made to the domestic discretionary spending limits as a result of excluding Social Security from the discretionary spending totals. This provision would free up \$2.5 billion in outlays for other domestic purposes in 1992 and could add

as much as \$2.5 billion to non-Social Security outlays and the deficit. Changing the treatment of the limitation on Social Security's administrative expenses, however, would not affect budget authority.

The Conyers-Horton bill would not remove Social **Security's** administrative expenses from Congressional control, but it would give them favored treatment. The amount of trust fund dollars that could be spent on administrative expenses would still be limited by annual appropriations. But additional resources could be devoted to improving the administration of Social Security retirement and disability benefits without taking resources away from other domestic programs.