

Statement of
Edward M. Gramlich
Acting Director
Congressional Budget Office

before the
Committee on the Budget
United States Senate

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NOTICE

This statement is not available for public release until it is delivered at 9:30 a.m. (EDT), on Thursday, October 15, 1987.

I am pleased to have the opportunity to discuss the initial Congressional Budget Office (CBO) sequestration report for fiscal year 1988. This report is being transmitted today to the Congress and to the Director of the Office of Management and Budget (OMB). The complete report will be printed in tomorrow's issue of the Federal Register. My statement today will cover the highlights.

BUDGET BASELINE TOTALS

The budget baseline estimates contained in the report follow the specifications of the Balanced Budget Act, as amended by Public Law 100-119. Two sets of budget baseline estimates for 1988 are provided--one for laws and regulations in effect on January 1, 1987, and the other for laws and regulations in effect on October 10, 1987 (see Table 1). The differences between the two sets of budget baseline estimates result from laws enacted and final regulations promulgated since January 1 and from the President's pay raise proposal submitted at the end of August.

TABLE 1. CBO ESTIMATES OF BUDGET BASELINE TOTAL FOR 1988
(In billions of dollars)

Budget Aggregates	As of January 1	As of October 10	Difference
Revenues	897.0	897.0	a/
Outlays	1,075.3	1,076.3	1.0
Deficit	178.3	179.3	1.0

a. Less than \$50 million.

Since no appropriations for 1988 have been enacted, the baseline budget estimates assume 1987 appropriation levels adjusted for inflation and increased pay costs. The economic and technical assumptions used for the October 10 budget baseline estimates are also used for the January 1 budget baseline estimates. These assumptions are unchanged from those used by CBO in the August 20 joint CBO/OMB sequestration report, except for Medicare supplementary medical insurance premium rates and the Medicare economic index, which incorporate the actual amounts announced recently by the Health Care Financing Administration.

Under CBO's estimates, the budget baseline deficit for 1988 has increased by \$1.0 billion since January 1 to \$179.3 billion as of October 10, 1987. As shown in Table 2, the increase results primarily from the

TABLE 2. CBO ESTIMATES OF DEFICIT REDUCTIONS
ACHIEVED FOR 1988

Budget Baseline Deficit as of January 1, 1987	178.3
Effect of New Laws and Regulations:	
Supplemental Appropriations, 1987 (P.L. 100-71)	3.0
Federal employee pay raises <u>a/</u>	-1.0
Surface Transportation and	
Relocation Act (P.L. 100-17)	-0.4
Competitive Equality Banking Act of 1987 (P.L. 100-86)	-0.6
Balanced Budget Reaffirmation Act of 1987 (P.L. 100-119)	-0.2
Other enacted laws (Public Laws 100-4,	
6, 14, 20, 45, 72, 92, and 93) and regulations	0.1
Debt service costs <u>b/</u>	<u>0.2</u>
Net Deficit Change	1.0
Budget Baseline Deficit as of October 10, 1987	179.3

- a. Estimated savings from substitution of 2 percent pay raises for 4.2 percent pay raises assumed for January 1, 1987 baseline.
- b. Results largely from the supplemental appropriations for 1987.

supplemental appropriations for 1987 enacted in July, which add an estimated \$3.0 billion to the budget baseline for 1988. Partially offsetting this increase are other legislative actions, which produce net deficit reductions of \$1.2 billion, and the President's proposal to limit federal pay raises for 1988 to 2 percent, which reduces the January 1 budget baseline estimates by \$1.0 billion. Further details are provided in Table 2.

Not included in our October 10 snapshot is the potential effect of a bill recently sent to the President that would add \$0.6 billion to the 1988 budget baseline deficit. This bill (S. 1691) would extend the expiring loan origination fee for Veterans Administration (VA) housing loans but would also require that VA vendee loans be sold with recourse. Under present CBO and OMB scoring conventions, the sale of loans with recourse are treated as federal borrowing rather than as offsetting collections.

REQUIRED OUTLAY REDUCTIONS

Under the new law, sequestration of budgetary resources for 1988 is avoided only if the amount of net deficit reduction since January 1 is equal to or exceeds \$23 billion. CBO estimates that net deficit reductions have been minus \$1 billion through October 10. Therefore, further reductions would have to total \$24 billion by November 20 to avoid any sequestration this year. The amount needed could be as much as \$24.6 billion if the President signs S. 1691. Under OMB estimates, which will be issued next Tuesday (October 20), the amount of net deficit reductions needed to avoid a 1988 sequestration may be even greater. For example, OMB estimates that

S. 1691 would add \$1.0 billion to its budget baseline estimates. On the other hand, the sequestration needed may be smaller if net deficit reductions are positive but less than \$23 billion from the January 1 budget baseline.

The amended Balanced Budget Act limits a 1988 sequestration to \$23 billion in outlay reductions. One half of this amount--\$11.5 billion--must be taken from defense programs and the other half from nondefense programs. Table 3 summarizes the CBO calculations for a \$23 billion sequestration following the rules in the act. But let me make the following points about the possible sequestration:

TABLE 3. CBO SEQUESTRATION CALCULATIONS FOR 1988
(Outlays in millions of dollars)

	Defense Programs	Nondefense Programs
Total Required Outlay Reductions	11,500	11,500
Savings from Eliminating Automatic Spending Increases	---	19
Savings from the Application of Special Rules:		
Guaranteed student loans	---	25
Foster care and adoption assistance	---	9
Medicare	---	1,390
Other health programs	---	178
Remaining Reductions Required	11,500	9,879
Estimated Sequestration Outlay Base <u>a/</u>	110,459	113,509
Uniform Reduction Percentage	10.4	8.7

- a. Excludes \$71,177 million in estimated military personnel outlays that have been exempted from sequestration by the President. Includes \$7,490 million in estimated 1989 outlays for the Commodity Credit Corporation that can be affected by a 1988. Also includes an estimated \$2,264 million in outlays from the spending of offsetting collections.

- o The across-the-board sequestration percentage for defense programs is 10.4 percent and for nondefense programs it is 8.7 percent. The defense percentage is higher than for non-defense because the President has exempted the military personnel accounts from sequestration. Had he not done so, the defense sequestration percentage would have been 6.3 percent.
- o A large part of the budget is either exempt from sequestration or is unaffected by it. As a consequence, the reductions are concentrated in about 20 percent of total outlays.
- o To get \$23.0 billion in outlay reductions, a larger amount of new budget authority and other spending authority has to be sequestered. This is because not all new budget authority is spent in the first year it becomes available. For example, by CBO calculations, new defense budget authority has to be reduced by \$23.7 billion to get outlay savings of \$11.5 billion in 1988. In addition, \$5.0 billion in unobligated defense balances carried over from previous years would have to be sequestered.

The possible effect of a \$23 billion sequestration for defense and nondefense programs is summarized in Tables 4 through 6. Table 4 shows that the post-sequestration defense levels, assuming 1988 defense appropriations at October baseline levels, would be \$9.7 billion in budget authority and \$5.0 billion in outlays below the low-tier levels specified in the 1988 budget resolution. Compared with the President's budget request

for defense programs, post-sequestration levels would be lower by \$32.6 billion in budget authority and \$19.6 billion in outlays. For nondefense programs, post-sequestration outlays would be \$5.2 billion below the 1988 budget resolution as estimated by CBO and budget authority would be \$13.2 billion lower.

As shown in Table 5, the areas of the defense budget that would be most affected by the sequestration would be operations and maintenance, procurement, and research and development. The effect of the President's exemption of the military personnel accounts is to increase the amount of sequestration of new budget authority for the national defense function by \$4.5 billion. The amount of sequestered budget authority for accounts other than military personnel increases by \$9.3 billion. Table 6 shows further details for the effects of sequestration for nondefense programs by major functional categories.

CONCLUSION

I should also emphasize that the CBO sequestration calculations and post-sequestration spending levels are advisory and do not necessarily represent the final outcome for 1988. First, the actual sequestration amounts will be determined by OMB. Second, the final sequestration--if any--will not be determined for another five weeks (on November 20). Actions taken by the Congress before then could reduce or even eliminate any sequestration. Third, the amended Balanced Budget Act provides for expedited legislative procedures for modifying the final sequestration order, either at the initiative of the President or by the Congress.

TABLE 4. POST-SEQUESTRATION LEVELS COMPARED WITH 1988 BUDGET RESOLUTION AND PRESIDENT'S BUDGET (In billions of dollars)

	Budget Authority	Outlays
National Defense Function		
Budget Resolution <u>a/</u>		
High tier	296.0	289.8
Low tier	289.0	283.9
President's Budget <u>b/</u>	311.9	298.5
October 10 Sequestration Baseline	302.9	290.4
CBO Estimated Sequestration	-23.7 <u>c/</u>	-11.5
Post-Sequestration Levels	279.3	278.9
Post-Sequestration Levels Compared With:		
Budget resolution high tier	-16.7	-10.9
Budget resolution low tier	-9.7	-5.0
President's budget	-32.6	-19.6
Other Budget Functions		
Budget Resolution <u>a/</u>	881.4	779.4
October 10 Sequestration Baseline	885.1	785.9
CBO Estimated Sequestration <u>d/</u>	-16.9	-11.7
Post-Sequestration Levels	868.2	774.2
Post-Sequestration Level Compared With Budget Resolution	-13.2	-5.2

- a. Budget resolution targets as reestimated by CBO. Does not include effects of 1987 supplemental appropriations or assumed REA loan prepayments.
- b. President's 1988 budget as reestimated by CBO.
- c. An estimated \$5.0 billion in unobligated balances also would be sequestered.
- d. Includes \$0.9 billion savings in debt service costs as result of 1988 outlay reductions and excludes \$0.7 billion in estimated 1989 outlay savings for Commodity Credit Corporation programs that are credited toward the 1988 sequestration.

TABLE 5. DEFENSE PROGRAM SEQUESTRATION FOR 1988
AS ESTIMATED BY CBO (In billions of dollars)

National Defense Function 050	President's Budget <u>a/</u>	October Baseline	Sequester <u>b/</u>	Post- Sequestration
Military Personnel				
Budget authority	76.3	75.4	0	75.4
Outlays	75.7	74.9	0	74.9
Operations and Maintenance				
Budget authority	86.1	83.7	8.7	75.1
Outlays	82.7	81.3	6.6	74.7
Procurement				
Budget authority	84.1	89.1	9.3	79.9
Outlays	83.0	83.5	1.7	81.7
Research and Development				
Budget authority	43.7	37.5	3.9	33.6
Outlays	38.1	34.7	2.2	32.5
Other				
Budget authority	21.7	17.2	1.8	15.3
Outlays	19.0	16.0	1.0	15.1
Total				
Budget authority	311.9	302.9	23.7	279.3
Outlays	298.5	290.4	11.5	278.9

- a. President's 1988 budget as reestimated by CBO.
b. The President has exempted 100 percent of the military personnel accounts from sequestration.

TABLE 6. NONDEFENSE PROGRAM SEQUESTRATIONS FOR
1988 BY FUNCTION AS ESTIMATED BY CBO
(In billions of dollars)

Budget Function	Budget Res. a/	October Base- line	CBO Est. Seq.	Post- Seques- tration
150 International Affairs				
Budget authority	16.2	17.5	1.6	15.9
Outlays	16.1	16.4	0.9	15.5
250 General Science, Space, and Technology				
Budget authority	11.3	13.1	1.1	12.0
Outlays	11.1	11.0	0.6	10.4
270 Energy				
Budget authority	4.6	3.8	0.5	3.3
Outlays	4.3	4.0	0.3	3.7
300 Natural Resources and Environment				
Budget authority	15.9	15.9	1.5	14.4
Outlays	15.2	14.8	1.0	13.8
350 Agriculture b/				
Budget authority	26.2	28.2	1.0	27.2
Outlays	25.3	27.4	1.1	26.3
370 Commerce and Housing Credit				
Budget authority	9.4	9.4	0.3	9.1
Outlays	5.7	6.0	0.3	5.7
400 Transportation				
Budget authority	29.1	28.0	2.4	25.6
Outlays	27.9	28.1	0.8	27.3
450 Community and Regional Development				
Budget authority	7.5	7.7	0.5	7.2
Outlays	6.6	6.6	0.2	6.5
500 Education, Training, Employment, and Social Services				
Budget authority	37.3	35.7	2.6	33.0
Outlays	33.4	33.5	0.9	32.6
550 Health				
Budget authority	45.4	44.5	1.2	42.3
Outlays	44.9	44.3	0.6	43.7

(Continued)

TABLE 6. (Continued)

Budget Function	Budget Res. a/	October Base- line	CBO Est. Seq.	Post-Seques- tration
570 Medicare				
Budget authority	94.4	94.9	---	94.9
Outlays	80.8	82.3	1.5	80.8
600 Income Security				
Budget authority	169.3	169.8	1.3	167.6
Outlays	132.7	132.7	0.7	132.0
650 Social Security				
Budget authority	258.5	258.4	---	258.4
Outlays	220.5	220.7	0.2	220.5
700 Veterans Benefits and Services				
Budget authority	28.2	28.5	0.5	28.0
Outlays	27.7	28.0	0.4	27.6
750 Administration of Justice				
Budget authority	9.6	9.3	0.8	8.5
Outlays	9.4	9.1	0.7	8.5
800 General Government				
Budget authority	7.7	7.5	0.7	6.8
Outlays	7.2	7.1	0.6	6.5
850 General Purpose Fiscal Assistance				
Budget authority	1.8	1.9	0.1	1.8
Outlays	1.8	1.9	0.1	1.7
900 Net Interest b/				
Budget authority	148.2	150.0	0.9	149.1
Outlays	148.2	150.0	0.9	149.1
920 Allowances				
Budget authority	-0.7	---	---	---
Outlays	-0.7	---	---	---
950 Undistributed Offsetting Receipts				
Budget authority	-38.3	-38.0	---	-38.0
Outlays	-38.3	-38.0	---	-38.0
Total				
Budget authority	881.4	885.1	16.9	868.2
Outlays	779.4	785.9	11.7	774.2

- a. Budget resolution targets as estimated by CBO. Does not include effects of 1987 supplemental appropriations or assumed REA loan prepayments.
- b. Excludes \$0.7 billion in estimated 1989 outlay savings for programs of the Commodity Credit Corporation that are credited toward the 1988 sequestration.
- c. Includes \$0.9 billion savings in debt service costs as result of 1988 outlay reductions through sequestration.