

Statement of
Edward M. Gramlich
Acting Director
Congressional Budget Office

before the
Committee on Rules
U. S. House of Representatives

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NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), Thursday, April 9, 1987.

Mr. Chairman, I am pleased to have the opportunity to discuss H.R. 1307, a bill to require analyses of the President's annual budget and the annual Congressional budget resolutions in terms of their impact on the international competitiveness of United States business and balance of payments position.

The Council of Economic Advisers would have the responsibility for preparing the required analysis of the **President's** budget, and the Congressional Budget Office (**CBO**) would have the responsibility for analyzing the budget resolutions reported in each House.

The required analyses would consist of six components. The first component is the amount of borrowing by the government in private credit markets as a result of the President's budget and the Congressional budget resolutions. This information is already contained in the **President's** budget and is implied in the budget resolutions by setting a target for the appropriate levels of the public debt.

The next four components involve projected levels or changes in economic activity that are either contained in or can be inferred from the economic assumptions underlying the President's budget and the Congressional budget resolutions. They are not now included, however, as part of the President's budget or the budget resolutions. Therefore, they would represent new information. These four components are:

- (1) Net domestic savings (defined as personal savings, corporate savings, and the fiscal surplus of state and local governments);
- (2) Net private domestic investment;

- (3) The merchandise trade and current accounts; and
- (4) The net increase or decrease in foreign indebtedness (defined as net **foreign** investment).

While economic forecasts usually include assumptions about the levels of these four economic activities, the marginal effects of different budget configurations on these activities are very uncertain. As a result, precise estimates of the impact of different budget proposals generally will not be possible.

The last component is the direction and extent of the influence of the government's borrowing in private credit markets on U.S. interest rates and on the real effective exchange rate of the U.S. dollar. From time to time, the President's annual economic report to the Congress and the CBO annual report to the Budget Committees will discuss this subject. The present state of the art of economics is such, however, that there is also a lot of uncertainty on this subject and precise statements cannot be made.

In short, Mr. Chairman, CBO could undertake to do the analyses specified in H.R. 1307 for the annual budget resolutions, provided that the resolutions are based on CBO economic assumptions. Should a budget resolution be based on some other set of economic assumptions, we could have a serious problem in producing the required analysis in time to be included in the Budget Committee's report on a budget resolution. This year, for example, the House Budget Committee chose to base its budget resolution on the **Administration's** economic assumptions. It may be more appropriate, therefore, to have the required analyses prepared by the two

Budget Committees rather than CBO. We would, of course, give any assistance to the Committees that we can provide on these matters.

Finally, it warrants repeating that any analyses of the budget's **effect** on interest rates, real exchange rates, and savings and investment rates would have to be qualitative in nature. Precise estimates would overstep our ability to measure the impact of the budget on these variables. At best, all that can be done is to indicate the direction and the possible order of magnitude of these impacts.