

CONGRESSIONAL BUDGET OFFICE

Statement of Alice M. Rivlin
Director of the
Congressional Budget Office

before the

Subcommittee on Legislative
Committee on Appropriations
U.S. House of Representatives

Appropriation Request for Fiscal Year 1982

Mr. Chairman and Members of the Subcommittee, I am pleased to present the fiscal year 1982 appropriation request for the Congressional Budget Office (CBO). CBO is a nonpartisan organization that provides the Congress with budget-related information and analyses of alternative fiscal, budgetary, and programmatic policies. CBO does not make recommendations on matters of policy; rather, we analyze options, their cost to the federal government, and their impact on the national economy and the budget.

Budget Request

For fiscal year 1982, I am presenting a budget request that has no increase in the level of authorized staff and reflects only the increased costs of maintaining current levels of services to the Congress. The request for fiscal year 1982 is for 218 positions and \$14,298,000.

This marks the fifth consecutive year that the CBO has not requested additional positions. Since fiscal year 1977, the only staff increase--10 positions in 1979--came at the request of the Senate and

House Budget and Appropriations Committees, not at the request of CBO. These 10 positions were added to give CBO greater capacity to analyze inflationary trends in the economy and the inflationary impact of major legislative proposals, as requested in the First and Second Concurrent Resolutions on the Budget for Fiscal Year 1981.

As Table 1 shows, our funding has remained relatively stable through the five-year period since 1978, rising at an average of less than the rate of inflation. Even with the supplemental to cover the costs of the October 1980 pay increase, CBO's budget in fiscal year 1981 will be only 1.7 percent over that of fiscal year 1980, considerably less than the anticipated inflation rate of about 10 percent. To live within this budget, we have deferred and cancelled needed data development, and we have introduced a number of cost-saving approaches in our computer operations. Our funding request for fiscal year 1982 represents a 13.4 percent increase over our fiscal year 1981 appropriation, but this increase is off a base already severely strained by the increased costs of maintaining current services in an inflationary economy. Over the two-year period from 1980 to 1982, our appropriation will rise at less than three-quarters of the anticipated rate of inflation.

I am on record to this Committee that CBO would not seek increases in either staff or real funding unless we were given additional responsibilities. This budget request upholds that pledge. The fiscal year 1982 appropriations would simply continue CBO's current services to the Congress.

TABLE 1. CBO'S APPROPRIATION HISTORY, FISCAL YEARS 1976-1982

Fiscal Year	Staff Positions	Dollar Amounts	Percent Increase
1976	---	2,174,480 <u>a/</u>	---
1976	193	6,052,525 <u>b/</u>	---
1977	208	9,576,600 <u>c/</u>	---
1978	208	10,400,000	8.6
1979	218 <u>d/</u>	11,368,000	9.3
1980	218	12,386,000	8.9
1981	218	12,603,000 <u>e/</u>	1.7
1982	218	14,298,000	13.4

NOTE: Since fiscal year 1977, CBO has not requested any increase in staff ceiling--the 10 new positions authorized for CBO in fiscal year 1979 came as a result of House and Senate action asking CBO to undertake inflationary impact analysis.

a/ Senate Contingency Fund. No position ceiling established. Funding from February 24, 1975, to December 31, 1975.

b/ Funding for nine months from January 1, 1976, to September 30, 1976.

c/ First full-year funding for CBO.

d/ Ten positions initiated by action of Senate and House Budget and Appropriations Committees for CBO's new Congressionally mandated assignment to analyze the inflationary impact of proposed legislation.

e/ Includes \$465,000 for October 1980 pay supplemental request.

In the next section of this statement, I will briefly review for the Committee the principal services CBO provided to the Congress over the past year. I will then explain the major items of change in our fiscal year 1982 request.

Current CBO Services to the Congress

CBO's responsibilities under the Congressional Budget Act of 1974 include estimating the five-year costs to the federal government of proposed legislation, tracking Congressional budget action on appropriation and revenue bills against the targets or ceilings in the concurrent budget resolutions (scorekeeping), preparing periodic forecasts of economic trends and alternative fiscal policies, and analyzing programmatic issues that affect the federal budget.

Cost Estimates. CBO prepares cost estimates for virtually every bill reported in the House or Senate that would have a budget impact. We also provide the Appropriations Committees with outlay estimates for all appropriations bills.

CBO's bill cost estimates have become an integral part of the legislative process. Committees are referring to them increasingly at every stage of bill drafting, and they are having an impact on the final outcome of legislation. Moreover, the Congress has expressed its desire to expand CBO's cost estimating effort. As directed in the first and second budget resolutions for fiscal year 1981, we will be preparing for the Congress an estimate of the inflationary effects, wherever measurable, of legislation reported by committees but not yet enacted. Also, in the 96th Congress, bills were introduced in both the House and Senate that would give CBO the added responsibility of preparing estimates of the cost to state and local governments of federal legislation. We expect these bills to be reintroduced in this Congress.

During the second session of the 96th Congress, CBO prepared approximately 860 bill cost estimates for House and Senate authorizing committees, making a total of about 1,700 for both sessions. Based on past experience, we expect to prepare about the same number of bill cost estimates during the 97th Congress.

Budget Projections. CBO's budget projections capability has enabled the Congress to move more and more in the direction of multiyear budgeting. Both Budget Committees are now including three-year targets in the budget resolutions. This has generated a need to maintain current projections on a year-round basis. CBO therefore now provides the Budget Committees with continually updated information, as well as issuing its legislatively mandated Five-Year Projections report.

Scorekeeping. CBO's scorekeeping system tracks Congressional action on revenue and appropriation bills against the targets or ceilings in the concurrent resolutions on the budget. As such, it serves as the early warning system that alerts the Congress to any breach of these resolutions. During fiscal year 1980, we issued various budget scorekeeping reports and tabulations for use by the Congress, particularly the Appropriations and Budget Committees. These included:

- o Seven (7) comprehensive scorekeeping reports published by CBO;
- o Information for weekly scorekeeping reports issued by the Senate Budget Committee;
- o Weekly packages of specially designed computer runs, furnished to the House Budget Committee when the House was in session;

- o Daily reports, together with weekly scorekeeping tabulations, when the Congress was in session, for the Budget Committees' use in advising the parliamentarians on current budgetary levels;
- o Numerous computer tabulations (some regular and others specifically requested) for the use of the Appropriations Committees in preparing their March 15 reports, and for the Budget Committees during their consideration of the budget resolutions;
- o Special computer support to the House Budget Committee during the mark up of the budget resolutions; and
- o An automated report, which is updated weekly, on the legislative status of selected entitlement and other bills that would directly affect budgetary requirements.

Economic Forecasts. Each fiscal year, CBO publishes two reports that examine the state of the national economy, present CBO's economic forecast, and analyze alternative fiscal policies. To prepare these reports, we use a variety of information sources, including the major commercially available econometric models (Data Resources, Inc.; Wharton Associates; Chase Econometrics; Merrill Lynch; and, new this year, Evans Economics). CBO does not maintain its own macroeconomic model of the economy. To ensure objectivity in this difficult area of economic forecasting, we rely on the advice of a distinguished panel of advisors drawn from all parts of the country and representing a wide spectrum of economic views. Among its current members are chairmen of the Council of Economic Advisors in four previous administrations. (Table 2 lists the current panel.)

TABLE 2. CBO PANEL OF ECONOMIC ADVISERS, JUNE 1980

Mr. Paul W. McCracken (Chairman) Edmund Ezra Day University Professor of Business Administration University of Michigan	Mr. Leif H. Olsen Senior Vice President and Economist First National City Bank
Professor Barbara Bergmann Department of Economics University of Maryland	Mr. Rudolph Oswald Director, Research Department, AFL-CIO
Dr. Barry P. Bosworth Senior Fellow The Brookings Institution	Mr. Joseph A. Pechman Director, Economic Studies The Brookings Institution
Dr. Dewey J. Daane Frank K. Houston Professor of Banking Vanderbilt University	Dr. Rudolph G. Penner Resident Scholar American Enterprise Institute of Public Policy Research
Dr. Martin Feldstein President National Bureau of Economic Research	Mr. George L. Perry Senior Fellow The Brookings Institution
Dr. William J. Fellner Resident Scholar American Enterprise Institute for Public Policy Research	Professor Paul Samuelson Department of Economics Massachusetts Institute of Technology
Mr. Alan Greenspan President Townsend-Greenspan and Company	Professor Robert Solow Massachusetts Institute of Technology
Mr. Douglas Greenwald Chief Economist (retired) McGraw-Hill Publications	Professor Herbert Stein Department of Economics University of Virginia
Dr. Walter W. Heller Regents' Professor of Economics University of Minnesota	Professor James Tobin Sterling Professor of Economics Yale University
Mr. Walter E. Hoadley Executive Vice President, Chief Economist Bank of America	Mr. Michael G. Wellman Manager, Research Department S.S. Kresge Corporation
Dr. F. Thomas Juster Program Director Institute for Social Research University of Michigan	Mr. Charles J. Zwick President South East Banking Corporation Miami, Florida
Professor Lawrence R. Klein Benjamin Franklin Professor of Economics University of Pennsylvania	

CBO issues its economic reports to coincide with Congressional consideration of the concurrent resolutions on the budget. The two reports issued in 1980 focused particularly on the problems of inflation and productivity.

Program Analysis. Over the years, CBO has responded to requests from almost every committee of both houses of the Congress for in-depth analytical reports on key legislative issues. In many cases, these studies have provided the Congress with the crucial budget-related information it needed to make informed decisions on complex questions. These reports are undertaken at the request of the chairman or ranking minority member of a full committee of jurisdiction or the chairman of a subcommittee of jurisdiction. Reflecting the priorities established in the Congressional Budget Act of 1974, the Budget Committees request CBO's services most frequently. Table 3 shows the number of reports requested by House and Senate committees since CBO began operations.

In fiscal year 1980, CBO completed about 60 formal reports, both published and unpublished, as well as numerous informal analyses presented to the Congress in the form of memoranda, technical notes, responses to specific questions, and the like. The subject areas of those reports reflect the major budgetary issues before the Congress. Let me cite just a few examples of important CBO studies completed in fiscal year 1980.

Our analysis of the windfall profits tax, prepared for the Senate Budget Committee in November 1979, provided the only analysis available to the Congress that showed in detail the trade-offs between

TABLE 3. NUMBER OF CBO REPORTS REQUESTED BY HOUSE AND SENATE COMMITTEES, 1975-1980

Committee	Number of Reports
<u>House of Representatives</u>	
Agriculture Committee	4
Appropriations Committee	14
Armed Services Committee	10
Banking, Finance and Urban Affairs Committee	11
Budget Committee	76
Education and Labor Committee	7
Interior and Insular Affairs Committee	2
International Relations Committee	1
Interstate and Foreign Commerce Committee	7
Post Office and Civil Service Committee	3
Public Works and Transportation Committee	3
Veterans Affairs Committee	1
Ways and Means Committee	17
Ad Hoc Energy Committee	<u>1</u>
Total	157
<u>Senate</u>	
Agriculture and Forestry Committee	1
Appropriations Committee	7
Armed Services Committee	8
Banking, Housing and Urban Affairs Committee	6
Budget Committee	123
Commerce Committee	1
Finance Committee	5
Foreign Relations Committee	3
Government Operations Committee	1
Interior and Insular Affairs Committee	1
Judiciary Committee	3
Labor and Public Welfare Committee	1
Agriculture, Nutrition and Forestry Committee	1
Commerce, Science and Transportation Committee	2
Energy and Natural Resources Committee	13
Environment and Public Works Committee	3
Governmental Affairs Committee	4
Labor and Human Resources Committee	<u>5</u>
Total	188
Joint Economic Committee	5

production of domestic oil and the level and structure of the excise tax levied. The report was frequently cited during the debate over these trade-offs.

CBO's evaluation of the Strategic Petroleum Reserve, issued in June 1980 at the request of the House Committee on Interstate and Foreign Commerce, provided the first evidence of the effectiveness of the reserve. The analysis has been the basis of several legislative initiatives to mandate completion of the reserve and to change the financing mechanism used for it.

CBO's analysis of the Department of Transportation's regulations implementing Section 504, transportation for the handicapped, prepared for the House Public Works and Transportation Committee, was the basis for the House compromise on this issue. Our work was the central source for comparative estimates of the costs and savings for modes of transportation for the handicapped other than those mandated by Section 504 regulations. These three reports were prepared by our Natural Resources and Commerce Division.

In 1980, CBO's National Defense and International Affairs Division prepared a number of important studies on defense issues. For example, our study on Costs of Manning the Active Duty Military was published at the request of the House and Senate Budget Committees during the debate over military compensation last spring. Several of the options raised in that study were incorporated in the Defense Authorization

bill reported by the Senate Armed Services Committee. One of the funding options analyzed in the CBO study on the Trident II missile program was adopted by the Senate Armed Services Committee.

Responding to requests from both the House and Senate Agriculture Committees, as well as the Senate Appropriations Committee, our Human Resources and Community Development Division has done extensive analyses of the Food Stamp Program. These studies have been central to Congressional consideration of alternative benefit and income-eligibility standards. CBO's study of federal student assistance, also prepared by the Human Resources Division, examined the impact of federal assistance on enhancing equality of educational opportunity and analyzed various ways in which the federal student assistance effort could be altered to achieve varied objectives. This analysis, requested by the House Education and Labor Committee and the Senate Budget Committee, was used extensively in drafting a reauthorization bill. A related study on the profits earned by states from tax-exempt student loan bonds was prepared by our Tax Analysis Division for the House Ways and Means Committee.

Other key issues analyzed by CBO during fiscal year 1980 included international balance of payments, foreign aid, corporations in farming, the shape of the general purpose Navy, the world oil market, youth employment, tax subsidies for medical care, and indexing the individual income tax for inflation.

CBO's analytical effort is closely intertwined with our budget cost-estimating work. Virtually every in-depth study provides cost estimates of the legislative proposals under consideration, as well as of alternative options. Preparing accurate cost estimates, on the other hand, requires the knowledge and data acquired in the in-depth analytical work. An example of this meshing of CBO's analytical and cost-estimating efforts is our report on Reducing the Federal Budget, produced last February at the request of the House Budget Committee. That report described various strategies for cutting the budget and offered 56 specific examples of possible cuts in spending and 19 examples of tax expenditure reductions. It was widely used by both houses during Congressional consideration of the 1981 budget. That document was made possible only through the joint efforts of program and cost analysts.

Based upon our current committee requests, we expect to complete approximately the same number of reports in fiscal year 1981 as in 1980. Currently, for example, we have studies underway on industrial development bonds, productivity, inflation, the Social Security trust funds, farm program legislation, oil supply disruptions, the Comprehensive Employment and Training Act (CETA), health care expenditures, health care cost containment, Medicaid reform, civil service retirement, U.S. ground forces, tanker force modernization, and NATO's maritime posture. We are also preparing an overview of defense budget issues and a new study on strategies for reducing the federal budget.

The Committee has a list of CBO reports (TAB I). Part I of the list shows the projects currently underway. Part II lists the studies completed since October 1979. The list gives the CBO division responsible for the report, its title, a summary of its contents, the requesting Congressional committee or statutory authority, the completion date, and its published or unpublished status.

We assume that our level of activity in fiscal year 1982 will be similar to that in previous fiscal years. CBO's program areas have remained remarkably stable in terms of staffing and funding since the inception of the office. Through the years they have accounted for about one-third of CBO's staff positions and about one-quarter of our funding.

Credit Budgeting. In 1980, at the request of the House Budget Committee, CBO prepared a report on Federal Credit Activities, which analyzed the implications of including in the budget process a system for controlling federal credit--in the form of both direct loans and loan guarantees. The report also examined on a function-by-function basis the Administration's credit program estimates for fiscal years 1980 and 1981. This was a significant undertaking in view of the lack of data about credit programs and the general unawareness of the extent of federal credit. We then assisted the two Budget Committees in preparing aggregate targets for federal credit programs for inclusion in the first and second concurrent resolutions on the budget for 1981.

In April, at the request of the House Budget Committee and the House Banking, Finance and Urban Affairs Committee, CBO conducted a two-day conference on the economics of federal credit activity. This conference opened a dialogue between economists interested in federal credit and those who operate the credit programs.

Testimony. CBO is requested to testify before numerous Congressional committees on major legislative proposals. In fiscal year 1980, I testified on 29 occasions before eight Senate committees and six House committees. In addition, other members of the CBO staff testified on 13 occasions.

Subjects of this testimony included the Social Security trust funds, balancing the budget, the synthetic fuel industry, youth employment, health tax expenditures, automobile fuel economy, federal credit programs, and state and local government cost impact statements.

Major Items of Change in
Fiscal Year 1982 Request

CBO's fiscal year 1982 request represents a 13.4 percent increase over our 1981 appropriation. Seventy-five percent of the total increase, or \$1,275,000, is in the category of Other Services. This includes an increase of \$344,000 for "Systems, Data, and Model Development" and \$919,000 for computer timesharing services and related support.

Systems, Data, and Model Development. In fiscal year 1980 we actually spent \$1,084,000 in this category, but in order to meet the

very stringent Congressional mandate on reduced spending in fiscal year 1981, we have cut this area back to \$436,000. For fiscal year 1982, I believe that our request of \$780,000 is conservative in view of the type of work that these funds support. Our Defense Resources Model, for instance, will need updating, as will our cost estimate models for a number of programs such as agriculture price supports. We will need to develop data bases in connection with the Survey of Income and Program Participation, the 1980 Consumer Expansion Survey, and the Department of Treasury Tax Return Data.

This increase also reflects the substantial costs connected with updating and expanding current data bases to include 1980 census data. Current census data are essential to analyzing costs associated with a wide array of federal programs.

We will also need to work on models connected with various Medicare proposals, student assistance programs, and retirement programs. We will likely have to revise models connected with military recruiting, readiness funds for Air Force tactical aircraft, and readiness funds for Naval tactical aircraft. Continuing research and analyses will also be required in the areas of tax policy and long-run incentive effects, strategies for reducing inflation, and stabilization effects of alternative budget policies.

ADP Timesharing Services. Computer support services are an integral part of CBO's analytical capability. The Budget and Appropriations

Committees continue to rely heavily on our information processing services. We have no computer of our own; instead, we use--and of course pay for--both commercial computer services and government facilities.

Current applications that support Congressional decision-making processes and CBO's analytic capabilities include scorekeeping, five-year budget projections, outlay tracking and estimating, tax and revenue estimating, legislative classification, and econometric services.

We are continually examining our data processing needs to ensure that we are using ADP services in a cost-effective manner while being responsible to the Congress. There is no escaping, however, that the costs of computer services are rising. Our fiscal years 1980 and 1981 appropriations, for example, reflected an increase of approximately \$1 million over the fiscal year 1979 level in House Information Services (HIS) charges to CBO. Our fiscal year 1982 request allows for a continuation of the procedure whereby we reimburse HIS according to a rate schedule that reflects services actually used.

The costs of commercially available econometric models are also increasing. We have worked with other Congressional support agencies during the past five years to reduce the overall costs of these services to the Congress. It now appears that we have achieved all of the cost savings possible through these efforts. Consequently, we expect the cost of these services to increase about 10 percent in fiscal year 1982.

As Congressional committees rely more and more on CBO for basic budget data and analyses, we expand and update our ADP capability. We are currently developing, for example, at the request of both Budget Committees, a credit budget tracking system. We are improving our capability to provide committees with five-year forecasts of the federal budget. We are developing new means of measuring the relative revenue feedbacks, or reflows, from different types of tax cuts. This project includes a study of the channels of revenue feedback. It analyzes the role of inflation in generating additional revenues in the presence of expansive fiscal policy, and specifies summary measures for comparing the relative net budget effects of different types of tax cuts. The costs associated with these various systems are reflected in our fiscal year 1982 request.

Conclusion

Mr. Chairman, as I stated in my opening remarks, this fiscal year 1982 budget request provides for a continuation of basic, legislatively mandated services to the Congress.

Although our statutory responsibilities have not changed since the Congressional Budget Act was passed in 1974, Congressional committees have come more and more to rely on our basic budget data services and our analytical capability. Despite the increasing demand for CBO's services, however, over the last five years our authorized staffing level has risen only once--in 1979, at the request of the Budget and Appropriation Committees--and our funding level has risen at less than

the rate of inflation. We are currently working at full capacity, and therefore we believe that the levels of both funding and staff in this budget request are the minimum required to maintain our present services to the Congress.

Mr. Chairman, through the years, a number of very favorable comments have been made about CBO by Members of Congress. I would like to share with Members of this Committee a sampling of such comments that give some indication of the work our agency does for the Congress. I am including that sampling as part of this statement.

I would be pleased to respond to any questions you or Members of the Committee may have.