

CBO TESTIMONY

Statement of
Robert D. Reischauer
Director
Congressional Budget Office

before the
Joint Committee on
the Organization of Congress
Congress of the United States

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Chairmen Hamilton and Boren, Vice-Chairmen Domenici and Dreier, and Members of the Committee, I appreciate this opportunity to discuss the role and mission of the Congressional Budget Office (CBO).

CBO is the "junior member" of the group of four Legislative Branch support agencies, having started operations just 18 years ago after enactment of the Congressional Budget and Impoundment Act of 1974. CBO's establishment was part of a new process by which the Congress would consider the budget and reassert its role in the fiscal policy debate.

In its short history, CBO has made a substantial contribution to both the form and the substance of Congressional debates over economic and budget issues. From the length and depth of the recessions to the strength of the recoveries, from the cost of the Persian Gulf War to the cost of resolving the thrift crisis, CBO has provided the Congress with an expertise that allows it to evaluate critically the economic and budgetary assumptions of the Executive Branch and to improve fundamentally the way Congressional budgeting is done.

Now, as deficit reduction and the cost of health care reform take center stage in the debate of national priorities, CBO is in a unique position to provide the Congress with the information and analytic assistance it needs to address these complex issues.

CBO's services to the Congress can be grouped into three categories that keep our activities focused on our mission:

- o Helping the Congress formulate a budget plan;
- o Helping the Congress stay within that plan; and,
- o Helping the Congress consider policy issues related to the budget and the economy.

In my testimony today, I will explain CBO's mission and its major responsibilities and put its work into the context of these three categories of services to the Congress.

MAJOR RESPONSIBILITIES

CBO began operations on February 24, 1975, with the appointment of its first Director, Alice M. Rivlin. Its mission, then as now, is to provide the Congress with objective, timely, nonpartisan analyses needed for economic and budget decisions and the information and estimates required for the Congressional budget process. Compared with the missions of the Congress's other support

agencies--the Congressional Research Service, the General Accounting Office, and the Office of Technology Assessment--CBO's mandate is relatively narrow. But its subject matter gives it a broad reach, reflecting the extensive array of activities that the U.S. budget covers and the major role the budget plays in the national economy.

A substantial part of what CBO does is to support the work of the two other Congressional institutions created by the 1974 Budget Act--the Committees on the Budget in both the House of Representatives and the Senate. These committees are in charge of the process spelled out in the Budget Act by which the Congress sets its own targets for the federal budget, including the overall levels of revenues and spending, the surplus or deficit that results, and the distribution of federal spending by broad functional categories. Each spring the Congress adopts the end result of this process, the Congressional budget plan, in the form of a concurrent resolution. The resolution imposes an overall framework and discipline on the way appropriations, other spending measures, and tax legislation are passed.

The policies and principles that have shaped CBO since its inception are a key factor in its effectiveness. CBO is a professional, nonpartisan staff office; it does not make recommendations on policy. This stance has been instrumental in preserving the agency's reputation for professionalism and has

enhanced the credibility of its products. CBO prepares independent analyses and estimates relating to the budget and the economy and examines options and alternatives the Congress may want to consider. It routinely discloses the assumptions and methods it uses, which enhances the general perception of CBO's products as objective and impartial.

Some of CBO's activities are statutory tasks; others are carried out at the request of Congressional committees. According to the Budget Act, CBO must give priority first to requests for services from the House and Senate Budget Committees; second, to requests from the two appropriations committees, the House Committee on Ways and Means, and the Senate Committee on Finance; and, finally, to requests from all other Congressional committees. CBO prepares various types of analyses for the Congress, including cost estimates for bills that individual Members have introduced or plan to introduce. But committee requests always have priority; CBO handles requests from individual Members only to the extent that its resources permit.

HELPING THE CONGRESS DEVELOP A PLAN FOR THE BUDGET

The House and Senate Budget Committees prepare the annual Congressional budget plan, drawing on the views and estimates of the other committees. A

major part of CBO's role in this process is to prepare an annual report, divided into two volumes. The first volume provides economic forecasts and budget projections for the next five years; typically, it also includes a discussion of several current economic or budget policy issues, such as the effects of the federal deficit on economic growth or recent changes in the budget process. The second volume is a collection of spending and revenue options for reducing the budget deficit. The Budget Act requires that the annual report be submitted by February 15. CBO customarily updates its economic and budget projections in mid-August.

Economic Forecasts and Projections

CBO is the only entity of the Legislative Branch whose mandate includes making economic forecasts and projections. Its forecasts cover 18 to 24 months (it does not attempt to forecast cyclical fluctuations in the economy more than two years ahead) and involve the major economic variables--gross domestic product, unemployment, inflation, and interest rates. Its projections of the economy present a longer-term view, based on trends in the labor force, productivity, and saving.

CBO draws the information for its forecasts from the major econometric models and commercial economic forecasting services. It also relies on the advice of a distinguished panel of advisers who meet twice a year (see Appendix A). Usually, CBO's forecasts are fairly close to the consensus of private forecasters. Compared with the forecasts of the Administration, the agency's economic forecasts between 1978 and 1991 were slightly more accurate overall.

Baseline Budget Projections

The purpose of CBO's biannual budget projections is to give the Congress a baseline for measuring the effects of proposed changes in taxing and spending laws. The projections start with the Congress's most recent budgetary decisions and show what would happen to the federal budget if no new policy decisions were made during the next five years. The budget committees use these projections to develop annual budget resolutions and directives to other committees. CBO uses them to produce cost estimates for proposed legislation and in scorekeeping tabulations (described later).

For revenues and entitlement programs, such as Social Security or Medicare, the baseline projections generally assume that current laws will

continue without change. For defense, international, and domestic discretionary spending, CBO bases its projections on the most recent appropriations and increases them only to keep pace with inflation. For fiscal years 1991 through 1995, the Budget Enforcement Act of 1990 (Title XIII of Public Law 101-508) sets overall limits to discretionary spending; CBO's baseline calculations reflect these limits. The Congress and the Administration currently are considering extending discretionary spending limits through fiscal year 1998.

Deficit Reduction Options

The most widely distributed of all our publications is the separate volume of deficit reduction options that CBO prepares as part of its annual report. The volume discusses various strategies for reducing the deficit and analyzes the likely impacts of more than 200 specific spending and revenue options that the Congress may consider. Members of Congress, as well as outside groups, use the report to develop deficit reduction proposals and to educate the public about the difficult choices that must be made.

Analysis of the President's Budget and Other Assistance

Each year, at the request of the Senate Committee on Appropriations, CBO analyzes the President's budget to see the impact of its revenue and spending proposals relative to CBO's baseline projections. In the analysis, CBO uses its own economic assumptions and estimating techniques to recast the budget the President has submitted to the Congress. In addition, as the Congress moves toward adopting its annual budget resolution, CBO helps the budget and other committees estimate the effects of alternative budget plans. Frequently, the agency is asked to testify before Congressional committees about the outlook for the economy and the budget and about other matters related to developing the annual budget plan.

HELPING THE CONGRESS STAY WITHIN ITS BUDGET PLAN

Once the Congress adopts the annual budget resolution, the budget committees take the lead in enforcing its provisions. To help them in this work, CBO estimates the budgetary impact of bills reported by the different committees and provides up-to-date tabulations--scorekeeping reports--of the status of Congressional actions on legislation affecting the budget. CBO also prepares a series of sequestration reports that advise the Congress and the

Administration on two matters: whether the appropriation limits for discretionary spending established by the Budget Enforcement Act have been exceeded and whether the enactment of any direct spending or receipt legislation has increased the budget deficit.

Cost Estimates for Bills

CBO is required to develop cost estimates for virtually every bill reported by Congressional committees to show how these legislative proposals would affect spending or revenues over the next five years. For most tax legislation, CBO uses estimates provided by the Joint Committee on Taxation, a separate analytic group that works closely with the two tax-writing committees. CBO also prepares cost estimates for use in drafting bills (especially in the early stages), formulating floor amendments, and working out the final form of legislation in conference committees (see Table 1). To the extent that its resources permit, CBO provides estimates of the cost of bills in response to requests by individual Members. Where appropriate, CBO's estimates contain the projected costs to state and local governments of carrying out the proposed legislation.

TABLE 1. NUMBERS OF BILL COST ESTIMATES (Formal and informal)

	1985	1986	1987	1988	1989	1990	1991	1992
Federal Estimates	601	667	743	771	603	855	590	733
State and Local Estimates	533	588	531	675	470	720	510	614

CBO's cost estimates have become an integral part of the legislative process, and committees increasingly refer to them at every stage of bill drafting. The estimates are important because they are used to determine whether committees are complying with the annual budget resolutions and reconciliation instructions.

Another of CBO's responsibilities is providing estimates to the appropriations committees of the Congress. The numbers contained in appropriation bills usually represent budget authority, and the resulting outlays must be estimated. CBO's estimates may be critical in determining whether or not the legislation complies with allocations in the annual budget resolution and with statutory limits on discretionary appropriations.

Scorekeeping

One of CBO's most important functions is to keep track of all spending and revenue legislation considered each year, so that the Congress can know whether it is acting within the limits set by the annual budget resolutions. CBO provides the budget and appropriations committees with frequent tabulations of Congressional action on both spending and revenue bills-- although the bulk of CBO scorekeeping involves spending legislation. The scorekeeping system keeps track of all bills that affect the budget from the time they are reported out of committee to the time they are enacted into law.

Sequestration Reports

Each year, CBO prepares three sequestration reports as part of the procedure specified by the Budget Enforcement Act for enforcing the 1990 budget agreement between the Congress and the Administration. These reports are advisory and serve as a benchmark for judging the accuracy of similar sequestration calculations by the Office of Management and Budget (OMB). Under the law, OMB can trigger the cancellation of budgetary resources in three circumstances: when the limits on discretionary appropriations are breached; when direct spending and receipt legislation increase the deficit; or

when the deficit exceeds, by more than a specified margin, the maximum amount set by the Budget Enforcement Act for fiscal years 1991 through 1995.

In addition to the sequestration reports, the Budget Enforcement Act specifies another task: CBO must notify the Congress whenever it or OMB projects a recession in the next year (defined as two consecutive quarters of less-than-zero real economic growth) or the Department of Commerce reports two consecutive quarters of real economic growth of less than 1 percent. If the President concurs, the Congress can then elect to set aside the statutory appropriation limits and other budget enforcement procedures. During the 102nd Congress, CBO sent three such notifications. However, in none of the instances did the Congress lift the budget constraints.

HELPING THE CONGRESS CONSIDER BUDGET AND ECONOMIC POLICY ISSUES

CBO's responsibilities also entail analyzing specific program and policy issues that affect the federal budget and the economy. For the most part, requests for these analyses come from the chairman or ranking minority member of the full committee or subcommittee with jurisdiction. The leadership of either party in the House or Senate may also request an analysis by CBO.

The analyses cover a variety of federal activities, describing current policies, examining other approaches, and projecting how the alternatives would affect current programs, recipients or taxpayers, the federal budget, and the economy. In keeping with its nonpartisan mandate, CBO does not offer recommendations on policy in these studies.

Some of the analyses are published; these reports may take 9 to 12 months, or sometimes longer, to complete. Other studies are conducted in a much shorter time frame, often appearing as unpublished papers or staff memorandums. Many CBO publications have helped to shape and inform public discussion of the issues they address, not only on Capitol Hill but in the nation at large. The list of CBO's recent studies, attached as Appendix B, shows the broad range of their subject matter.

The topics of these reports have typically reflected major policy issues before the Congress and the nation. Some recent studies are *Federal Debt and Interest Costs* (May 1993); *Managed Competition and Its Potential to Reduce Health Spending* (May 1993); *The Long-Term Costs of Naval Forces* (May 1993); *Resolving the Thrift Crisis* (April 1993); and *Assessing the Decline in the National Saving Rate* (April 1993). CBO also has produced analyses of the economic effects of reduced defense spending and the economic

implications of rising health care costs, two of the major issues with which the current Congress will wrestle.

CONCLUSION

Before the Congressional Budget Office existed, only the President had a comprehensive source of information on the budget and the economy. In creating CBO, the Congress has established its own source of information on these matters, which can be used to make policy decisions or to evaluate information supplied by the Executive Branch. The Congress can now compete on more even terms in debates over budget, economic, and programmatic policies. If the Congress is to maintain an equal role in the budget process, it must maintain a source of information that is independent of the Executive Branch.

CBO has received a lot of attention in the press and other news media during the past decade for its budget projections, economic forecasts, bill cost estimates, and policy analyses. Most of the attention has been favorable; generally, CBO is viewed as providing useful and objective information.

In the end, CBO's job is to make sure that the Congress has the most accurate, professionally produced economic forecasts, budget estimates, and policy analyses possible. To continue to be useful to the Congress, CBO must go on producing forecasts, estimates, and studies that are perceived to be unbiased and authoritative. This responsibility is felt throughout CBO, beginning at the top, and you can be assured that I will continue to demand only the highest level of professionalism from my staff.

APPENDIX A

PANEL OF ECONOMIC ADVISERS

Professor Michael Boskin
Visiting Scholar
American Enterprise Institute
1150 - 17th Street, N.W.
Suite #1100
Washington, D.C. 20036

Dr. Benjamin M. Friedman
William Joseph Maier Professor
of Political Economy
Littauer Center 127
Harvard University
Cambridge, MA 02138

Dr. Barry P. Bosworth
Senior Fellow
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, DC 20036

Dr. Lyle E. Gramley
Senior Staff Vice President and
Chief Economist
Mortgage Bankers Association
of America
1125-15th Street, N.W.
Washington, DC 20005

Dr. Robert Dederick
Executive Vice President
and Chief Economist
Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

Professor Robert E. Hall
Senior Fellow, Hoover Institution
Stanford University
Stanford, CA 94305-6010

Dr. Martin Feldstein
President
National Bureau of Economic
Research
1050 Massachusetts Avenue
Cambridge, MA 02138

Dr. Lawrence Klein
Professor Emeritus
Department of Economics
University of Pennsylvania
3718 Locust Walk
Philadelphia, PA 19104-6297

Dr. Stanley Fischer
Killen - Professor of Economics
Room E52-274
Massachusetts Institute of Technology
50 Memorial Drive
Cambridge, MA 02139

Professor Robert Lawrence
JFK School of Government
Harvard University
79 JFK Street, Belfer--412
Cambridge, MA 02138

Dr. John Makin
Director, Fiscal Policy Studies
American Enterprise Institute for
Public
Policy Research
1150 Seventeenth Street, N.W.
Washington, DC 20036

Professor Burton Malkiel
Department of Economics
Princeton University
Princeton, NJ 08544

Dr. Rudolph G. Penner
Director, Economic Studies
KPMG Peat Marwick
2001 M Street, N.W.
4th Floor
Washington, DC 20036

Dr. William Poole
Professor of Economics
Department of Economics
Brown University-Box B
Providence, RI 02912

Dr. Paul Samuelson
Professor Emeritus
Department of Economics
MIT Bldg. E-52-383C
Cambridge, MA 02138

Dr. Charles Schultze
Senior Fellow
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, DC 20036

Dr. Robert Solow
Massachusetts Institute of Technology
E52-383-B
Department of Economics
Cambridge, MA 02139

Dr. James Tobin
Sterling Professor Emeritus
Department of Economics
Yale University
Box 2125 Yale Station
New Haven, CT 06520

Dr. Murray Weidenbaum
Director, Center for the Study
of American Business
Washington University
Campus Box 1208
St. Louis, MO 63130

Dr. Janet Yellen
University of California
Haas - School of Business
350 Barrows Hall
Berkeley, CA 94720

APPENDIX B

RECENT CBO REPORTS, STUDIES, PAPERS, & MEMORANDA

Reports

Sequestration Preview Report for Fiscal Year 1994 (April 2, 1993)

Reducing the Deficit: Spending and Revenue Options (CBO Annual Report--Part 2) (February 1993)

The Economic and Budget Outlook: Fiscal Years 1994-1998 (CBO Annual Report--Part 1) (January 1993)

Responsibilities and Organization of the Congressional Budget Office (Winter 1993)

Final Sequestration Report for Fiscal Year 1993 (October 19, 1992)

The Economic And Budget Outlook: An Update (August 1992)

Reducing the Deficit: Spending and Revenue Options (CBO Annual Report--Part II) (February 1992)

The Economic and Budget Outlook: Fiscal Years 1993-1997 (CBO Annual Report--Part I) (January 1992)

Final Sequestration Report for Fiscal Year 1992 (January 6, 1992)

Studies

Federal Debt and Interest Costs (May 1993)

The Federal Role in Improving Elementary and Secondary Education (May 1993)

Managed Competition and Its Potential to Reduce Health Spending (May 1993)

Resolving the Thrift Crisis (April 1993)

Assessing the Decline in the National Saving Rate (April 1993)

Displaced Workers: Trends in the 1980s and Implications for the Future (February 1993)

Controlling Losses of the Pension Benefit Guaranty Corporation (January 1993)

Projections of National Health Expenditures (October 1992)

Economic Implications of Rising Health Care Costs (October 1992)

Structuring U.S. Forces After the Cold War: Costs and Effects of Increased Reliance on the Reserves (September 1992)

Limiting Conventional Arms Exports to the Middle East (September 1992)

The Outlook For Farm Commodity Program Spending, Fiscal Years 1992-1997 (June 1992)

Paying For Highways, Airways, And Waterways: How Can Users Be Charged? (May 1992)

Auctioning Radio Spectrum Licenses (March 1992)

An Analysis Of The President's Budgetary Proposals For Fiscal Year 1993 (March 1992)

Effects Of Adopting A Value-Added Tax (February 1992)

The Economic Effects Of Reduced Defense Spending (February 1992)

Budgeting for Administrative Costs Under Credit Reform (January 1992)

The Economic Effects of the Savings & Loan Crisis (January 1992)

Papers

Agriculture in the North American Free Trade Agreement (May 1993)

Responses to Uncompensated Care and Public-Program Controls on Spending: Do Hospitals "Cost-Shift"? (May 1993)

Options for Fighter and Attack Aircraft: Costs and Capabilities (May 1993)

Assessing Future Trends in the Defense Burdens of Western Nations
(April 1993)

Effects of Alternative Defense Budgets on Employment (April 1993)

An Analysis of the President's February Budgetary Proposals
(March 1993)

Implementing START II (March 1993)

Alternatives for the U.S. Tank Industrial Base (February 1993)

Environmental Cleanup Issues Associated with Closing Military Bases
(August 1992)

Costs of Alternative Approaches to SDI (May 1992)

The Shortfall in Corporate Tax Receipts Since the Tax Reform Act of
1986 (May 1992)

Balance and Affordability of the Fighter and Attack Aircraft Fleets of
the Department of Defense (April 1992)

Reduction in the Army Officer Corps (April 1992)

Undergraduate Enrollment and Completion Among Minorities
(February 1992)

Memoranda

The Long-Term Costs of Naval Forces (May 1993)

Review of Edwin Mansfield's Estimate of the Rate of Return from
Academic Research and its Relevance to the Federal Budget Process
(April 1993)

Single-Payer and All-Payer Health Insurance Systems Using Medicare's
Payment Rates (April 1993)

Pell Grants: The Effect of the Higher Education Amendments of 1992
(February 1993)

Regional Analysis of Bank Lending (February 1993)

In Pursuit of Higher Wages and Employment-Based Health Insurance
(February 1993)

Decreasing the Discharge of Bioaccumulative Toxic water Pollutants:
A Policy Analysis (December 1992)

Energy Policy Act of 1992: A Budgetary Perspective (December 1992)

The Potential Impact of Certain Forms of Managed Care on Health
Care Expenditures (August 1992)

RTC's Loan Securitization Process (July 1992)

The Potential of Direct Expenditure Limits to Control Health Care
Spending (July 1992)

Mandatory Spending: Trends and Sources of Growth (July 1992)

The Cost of Decreasing Disposal Through the Recovery Requirements
of H.R. 3865 (June 1992)

The Effects of Managed Care on Use and Costs of Health Services
(June 1992)

Factors Contributing to the Growth of the Medicaide Program
(May 1992)

Distributional Effects of Substituting a Flat-Rate Income Tax and a
Value-Added Tax for Current Federal Income, Payroll, & Excise
Taxes (April 1992)

The Cost of Decreasing Disposal Through the Responsible Entity
Approach Used in S. 976 (April 1992)

The Government Pension Offset in the Social Security Program
(April 1992)

A Review of the American Mining Congress Study on Changes to the
Mining Law of 1872 (April 1992)

Large Nondefense R&D Projects in the Budget: An Update
(April 1992)

The Use of Grants and Loans to Help Finance Undergraduate
Education (April 1992)

Implications of the Prepayment Provisions in the Cranston-Gonzalez
Housing Act (April 1992)

Measuring the Distribution of Income Gains (March 1992)

Reducing Waste Disposal with Disposal-Reduction Credit Systems: A Case Study of Beverage Containers and Old Newspapers (February 1992)

The Effects of Proposed Modifications to the Pell Grant Program in S. 1150 and H.R. 3553 (February 1992)

Factors Contributing to the Infant Mortality Ranking of the U.S. (February 1992)

The Budgetary Impact of Limiting Strategic Defense Initiative Programs (January 1992)