

CBO **TESTIMONY**

Statement of
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Director
Congressional Budget Office

before the
Subcommittee on Legislative Branch
Committee on Appropriations
United States Senate

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CONGRESSIONAL BUDGET OFFICE
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Mr. Chairman and Members of the Subcommittee, I am pleased to present the fiscal year 1993 budget request for the Congressional Budget Office (CBO). CBO is a nonpartisan organization that furnishes the Congress with information and analyses on issues relating to the U. S. economy, the federal budget, and federal programs. CBO does not make policy recommendations, but presents the Congress with options and alternatives in a wide range of subject areas, all of which have economic and budgetary impacts.

For fiscal year 1993, we are requesting \$23,895,000, an increase of 6 percent, or \$1,353,000, over our estimated fiscal year 1992 operating level of \$22,542,000. Of this requested increase, \$1,309,000, or 97 percent, is for personnel-related expenses. In spite of strong Congressional demand for, and continuing legislative mandates requiring, CBO work, no additional positions are being sought at this time.

Before discussing our request in detail, I will review for the Committee the principal services that CBO provided to the Congress during this past fiscal year.

CURRENT CBO SERVICES TO THE CONGRESS

Although fiscal year 1991 proved to be a relatively calm budget year compared with the previous year's arduous sessions leading to the enactment Budget Enforcement Act, the rest of the world was anything but calm in 1991. Beginning tumultuously with the Persian Gulf War in January, the year included a tenacious, if not deep, recession and it ended in an uneasy calm after the totally surprising collapse of communism and the Soviet Union.

Given the United States' standing as the world's lone remaining superpower, however, much of what happened at home and around the globe had federal budget implications, and the Congressional Budget Office was called on regularly to contribute to Congressional deliberations on the many important issues of the day. Much of our work this year was first presented as testimony at Congressional hearings. We testified 43 times in fiscal year 1991 before 22 different Congressional committees, demonstrating the broad range of CBO analytic expertise. The desire for CBO analysis as part of Congressional hearings records has not abated. To date, we have testified 13 times before seven different committees since the beginning of October.

In December 1990, in keeping with its standing as Congress's budget information arm, CBO provided the Congress and the nation with the first assessment of the fiscal and budgetary impacts of the Budget Enforcement Act (BEA). The BEA is a complex law and CBO was actively involved in assisting the Congress with establishing it, as well as in working closely with the Office of Management and Budget (OMB) to minimize differences in the increasingly important area of spending estimates.

We monitored the budget outlook under the BEA throughout the year and in August provided the Congress with an analysis that clearly portrayed what the Appropriations Committees have come to know all too well: that the discretionary spending caps for fiscal years 1993, 1994, and 1995 require the Congress to make significant reductions in one or more of the spending categories. The BEA also assigned CBO additional statutory tasks through 1995, which I will address later in my testimony.

Even before the initial exchange took place in the Persian Gulf, CBO provided the Congress with the first estimate of a range of costs likely to be associated with the war. We continue to monitor both the ongoing costs and the allied contributions that offset the war's costs. In addition, in fiscal 1991, we published a timely study of how the economic transformations in Eastern

Europe will affect the United States and, as part of a series of reports, an analysis of the short-run effects of capital gains taxes.

Finally, in the area of published analyses, CBO released a series of reports documenting the cost and condition of many different aspects of health care in this country. Beginning in April 1991 with the publication of CBO's report, *Rising Health Care Costs: Causes, Implications, and Strategies*, and continuing through the recent release of *Universal Health Insurance Coverage Using Medicare's Payment Rates*, and a just-released report on rural hospital care, CBO has published six major health care reports in ten months, helping to set the stage for the debate on the future of health care in this country that is certain to ensue during the 2nd session of the 102nd Congress.

Along with the normal high level of analytic activity at CBO this year, there was an attendant level of organizational change. Just before the Thanksgiving recess, I was reappointed by the Congress as Director of CBO for a term beginning January 3, 1992, and expiring January 3, 1995. Subsequently, I appointed James L. Blum as the Deputy Director of CBO. Mr. Blum was Acting Director of CBO in the interim before my initial appointment and he guided the agency with distinction. Additional materials on Mr. Blum's background have been provided to you for the record.

Robert Hartman, who had been Acting Deputy Director and was Senior Analyst for the budget process, was named Assistant Director, Special Studies Division, a new position at CBO. Moreover, C.G. Nuckols, Mr. Blum's long-standing Deputy Assistant Director, has been appointed Assistant Director, Budget Analysis Division. In addition, this year, Jan Paul Acton, formerly with the Rand Corp., joined CBO as Assistant Director, Natural Resources and Commerce Division. His background, too, is included for the record. One further change at the assistant director level is forthcoming. Frederick Ribe, Assistant Director, Fiscal Analysis Division, where we develop economic forecasts, will be leaving us after the current annual report season and will be rejoining the International Monetary Fund. He has made a most significant contribution to this agency, and he will be hard to replace.

Finally, a word about coordination with our sister Legislative Branch support agencies. CBO continues to work very closely with its sister agencies to prevent undesired duplication of analyses. All new project starts are closely coordinated by the analysts themselves. Further, new projects are also reviewed at the administrative level by the Interagency Coordination Group, and problem projects needing continued coordination are flagged for further review. All ongoing and proposed projects are listed with the Congressional Research Service's Research Notification System.

The Interagency Coordination Group organizes about a half-dozen Specialist Meetings a year to make analysts in particular issue areas familiar with their sister agency counterparts and to exchange plans for upcoming analysis. These meetings have been taking place since the mid-1980s and have proved very productive in increasing communication among agencies. Agency heads also meet formally once a year to discuss issues of common concern.

Coordination has also spread beyond the purely analytic area to questions of technological support. CBO is a member of the Legislative Branch Telecommunications Network (LBTN), which has spent a great deal of its time in the last year considering the Architect of the Capitol's proposal for laying a fiber optic backbone network known as CAPNET. Last year, when you asked our opinion of CAPNET, it was little more than a concept. Now, after a year of meetings in which the LBTN has actively participated in the planning and design, CAPNET has begun to take shape as a technology that may have a number of beneficial applications.

Coordination continues to be of primary concern at CBO and the systems currently in place for assessing agency overlap are working quite smoothly.

The Balanced Budget and Emergency Deficit Control Act of 1985

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act) was amended in 1990 by the Omnibus Budget Reconciliation Act of 1990 (OBRA-90). While continuing the many tasks assigned to CBO by the original law, OBRA-90 also gave CBO a number of new tasks under Title XIII, the Budget Enforcement Act, which resulted in a major overhaul of the entire budget process.

First and foremost, CBO continues its current role in the sequestration process, though that process has itself been changed considerably. And although CBO's role continues to be advisory, the agency must still prepare very detailed reports involving even more complex calculations than in the past. CBO now prepares three sequestration reports each year, instead of two as in the past, including the Sequestration Preview Report released last week as Appendix A of our annual report to the Congress, *The Economic and Budget Outlook: Fiscal Years 1993-1997*.

Our responsibility under the Balanced Budget Act for alerting the Congress to a recession or low growth was maintained by OBRA-90, and, in 1991, I notified the leadership of both Houses of Congress on three different

occasions that the conditions for considering a suspension of the Balanced Budget Act's spending constraints had been met. As is required by the act, the Senate considered a resolution suspending the constraints on each occasion and on each occasion the resolution was defeated by large margins. The House is not required to consider such a resolution and, indeed, it did not.

Under our current assumptions, CBO is not forecasting a "double-dip" recession. As a result, the conditions for notifying the Congress at this time are not met, and thus there is no requirement of the Congress that a resolution suspending the BEA spending restraints be introduced.

The Balanced Budget Act also requires CBO to provide the Congress with a report on unauthorized appropriations and expiring authorizations. This year, we filed that report with the Congress on January 15.

Finally, the Budget Enforcement Act gives CBO an enhanced role in preparing cost estimates for bills and in estimating the act's pay-as-you-go provisions with regard to proposals for future entitlement spending. In early January, we issued a *Final Sequestration Report for Fiscal Year 1992* that estimated the need for a \$758 million pay-as-you-go sequestration for fiscal

year 1992. OMB did not agree with CBO's estimate, however, and no sequestration order is forthcoming from the President.

In addition in 1991, CBO produced two analytic studies as required by the Budget Enforcement Act and published them last spring: *Controlling the Risks of Government-Sponsored Enterprises* (April 1991) and *Budgetary Treatment of Deposit Insurance: A Framework for Reform* (May 1991).

The Budget Act of 1974

The Congressional Budget Act of 1974, as amended, mandates that CBO prepare certain reports on a regular basis and that it undertake other studies in response to Congressional requests. Specifically, CBO carries out the following tasks: it maintains current tabulations of Congressional revenue and spending actions (scorekeeping); prepares five-year cost estimates for bills reported by the authorizing committees (and now on final passage as well); prepares outlay estimates for bills providing new budget authority; supplies information on tax expenditures and revenues; annually reports projections of new budget authority, outlays, and revenues for the coming five fiscal years; estimates the cost to state and local governments of carrying out or complying

with federal legislation; prepares periodic forecasts of economic trends and alternative fiscal policies; and analyzes issues that affect the federal budget.

Scorekeeping

CBO provides the Congress with up-to-date tabulations of Congressional actions on revenue and spending bills. The Budget and Appropriations Committees particularly use these tabulations to measure the status of Congressional budget actions compared with the targets or limits specified in the concurrent resolution on the budget.

The bulk of CBO's scorekeeping activities involves spending actions. The spending side of the federal budget is complex, consisting of more than 1,000 separate accounts. Furthermore, the Congress acts each year on a large number of individual legislative bills that affect spending, including 13 appropriation bills. CBO's scorekeeping system tracks Congressional action on all these bills from the time they are reported from committee to when they are enacted into law. As a result, the CBO scorekeeping data base for budget authority and outlays is extremely complex, and keeping it current represents a major effort. This effort is all the more intense now that caps

have been placed on discretionary appropriations through 1995. Also, our work in this area has intensified as a result of the changed budgetary treatment of credit activity.

CBO scorekeeping estimates are derived from our analysis of the President's budget, baseline budget projections, and bill cost estimates, as well as from the economic assumptions used for the concurrent budget resolution. CBO conducts a comprehensive review of its scorekeeping estimates at least twice a year to incorporate new information provided by the Office of Management and Budget (OMB) and other federal agencies, revised economic assumptions that the Budget Committees may adopt, and other relevant data.

Specially designed computer scorekeeping reports are provided weekly--and sometimes daily--to the Budget and Appropriations Committees. Frequent letters are also sent to the Chairmen of the two Budget Committees to advise them on current budgetary levels. In addition, advisory letters have been sent on request to the Chairmen of the Senate and House Appropriations Committees on the budgetary impact of individual appropriation actions, such as a supplemental appropriation bill or a continuing resolution. CBO's automated scorekeeping data base also provides

special computer reports to the Appropriations Committees to use in preparing their "views and estimates" reports due on February 25, and in dividing budget resolution allocations among subcommittees.

CBO also prepares a weekly automated report on the legislative status of selected entitlement and other bills that would directly affect budgetary requirements. Similar reports provide information on the legislative status of bills affecting credit activities, bills providing required authorizations for requested appropriations, and proposed revisions of the Congressional Budget Act of 1974. Copies of these reports are provided to the staffs of the Appropriations and Budget Committees of both Houses.

Baseline Budget Projections

Each year, CBO prepares a new set of baseline budget projections. As in the past, the projections take as their starting point the budgetary decisions the Congress has made through its most recently completed session and show what would happen to the budget if no new policy decisions were made during the next five fiscal years. These projections do not represent a forecast of future budgets because the Congress does make numerous new policy

decisions in response to changing national needs and economic circumstances. But the projections do provide a useful baseline or benchmark against which proposed changes in taxes or spending policies may be measured and assessed. A longer-term framework is helpful in making annual budget choices, since these decisions sometimes have little impact on the budget in the short run. They do, however, significantly influence relative budget priorities over a period of several years.

Because the discretionary spending limits in the Budget Enforcement Act do not grow as fast as inflation, the baseline no longer represents current budgetary policy for discretionary programs in the out-years. Nonetheless, the baseline still serves several important purposes. It remains a reference point for estimating changes in revenues or entitlement spending for pay-as-you-go. The difference between the baseline and the caps for discretionary programs shows the amount of real spending reductions still to be made. And many of the adjustments to the discretionary caps are computed using the baseline.

CBO's capability to do budget projections has enabled the Congress to move more and more in the direction of multiyear budgeting. In the past, both Budget Committees have used CBO's baseline budget projections as a starting point for formulating their recommendations for the annual budget

resolution. The CBO baseline spending projections are distributed to the Appropriations Committees and the authorizing committees as background information for preparing their "views and estimates" reports to the Budget Committees. The Budget Committees then use the CBO baseline projections in their budget resolution markup materials to assess how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. Indeed, this ability is now essential to the Budget Committees as they seek to carry out the Budget Enforcement Act requirement for five-year budget resolutions.

The CBO budget projections took on an added role in the 1980s. They now serve as the baseline for computing the spending reductions to be achieved in the budget reconciliation process. Moreover, CBO has made similar use of baseline budget projections in its bill cost estimates for calculating the costs or savings that would result from legislative proposals to change existing law. This process is particularly important for calculating the budgetary effects of changes in various entitlement programs, especially considering the new pay-as-you-go provisions.

The growing use of budget projections requires CBO to maintain a large multiyear data base on a year-round basis. CBO now provides both

Budget Committees with numerous sets of five-year projections of revenues and spending throughout the year, usually in the form of computer tabulations. In addition, CBO publishes annually a five-year budget projections report at the beginning of each session of the Congress and updates it each summer.

The current baseline deficit projection, formally released in a hearing before the Senate Budget Committee on January 22, 1992, projects a baseline deficit of \$352 billion in fiscal year 1992 and \$327 billion in fiscal year 1993, declining to \$226 billion by 1997.

The concept of a budget baseline was incorporated into the Balanced Budget Act to determine the need for and magnitude of any across-the-board spending reductions to meet specific deficit targets. When the act was amended in 1987, the baseline concept was modified to approximate more closely the methodology we use in our baseline projections. The major change was to include a factor for inflation and pay adjustments in projecting discretionary appropriations. The Budget Enforcement Act of 1990 further refined the baseline methodology to project more adequately the level of resources necessary to maintain current services for personnel-intensive activities, such as those the Legislative Branch provided.

Analysis of the President's Budget

The Congressional Budget Office carefully reviews the budget estimates that the Administration submits to the Congress. Where necessary and appropriate, CBO reestimates the Administration's budgetary proposals using its own economic assumptions and technical estimating methods.

The economic assumptions the Budget Committees use to formulate the annual budget resolutions are sometimes different from the assumptions the Administration uses to prepare the President's budget. A different set of economic assumptions may significantly alter the budgetary impact of the President's proposals. Both Budget Committees periodically ask CBO to reestimate the President's budget using different economic assumptions.

CBO has an independent capability for estimating the impact of various budgetary proposals on budget outlays. To keep these techniques and methods as accurate as possible, CBO staff carefully monitor both actual spending trends, as reported monthly by the Treasury, and various program data series that provide information on recent trends in the use of federal benefits and services, the growth in beneficiaries, and other factors affecting federal spending. CBO uses these independent methods to reestimate the

effect of the President's budgetary proposals. In recent years, these so-called "technical reestimates" have been significant.

In addition to reviewing carefully the Administration's budget estimates, CBO prepares an analysis of the President's budgetary proposals. The Senate Committee on Appropriations requests this publication annually to assist Members and staff in preparing for overview hearings on the Administration's annual budget. The report discusses the economic outlook for the next several years and the possible economic impact of the President's proposals. It also presents CBO's reestimates of the budget impact of these proposals based on alternative economic assumptions and on CBO's estimating techniques and methods.

Federal Bill Cost Estimates

CBO prepares cost estimates for virtually every public bill reported by legislative committees in the House or Senate that would have a budgetary impact. CBO also prepares numerous cost estimates at committee request for use in earlier stages of the legislative process. CBO's bill cost estimates have become an integral part of the legislative process. Committees refer to them

increasingly at every stage of bill drafting, and they affect the final outcome of legislation.

The number of such bill cost estimates prepared each year varies, depending on the amount of legislation being considered and reported by legislative committees. In 1991, CBO prepared 590 individual cost estimates, as shown in Table 1.

A large part of CBO's bill costing in previous years was for the House and Senate Committees receiving reconciliation instructions in the budget resolution. CBO's tracking system for bill cost estimates has treated work on the reconciliation proposals as if they were a few large bills. As a result, this system understates the true work load shown in the figures in Table 1 for 1984

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

	1984	1985	1986	1987	1988	1989	1990	1991
Federal Estimates	687	601	667	743	771	603	855	590 ^a
State and Local Estimates	641	533	588	531	675	470	720	510 ^a

a. Estimate

through 1990. Work on a reconciliation bill alone is equivalent to 100 or more bill cost estimates. Last year, the Congress did not consider a reconciliation bill, lowering the number of federal bill cost estimates CBO performed.

In addition to cost estimates for bills the legislative committees report, CBO also provides the Appropriations Committees with estimates on outlays for all appropriation bills. These estimates of outlays are prepared for each appropriation account and are transmitted to the staffs of the committees largely in the form of computer tabulations. For example, many reports display both budget authority and outlay data in the Comparative Statement of Budget Authority (CSBA) formats the Appropriations Committees use. Judging by the number of inquiries that CBO receives, it is fair to say that our estimating function is, by far, the most extensive of any legislative body in the world. CBO is always pleased to furnish technical assistance to other bodies interested in following the U.S. Congress as a model.

State and Local Government Cost Estimates

The State and Local Government Cost Estimate Act, enacted in late 1981, temporarily expanded CBO's responsibilities for bill costing by requiring estimates of the cost that state and local governments would incur as a result of proposed federal legislation. The Balanced Budget and Emergency Deficit Control Reaffirmation Act made this requirement permanent.

CBO reviews as many bills as possible to identify their potential impacts on state and local government costs. We focus on bills that, in our judgment, are likely to result in a total annual cost to state and local governments of at least \$200 million, or to have exceptional fiscal consequences for a geographic region or particular level of government. During 1991, CBO prepared state and local cost estimates for 510 bills. Of these bills, CBO estimated that 4 bills had an aggregate annual cost exceeding the \$200 million threshold, 44 were below the threshold but had some potential effect on the budgets of state or local governments, and 462 had no impact.

Economic Forecasts and Fiscal Analysis

Each fiscal year, CBO provides the Congress with two reports on the economic forecast. The first is issued early in the legislative session to coincide with Congressional consideration of the concurrent resolution on the budget. The second report is issued in midsummer.

CBO does not maintain its own macroeconomic model of the economy. Instead, it uses the major commercially available econometric models: Data Resources, Inc. and the Washington University Macroeconomic Model. Moreover, CBO uses two models of the international economy developed by outside analysts to help track this increasingly important aspect of the nation's economy: the McKibbin-Sachs Global Model, developed by Warwick McKibbin and Jeffrey Sachs, and MULTIMOD, developed at the International Monetary Fund.

We also rely on the advice of a distinguished panel of advisers who represent a wide spectrum of economic views. The panel meets semiannually, before a new forecast is issued, and the panel is supplemented with guests possessing expertise in particular areas of interest. Appendix A to this statement lists the current members of the panel.

The reports issued in January and August of 1991 focused on recent economic developments, discussed fiscal and monetary policy, forecast short-term economic trends, projected long-term trends, and detailed the federal budget outlook under these economic assumptions. CBO must use various models of the economy to comply with the requirements of the Balanced Budget Act that we report to the Congress if we foresee a recession. With the growing internationalization of the U.S. economy, the task has become more complex, because it is increasingly important to monitor developments abroad as well as in the United States.

More and more, the Congress is concerned with the way in which fiscal policy, as well as specific federal programs, affects the overall economy. Recently, CBO has enhanced its analytic capabilities in such areas of Congressional interest as the financial condition of thrift institutions, international debt, national saving, and U.S. living standards. Studies currently under way include an analysis of the Brady Plan, the potential economic risks of defaults in the insurance industry, and an analysis of the economic costs to the United States of rising expenditures for health care.

Tax Analysis

With each new economic and budget baseline forecast, CBO provides the Budget Committees with a set of standardized tables providing considerable background detail on our baseline revenues and estimates of recent tax legislation. The Budget Committee staff members have found these tables most useful.

CBO also provides several sets of five-year baseline revenue estimates based on alternative economic forecasts developed by the staffs of both Budget Committees. Most of these are done to aid the staffs in preparing the budget resolution.

Revenue scorekeeping reports, with bill-by-bill detail, are sent biweekly, or as needed, to the staffs of the Ways and Means, Finance, and Budget Committees. The reports provide five-year estimates of the revenue effects of each tax bill on the legislative process, and compare the cumulative revenue effects of enacted legislation with the targets set in the budget resolution. The revenue estimates shown in the reports are drawn from CBO cost estimate letters and are furnished to the tax-writing committees when each tax bill is reported.

In 1991, CBO published a report examining how the different ways of structuring a reduction in the tax rate on capital gains creates different incentives in the short run. Reports currently under way for publication in 1992 include a study of a possible U.S. value-added tax, an analysis of the recent shortfall in corporate income tax receipts, a study of a possible U.S. direct expenditure tax, and a study of recent changes in family incomes, with emphasis on employer-provided fringe benefits and income from capital.

Program Analysis

CBO's program divisions--Human Resources, Natural Resources, National Security, and the new Special Studies Division--respond to requests from Congressional committees to analyze issues and options that help the Congress anticipate the consequences of legislative proposals. Four types of products illustrate the range of efforts carried out by the program divisions:

- o Formal and informal cost estimates and other budget analytic work analogous to, or in support of, the efforts of the Budget Analysis Division. Much of this work involves developing

simulation models to estimate the impacts of technical and other changes in legislation;

- o Short-term policy analyses, usually to estimate the likely effects--other than costs--of proposed legislation;
- o Longer-term analyses of broad issues, considering a full range of policy options. These projects typically result in published papers; and
- o Testimony at Congressional hearings, which often follows from other work we have done.

The principal responsibility of the program divisions is to assist Congressional committees in examining the effects of legislative policy options on the budget. Over the years, CBO has responded to requests for analyses of key program issues from almost every committee of both Houses of the Congress.

In fiscal year 1991, CBO's program divisions completed 14 such reports for 15 Congressional committees--5 in the House and 10 in the Senate.

Appendix B of this statement shows the distribution of all reports completed by CBO for Congressional committees in fiscal year 1991.

The subject areas of these reports have typically reflected the major budgetary issues before the Congress and the nation. Our program divisions support Congressional debate by organizing and presenting policy goals, often scattered among disparate programs in different budget functions and tax provisions, into a single analysis. In this way, the Congress can see more clearly whether its policies are having the intended effect.

Some recent studies of this type are *Rising Health Care Costs: Causes, Implications, and Strategies*; *The Role of Large Projects in Science Funding*; *Policy Choices for Long-Term Care*; *How Federal Spending for Infrastructure and Other Public Investments Affects the Economy*; and *Targeting High Technology Industry*.

Much legislation with purposes not closely related to the federal budget nevertheless has important budgetary and economic consequences. Many committees have shown a strong interest in the analysis of the effects of such legislation. These analyses often expand and complement information provided in a CBO cost estimate.

In 1991, CBO provided the Congress with several such reports, including *Encouraging Private Investment in Space Activities; Student Aid and the Cost of Postsecondary Education; and Changing the Classification of Federal White-Collar Jobs*.

In terms of direct support of the budget process by the program divisions, many CBO studies address the budgetary implications of changes in program emphasis or direction or changes in the carrying out of new initiatives. Committee interest in such analyses may be prompted by budget constraints or by the perception that existing programs may be inefficient or have outlived their original intent.

Recent CBO studies along these lines include: *Restructuring Health Insurance for Medicare Enrollees; Managed Care in the Military: The Catchment Area Management Demonstrations; Short-Term Responses to the Recession: The Extension of Unemployment Insurance Benefits; and Selected Options for Expanding Health Insurance Coverage*.

Based on current committee requests, CBO expects to complete between 25 and 35 reports this fiscal year. We further assume that our level of activity in fiscal year 1993 will be similar to that of recent fiscal years.

CBO's program divisions have remained remarkably stable in terms of staffing and funding since the inception of CBO. Through the years, they have accounted for approximately 30 percent of CBO's staff positions and about 30 percent of the funding.

Published reports represent only the most obvious example of the analytic support that the program divisions provide to the Congress. Short-term analysis in the form of staff memoranda and letters is provided regularly to committee staffs by the program divisions. In addition, as I have already mentioned, CBO is frequently called on by committees to testify. This testimony is often in connection with an ongoing or completed report, though we sometimes prepare new analyses for such appearances.

Finally, our program divisions have developed a number of sophisticated analytic computer models of federal programs. The output from these models is provided to our Budget Analysis Division (BAD) to use in its cost estimates, and program analysts frequently help revise or improve existing BAD models. This capability allows our program units to respond to requests that require sophisticated analytic treatment, such as simulating the effects of options on beneficiaries of federal programs. Similarly, the program divisions have developed models, both for the Budget Committees and authorizing

committees, that estimate the costs and revenues of specific programs. The models are used by the committees to respond to proposals made during the markup of legislation.

The requests and demands made of our program units have not lessened under the Balanced Budget Act. To carry out its policy objectives during these times of severe fiscal constraint, the Congress is considering numerous new and innovative approaches in an increasing number of program areas. CBO is being asked to evaluate and analyze many of these proposals and to put them in a budgetary context. In addition, the Congress will need to continue to assess the programmatic and policy implications of budget reductions. The CBO program divisions have the resources in place to provide information as the Congress makes these important reassessments.

ORGANIZATION OF CBO

For management and administrative purposes, CBO is divided into seven divisions plus the Office of the Director, the Office of the General Counsel, and the Office of Intergovernmental Relations. Although the functions of the divisions are unique, the work of each depends highly on that of the others,

and I would like to take time today to share with you how this "crosswalk" works.

Three of our divisions--the Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions--primarily support the needs of the House and Senate Budget, Appropriations, Ways and Means, and Finance Committees for accessible, comprehensive, and technical budget and economic information. The other four divisions--Natural Resources and Commerce, National Security, Human Resources and Community Development, and Special Studies--provide key support, often early in the legislative process, to the budget and authorizing committees in analyzing various programmatic and policy options and their associated costs. To perform these tasks, each unit must collaborate with the others.

For example, the economic assumptions developed by the Fiscal Analysis Division serve as the basis for our cost estimates, projections, and analysis of issues. The budget numbers developed by the Budget Analysis Division often depend on methodological studies done in the program divisions. Finally, the cost analysts in the Budget Analysis Division review all numbers developed in connection with analytic studies. This crosswalk among

our divisions is absolutely essential to our ability to provide accurate cost estimates and comprehensive analyses of alternative legislative strategies.

THE FISCAL YEAR 1993 REQUEST

As I indicated previously, Mr. Chairman, the increase being requested over the 1992 operating level consists mostly of personnel-related expenses needed to fund CBO at the authorized staff level. Of the \$1,353,000 increase being requested, \$1,309,000, or 97 percent, represents increased personnel costs. Of the remainder, \$65,000 is for systems, data, and model development and \$39,000 is for price increases in a wide array of administrative services. These increases are partially offset by a decline of \$60,000 in automated data processing (ADP) costs. CBO's fiscal year 1993 budget request is essentially a current services budget that exceeds the baseline calculation for the agency by just \$61,000.

Personnel Costs

Escalating personnel costs are the driving force behind most of CBO's requested increase. The steady rise in pay and benefit costs has driven up the personnel component of CBO's budget to 80 percent of the total 1993 request, compared with 59 percent as recently as fiscal year 1985. Similarly, benefit costs in 1993 will exceed 26 percent of payroll, far above the rate of 12 percent in effect before the Federal Employees' Retirement System was enacted in 1986. The required increases in funding for payroll and benefit costs put enormous pressure on other portions of CBO's budget.

The Employment Cost Index adjustment for fiscal year 1993 amounts to \$501,000, while the annualization of 1992's 4.2 percent adjustment and the merit pay increases combine to raise costs another \$446,000. Merit pay increases average a modest 3.3 percent in 1993, accounting for an additional \$277,000. Benefit price increases of \$85,000 make up the remainder.

Automated Data Processing Costs

ADP costs decrease 2.4 percent in the current request, by \$60,000, driving CBO's ADP costs as a percent of total budget to the lowest level in the agency's history. ADP is 10 percent of our 1993 budget, as compared with 29 percent of our budget in 1983. CBO is proud of having substantially reduced ADP costs over the past years, while increasing productivity and overall computing resources. We have accomplished that by switching time-sharing mainframe applications to microcomputers, redesigning and reprogramming existing mainframe applications to take advantage of current technology, and carefully managing ADP resources. The net decrease of \$60,000, the result of reduced timesharing and purchases of microcomputer hardware and software, comes despite price increases totaling \$25,000.

Systems, Data, and Model Development Costs

The systems, data, and model development component of our budget is used primarily to purchase and modify data needed to update existing models. Spending in this area is difficult to predict and depends on such things as the availability of data and legislative changes in a specific program. Some

models are updated annually, while others must wait for less frequently available data, such as those from the decennial census. In fiscal year 1992, CBO was able to cut spending from 1991 levels. The \$65,000 increase being requested for 1993 will allow us to fund all anticipated updates of data and make necessary modifications in the models.

Other Costs

Administrative expenses in our 1993 request increase by \$39,000, or 2.1 percent, which is lower even than the current rate of inflation. The only areas in which prices are rising faster than inflation are equipment maintenance and periodical subscriptions. At the requested level, however, our 1993 administrative costs, adjusted for inflation, will be lower than fiscal year 1990's costs. The \$39,000 increase being requested covers price rises in a variety of goods and services, including utilities, printing, and administrative support services from the Library of Congress and the National Finance Center.

CONCLUSION

Mr. Chairman, as I stated at the opening of this justification, I believe this to be a most prudent budget for CBO. It is basically a current services budget, reflecting CBO's baseline methodology. Our budget request is driven by escalating personnel costs, although no new positions are being sought. It is, I believe, a budget that will allow CBO to continue to serve the Congress at the level of excellence it has come to expect. Thank you, Mr. Chairman.

APPENDIX A

CBO PANEL OF ECONOMIC ADVISERS

Barry P. Bosworth
Senior Fellow
The Brookings Institution

Andrew Brimmer
President
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Robert Dederick
Executive Vice President and
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APPENDIX B. SUMMARY OF COMPLETED CBO REPORTS BY
REQUESTER (October 1, 1990 to September 30, 1991)

Requester	Number of Reports
House Committee on Armed Services	1
House Committee on the Budget	4
House Committee on Rules	1
House Committee on Ways and Means	2
Senate Committee on Appropriations ^a	2
Senate Committee on the Budget ^a	6
Senate Committee on Commerce, Science, and Transportation	1
Senate Committee on Energy and Natural Resources	1
Senate Committee on Finance	1
Senate Committee on Governmental Affairs ^a	1
Senate Special Committee on Aging	1
Joint Economic Committee	1
Federal Government Services Task Force	1
Mandated by the Congressional Budget Act of 1974	3
Mandated by the Balanced Budget Act of 1985	<u>6</u>
Total	32

a. Dual requesters.
