Statement of

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Mr. Chairman, I am delighted to have this opportunity to present to the Task Force our views on the importance of multiyear budgeting and to describe the experience of the Congressional Budget Office in making multiyear budget estimates and projections. In your letter of invitation, Mr. Chairman, you describe yourself as a firm believer in the importance of making annual budget decisions in the context of explicit multiyear budget plans. So am I. I also believe this Task Force can play an important role in helping the House Budget Committee to use a multiyear approach in its deliberations on the federal budget.

Two and a half years ago, in fulfillment of a Budget Act requirement, CBO studied the feasibility and advisability of advance budgeting. As a result of this study, we recommended that the two Budget Committees formulate and the Congress adopt a plan for stating and voting on multiyear budget targets. The Senate Budget Committee started last year to use a multiyear framework for formulating its recommendations for budget resolutions. The House Budget Committee has, since the beginning of the budget resolution process, included multiyear projections of its recommendations in the Committee reports, but has not considered explicitly the implications of these projections in its markup discussions.

This year, in response to the Long Amendment to the Public Debt Limit Act of 1979 (Public Law 96-5), the first budget resolution for fiscal year 1980 contains budget aggregates for 1981 and 1982 as well as 1980. This represents, in my judgment, substantial progress by the Congress

toward strengthening its budget decisionmaking process. The forthcoming debate on the second resolution for 1980 will provide another opportunity for progress in appraising the future directions of the federal budget.

My statement today will cover three areas:

- The reasons why I believe it is important to use a multiyear framework for formulating budget resolutions.

- The technical support that CBO can provide in helping the Committee develop a multiyear budget resolution.

- Some of the major issues involved in setting multiyear budget targets.

Importance of Multiyear Budgeting

As the Budget Committee is by now painfully aware, there is very little the Congress can do to make next year's federal budget look much differently from this year's. Most of the federal spending for next year--probably as much as 75 percent of it--will occur because of decisions of past Congresses, not of this Congress. Furthermore, while the other 25 percent will nominally be decided this summer in the appropriations cycle, practically all of it is foreordained just by the sheer momentum of the government and the real human and political costs of making rapid changes --either up or down--in the expected level of government programs.

This is not necessarily undesirable. The lives of most Americans are shaped by an assumption of stability in the programs and commitments of their government. Sharp changes in the composition of the budget could have many adverse consequences. The major point is this: if the Congress wishes to make major changes in the budget, these will probably take time to plan and execute. The definition of the goals should not be left to speculation; they should be specified now. Spending for fiscal year 1981 is not so much the prisoner of the past and is less foreordained than spending for fiscal year 1980, and spending for fiscal year 1982 and future years even less so. This session of the Congress will likely have far more impact on the 1984 budget, whether intentional or not, than the Congress that meets four years from now. But the budget procedures now in use cause this session to focus primarily on a year--fiscal year 1980--about which it can do very little except at the margin, while it virtually has to ignore future years about which it can do a lot.

The picture is not very different on the taxing side. Revenue goals are established for the year just ahead, and legislative tax proposals are measured by how they affect the stated revenue goal. But the first fiscal year effects of tax changes are almost always transitional, providing no real guide to their impact later on. Of course, that impact can be projected, and under current rules it must be projected for the next five years. But the outyear estimates have no practical force because until this year there has been no outyear revenue target against which they can be measured.

Consequently, the budget focus for proposed changes in the revenue code has been almost entirely on their transitory, rather than their long-run, effects.

These kinds of problems could be ameliorated if the Congress were to begin more formally to make spending and taxing decisions in the light of where it wants to be in some year beyond the upcoming fiscal year. But that would mean deciding now, at least tentatively, what the outyear goals are to be.

In the last two years, the Congress has discussed several issues and longer-run goals that I believe are best dealt with within the context of a multiyear budget plan. One example is the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978 which established specific goals for reducing unemployment and inflation by 1983. Both the President and the Congress will have to consider whether these goals are still appropriate as part of the 1981 budget cycle, and what budgetary actions may be necessary to achieve these or other longer-run targets.

A more immediate issue is whether it is still appropriate to plan on achieving a balanced budget in fiscal year 1981. This is an explicit goal underlying the first resolution for 1980 that will have to be reviewed as part of the second resolution deliberations.

Concern has also been expressed in the Congress about the rate of growth of federal spending and taxes in relation to the total economy, and what room there will be in the budget for future tax cuts and spending increases.

I have believed for some time that the Congressional Budget Act of 1974 provided the procedural framework for multiyear budgeting, and this was borne out by the inclusion of budget aggregates for 1981 and 1982 in the first resolution for 1980. The task now is to build on this beginning and to have more fruitful and more explicit consideration of the future directions of the federal budget as part of the annual budget resolution debates.

These outyear budget resolution figures clearly would be targets, not floors or ceilings. They would not bind future Congresses, and should be thought of as rolling targets. That is, each session of the Congress, besides adding targets for an additional future fiscal year, could revise the previously set targets for the intervening years. Indeed, it would be surprising if the Congress did not change the targets every year, primarily for fiscal policy reasons. But these target changes would come not because the Congress had no choice, but because each Congress would have given itself the opportunity to make an explicit choice. It is better to make a plan and change it than not to have made a plan at all.

In many ways, a multiyear approach to formulating budget resolutions would increase both the flexibility of any individual Congress in dealing with

budgetary choices and Congressional budgetary control over the total size and composition of the budget. Concentrating on budget year dollar effects does not allow the Congress to deal very well with those issues that cannot be affected in a single year. But in a multiyear targeting system, the dramatic dollar impact of adding major new programs or of reforming or abolishing existing programs can be clearly seen and voted upon by the Congress.

A multiyear approach to budgeting will also illuminate the trade-offs that face the Congress between its fiscal and programmatic goals. Once a set of outlay targets for permanent federal programs was established, it would be possible to analyze the range of tax changes and/or countercyclical spending changes that might be required to achieve outyear economic growth goals in the face of different assumptions about the strength of nonfederal sectors of the economy. Such a procedure would permit analysis of future prospects for balancing the federal budget at low levels of unemployment. At the same time, it would continue to recognize the important impact of the highly uncertain future behavior of the nonfederal sectors. A multiyear planning framework would allow the Congress to phase in or phase out programs in a manner that would be consistent with its fiscal policy goals.

A multiyear budget approach would also enhance Congressional budgetary control by providing a better mechanism than the annual budget for affecting the approximately 60 percent of the budget that now can be

changed only by modifying the authorizing statutes. Under the present system, the ability of the Budget Committees to achieve cost savings through reforms of existing programs is frequently severely limited either because the authorizing committees feel that they do not have enough time after the passage of the first concurrent resolution to enact the reforms, or because of the fear that a change in the program this year would cause great hardship to the program's beneficiaries.

Both the Senate and House Budget Committees have had these types of experiences over such issues as Impact School Aid and Medicare and Medicaid reform. A system of setting multiyear budget targets would allow the Congress to plan these changes over a number of years, thus giving the authorizing committees the time they need and ensuring that the programs' beneficiaries are forewarned of future changes. At the same time, it would put the Congress on record that the changes should be made.

CBO Support

During the past four years, the Congressional Budget Office has developed a substantial capacity for assisting the Budget Committees and the Congress in considering explicitly the future year consequences of decisions made this year, and for illuminating the consequences of choices among alternative multiyear budgetary strategies.

All of our cost estimates for bills reported from committee are five-year estimates. We have prepared four reports to the Congress presenting

five-year budget projections. We have advanced considerably the state-of-the-art in making budget projections, particularly in relating the economic assumptions and the budgetary projections in a consistent manner. We also have consistently used a multiyear approach in our annual reports to the Budget Committees on budgetary issues, options, and strategies. I am particularly proud of this year's annual report which combined our five-year budget projections report with our analysis of budgetary options for the 1980 resolutions. 1/

This report begins with a five-year projection of revenues and outlays under the basic assumption that current budgetary policies will remain unchanged. It then discusses various major options available to the Congress--to increase or cut spending, and to change the tax laws. The report concludes with a discussion of three possible strategies for establishing multiyear budget targets that illustrate the trade-offs among setting goals for the economy, the size of government, and the budget deficit. With your permission, Mr. Chairman, I would like this report to be made a part of the record.

While a full-scale multiyear approach may have to wait until the House Budget Committee begins work on the first resolution for fiscal year 1981, I believe the Committee can make a start this year in its markup of the second resolution for 1980. This will be necessary in any event if budget

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1/ Congressional Budget Office, Five-Year Budget Projections and Alternative Budgetary Strategies for Fiscal Years 1980-1984, A Report to the Senate and House Committees on the Budget, Part II (January 1979).

aggregate figures for 1981 and 1982 are to be retained in the second resolution.

The first resolution for 1980 contains two sets of figures for 1981 and 1982. One is a set of budgetary levels recommended by the Senate as appropriate for achieving a balanced budget in these years; this set includes a $55 billion tax cut in fiscal year 1982. The second set contains projections for 1981 and 1982 based on the policy assumptions made by the House in its adoption of the first resolution. The spending figures are quite similar in the two sets, but the revenue figures are quite different for 1982 because the House projections made no provision for a tax cut in that year.

In its deliberations on the second resolution for 1980, the Committee will have an opportunity to discuss the first resolution figures for 1981 and 1982 and to make any policy changes it believes desirable to achieve longer-term goals, such as balancing the budget in 1981 and the magnitude of future tax cuts. At the same time, the Committee can provide for any new energy initiatives that are likely to have greater budget impact in 1981 and 1982 than 1980, and to continue to emphasize legislative savings. To facilitate such discussions, CBO will provide the House Budget Committee with 1981-1984 projections of the spending recommendations for 1980 contained in the markup materials.

Setting Multiyear Budget Targets

Setting multiyear budget target raises several key questions that must be addressed by the Committee next year in implementing a full-scale

approach. What are the appropriate goals for the economy and the budget deficit or surplus? What are the appropriate levels for spending and receipts in relation to the economy? What new spending or tax initiatives should be phased in, and which programs should be phased out?

Trade-offs are required in setting targets for real economic growth and budget deficits. For example, although stimulative fiscal policy is a potential tool in a long-term plan to reduce the unemployment rate significantly, such a policy runs the risk of increasing the budget deficit. Achieving the goal of 4 percent unemployment by 1983, as specified by the Humphrey-Hawkins Act, would in all likelihood require fiscal stimulus that would result in rising deficits.

Trade-offs must also be made among economic goals. If only standard monetary and fiscal policies are used, a program to hold down or reduce inflation would probably preclude reducing the unemployment rate to 4 percent by 1983.

Goals for the size of government or, in particular, for the amount of federal spending and receipts in relation to the economy are in many ways separable from goals for the economy. For example, fiscal stimulus can be provided to the economy with a smaller budget as well as with a larger budget.

In our annual report to the Budget Committees this year, we discussed three basic budgetary strategies for setting targets for federal

spending. Each of the strategies implied a different size for the federal sector in relation to the economy. The first strategy was to set the spending targets equal to the projections of current policy, so that any new spending initiatives would have to be financed by spending decreases in existing programs. Under this strategy, total spending would increase at a rate slightly faster than inflation, but in real terms would not keep pace with the rest of the economy. As a result, spending would fall in relation to the total economy.

A second strategy would be to restrict growth in spending and reduce the size of government significantly relative to the rest of the economy. A third strategy would be to expand the role of government by increasing spending for existing programs and adding new initiatives, such as national health insurance. Under this strategy, spending as a percent of GNP might rise or at least remain at present levels (21.6 percent for fiscal year 1979).

Although the aggregate economic goals and targets for the size of government place overall constraints on the number and size of new spending initiatives, other factors need to be considered in determining what provision, if any, should be made for policy changes. These include program needs and costs, as well as the priorities of the federal government for providing public services, redistributing income, and supporting state and local governments.

On the tax side, proposals for policy changes must be evaluated on the basis of several factors. One is the need for fiscal stimulus. Other

considerations include the equity and income redistribution aspects of changes in individual income taxes, the prospects for improving productivity through business income tax cuts, and the inflationary effects and social security financing aspects of changes in social insurance taxes.

Conclusion

Setting multiyear budget targets is harder and requires more work and analysis than focusing only on next year's budget, but I believe the end result is worth the effort. I appreciate the fact, Mr. Chairman, that it is often difficult to arrive at a set of budget figures that will be acceptable to a majority of Budget Committee members and the full House. Some Members have expressed concern that it would be even more difficult to gain support for a resolution that contains multiyear budget targets. The experience of the Senate Budget Committee, however, is that it is frequently helpful to know the multiyear effects of various current budgetary choices, and that using a multiyear framework sometimes makes it easier to arrive at decisions. I believe the House Budget Committee also will find a multiyear approach to budget planning a useful way to illuminate budget choices and decisions.

Mr. Chairman, that concludes my statement this morning. I will be happy to answer any questions you or Members of the Task Force have.