

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 1983

March 10, 1982

Mr. Chairman and Members of the Subcommittee, I am pleased to present the fiscal year 1983 budget estimate for the Congressional Budget Office (CBO). CBO is a nonpartisan organization that provides the Congress with budget-related information and analyses of fiscal, budgetary, and programmatic issues. CBO does not make recommendations on policy matters; rather, we analyze options, their costs to the federal government, and their impact on the national economy.

BUDGET ESTIMATE

For fiscal year 1983, CBO is requesting \$16,352,000. This appropriation level would allow us to fund our currently authorized staff level of 218 positions, to continue our present services to the Congress in support of the budget process, and to carry out a newly legislated responsibility to estimate the costs that state and local governments would incur as a result of federal legislation.

You will recall, Mr. Chairman, that our fiscal year 1982 spending request was \$14,298,000, and that this committee recommended a funding level of \$13,458,000. A lower funding level was agreed to in conference, however, and we are currently operating at a fiscal year 1982 appropriation level of \$12,868,000, which is \$590,000 below the action of this committee.

This does not provide the necessary funds for the October 1981 cost-of-living increase nor the January 1982 pay cap increase. The combined costs associated with these activities is \$408,000, bringing our fiscal year 1982 requirements to \$13,276,000. The approved increases in our funding levels for both fiscal year 1981 and fiscal year 1982 have averaged less than 3 percent annually.

I should add that these small increases have come at a period of extraordinary increase in the demand for CBO assistance. The intense budget activity over the last year, which is continuing just as heavily into this year, has increased enormously CBO's workload and put great strain on our staff. Our economic forecasts have been central to the budget debate and we have been inundated with requests for additional fiscal analysis. Both budget committees have greatly increased their demands for budget projections and estimates while other committees have turned to us far more than ever before for estimates of fiscal savings and program impacts of legislative changes. Our staff is dedicated to the success of the budget process and has worked very hard, often putting in extremely long hours late into the night and on the weekends. We have made occasional mistakes, but by and large I have been extraordinarily proud of how well the staff has performed under pressure and of the quality of the product we have produced.

Our 1983 estimate reflects our needs in four key areas: the ability to perform our existing services at the currently author-

ized staff level of 218 positions; to bolster our data processing capabilities, especially those of our fiscal, tax, and budget analysis divisions; to support the systems, data, and model development work fundamental to our ability to analyze the complex issues before the Congress; and to comply with the requirements of The State and Local Government Cost Estimate Act of 1981, Public Law 97-108. I will discuss these areas in more detail later in my statement. First, however, I should like to review briefly for the Committee the principal services CBO provided to the Congress in the past year.

CURRENT CBO SERVICES TO THE CONGRESS

CBO's responsibilities under the Congressional Budget Act of 1974 include tracking Congressional budget action on appropriation and revenue bills against the targets or ceilings preset in the concurrent budget resolutions, better known as scorekeeping; preparing five-year budget projections; providing budget outlay and cost estimates to the Appropriations and authorizing committees for bills authorizing or providing budget authority or tax expenditures; preparing periodic forecasts of economic trends and alternative fiscal policies; and analyzing programmatic issues that affect the federal budget.

Scorekeeping

CBO provides the Congress with up-to-date tabulations of Congressional action on revenue and spending bills. These tabulations are used, particularly by the Appropriations and Budget Committees, to measure the status of Congressional budget actions against the targets or limits specified in the concurrent resolutions on the budget.

The bulk of CBO scorekeeping activities involve spending actions. The spending side of the federal budget consists of over one thousand separate accounts. Furthermore, the Congress acts each year on a large number of legislative bills that affect spending, including 13 appropriations bills. CBO's scorekeeping system keeps track of 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 is very large and requires a major effort to keep current.

Scorekeeping reports are provided weekly to the Budget and Appropriations Committees. Advisory letters are also sent upon request to the Chairman of the House Appropriations Committee on the budgetary impact of individual appropriation actions, such as a supplemental appropriations bill or a continuing resolution.

The House Appropriations Committee originally developed an automated budget data system to track appropriation bills against its budget resolution allocations, but now relies on the CBO scorekeeping data base for this purpose.

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, bills providing required authorizations for requested appropriations and proposed Budget Act revisions. These reports are done at the request of the House Appropriations Committee.

Budget Projections

Before each major set of budget decisions, the CBO prepares a new set of baseline budget projections for the use of the Congress. The projections take as their starting point the budgetary decisions made by the Congress 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 undoubtedly will make numerous new policy decisions in response to changing national needs and economic circumstances. They do provide, however, a useful baseline or benchmark against which proposed changes in taxes or spending policies may be measured and assessed.

The growing use of budget projections requires CBO to maintain a large multiyear data base on a year-round basis. CBO now provides the Budget Committees of both Houses 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, usually at the beginning of each session of Congress. CBO also publishes a separate report presenting five-year projections of tax expenditures.

Cost Estimates

CBO prepares cost estimates for virtually every bill reported by legislative committees in the House or Senate that would have a budget impact, about 450 bills in 1981. CBO also prepares numerous cost estimates at committee request for use in earlier stages of the legislative process. CBO bill cost estimates played a particularly important role last year in the development of the Omnibus Reconciliation Bill.

The Omnibus Reconciliation Bill involved 15 House committees and 14 Senate committees. CBO prepared estimates for these committees as they considered various alternatives for fulfilling the reconciliation instructions of the first budget resolution for fiscal year 1982. A large amount of costing work was also performed at the request of the committees that participated in the subconferences that resulted in the final version of the Omnibus Reconciliation Bill. Ultimately, these efforts were equivalent to several hundred individual bill cost estimates, prepared under extraordinarily tight deadlines.

Economic Forecasts

Each fiscal year, CBO provides the Congress with two economic reports, which are primarily the responsibility of our Fiscal Analysis Division. They 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; Townsend-Greenspan; and Evans Economics). CBO does not maintain its own macroeconomic model of the economy. We also rely on the advice of a distinguished panel of advisers drawn from all parts of the country and representing a wide spectrum of economic views. This panel meets at least twice a year. Table 1 lists the current panel.

CBO issues its economic reports to coincide with Congressional consideration of the concurrent resolutions on the budget. The two reports issued in March and September of 1981 focused on the current state of the economy and the impact of the shift in economic policy proposed by the Administration.

TABLE 1. CBO PANEL OF ECONOMIC ADVISERS

Barbara Bergmann Department of Economics University of Maryland	Lawrence R. Klein Benjamin Franklin Professor of Economics Wharton School of Finance and Commerce University of Pennsylvania
Barry P. Bosworth Senior Fellow The Brookings Institution	Paul W. McCracken Edmund Ezra Day University Professor of Business Administration Graduate School of Business Administration University of Michigan
Dewey J. Daane Frank K. Houston Professor of Banking Graduate School of Management Vanderbilt University	Lief H. Olsen Senior Vice President and Economist First National City Bank New York
Martin Feldstein President National Bureau of Economic Research	Rudolph Oswald Director AFL-CIO Research Department
William J. Fellner Resident Scholar American Enterprise Institute for Public Policy Research	Joseph A. Pechman Director, Economic Studies The Brookings Institution
Alan Greenspan President Towsend-Greenspan & Company	Rudolph G. Penner Resident Scholar American Enterprise Institute for Public Policy Research
Douglas Greenwald New York City, N.Y.	George Perry Senior Fellow The Brookings Institution
Walter W. Heller Regents' Professor of Economics University of Minnesota	Paul Samuelson Institute Professor of Economics Massachusetts Institute of Technology
Walter E. Hoadley Bank of America Center	
F. Thomas Juster Program Director Institute for Social Research University of Michigan	

TABLE 1. Continued

Charles Schultze Senior Fellow The Brookings Institution	James Tobin Sterling Professor of Economics Yale University
Robert Solow Department of Economics Massachusetts Institute of Technology	Michael G. Wellman Manager Research Department S.S. Kresge Corporation
Herbert Stein Resident Scholar American Enterprise Institute for Public Policy Research	Charles J. Zwick President South East Banking Corporation

Program Analysis

CBO undertakes in-depth analytical reports on budget-related issues at the request of the chairman or ranking minority member of a full committee of jurisdiction or the chairman of a subcommittee of jurisdiction. The Budget Act establishes the following priority for these services: first, the Senate and House Budget Committees; second, the Senate and House Appropriations Committees, the Senate Finance Committee, and the House Ways and Means Committee; finally all other Congressional Committees. In fiscal year 1981, CBO completed 65 formal reports, as well as numerous informal reports and memoranda. The 65 reports were for 20 Congressional committees--9 of the House and 11 of the Senate. Table 2 shows a distribution of the reports requested by House and Senate committees in fiscal year 1981.

TABLE 2. SUMMARY OF COMPLETED CBO REPORTS BY REQUESTOR:
OCTOBER 1, 1980, TO SEPTEMBER 30, 1981

Requestor	Number of Reports
House Appropriations Committee	3
House Armed Services Committee	5
House Banking, Finance and Urban Affairs Committee	4
House Budget Committee	7
House Energy and Commerce Committee	2
House Interstate and Foreign Commerce Committee	1
House Post Office and Civil Service Committee	2
House Public Works and Transportation Committee	1
House Ways and Means Committee	6
Senate Agriculture, Nutrition and Forestry Committee	1
Senate Appropriations Committee	1
Senate Armed Services Committee	3
Senate Banking, Housing and Urban Affairs Committee	3
Senate Budget Committee	10
Senate Commerce, Science and Transportation Committee	2
Senate Energy and Natural Resources Committee	3
Senate Environment and Public Works Committee	2
Senate Finance Committee	1

TABLE 2. (Continued)

Requestor	Number of Reports
Senate Governmental Affairs Committee	1
Senate Labor and Human Resources Committee	2
Joint Economic Committee	1
Mandated by Food Stamps Act of 1980	1
Mandated by Congressional Budget Act of 1974	<u>3</u>
TOTAL	65

The subject areas of the CBO reports reflect the key budgetary issues before the Congress. Let me cite just a few examples of important CBO studies completed in fiscal year 1981.

A primary focus of Congressional action in 1981 was the development of strategies for balancing the budget. A major document used in this effort was the CBO report published last February entitled Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982-1986. This report analyzed some general strategies for reducing the budget and briefly described 105 possible actions to effect it.

At the request of the House Ways and Means Committee, our staff also prepared special analyses of proposed budget reductions in areas such as Medicare, Aid to Families with Dependent Children (AFDC), trade adjustment assistance, and low-income energy assistance.

CBO staff analyzed numerous Administration proposals to reduce funding for state and local grant programs and to restructure federal aid. Work included testimony on trends in grant spending before the Subcommittee on Intergovernmental Relations of the Senate Governmental Affairs Committee and on issues in federalism before the Subcommittee on Intergovernmental Relations and Human Resources of the House Governmental Operations Committee.

Responding to a request from the Senate Budget Committee, CBO examined the net budgetary effect of eliminating public service employment programs. We also helped committee staff assess the likely effects of options for reauthorizing the Targeted Jobs Tax Credit, changing certain financing procedures for unemployment insurance, providing a separate minimum wage for youth, and changing current Davis Bacon prevailing wage rate requirements.

CBO also analyzed the combined effects of simultaneous changes in benefit programs on low-income persons for the House Budget Committee, the Senate Labor and Human Resources Committee, and the House Select Committee on Aging.

National defense was also a key area of concern in the first session of the 97th Congress, and CBO was called upon to analyze both manpower and weapons issues. The House Veterans' Affairs Committee and the House Armed Services Committee used our estimates of the costs and effects of additional military educational benefits. We testified on alternative military pay proposals before

the Manpower and Personnel Subcommittee of the Senate Armed Services Committee, and our projections of the outlook for military recruiting and retention were cited during debate over this year's military pay proposals. In its report this year, the Defense Subcommittee of House Appropriations cited our testimony before them in supporting proposed changes in the military retirement system. We also testified before the Defense Task Force of the House Budget Committee on ways to hold down pay costs, and CBO's comparisons of military and civilian earnings were used widely in House Budget Committee hearings and in their report. After citing our analysis, the Department of Defense adopted, and the Congress appears likely to enact, a proposal that would reduce costs through more use of joint advertising by the service recruiting commands. Both the House and the Senate Armed Services Committees utilized CBO's analyses of military survivor benefits when they revised legislation. The two Budget Committees also used this analysis when further changes in the survivor benefits programs were made during last year's reconciliation process.

The Congress has also made use of our various analyses of the costs of military weapons. The Senate Armed Services Committee cited the results of our analysis of strategic command, control, and communications systems in its report accompanying last year's Senate military authorization bill. In its report, the Defense Subcommittee of the House Appropriations Committee cited CBO's

analysis of the Army's plan to preposition more equipment in Europe (the so-called POMCUS plan). The staff of that same subcommittee made use of information provided by our analysts concerning costs of the B-1 bomber and the proposal to expand the Air Force's fleet of aircraft used for aerial refueling. We also briefed the members and staff of the House Armed Services Committee on alternative programs for modernizing U.S. naval surface combatants based on our published report on this topic, Naval Surface Combatants in the 1990s: Prospects and Possibilities.

During the many defense debates last year, CBO analysts prepared answers to numerous questions from Congressional staff personnel about alternative ways to reduce the amount of defense spending. Cost savings from changes in defense acquisition procedures were also the subject of testimony I gave before the Senate Governmental Affairs Committee.

CBO continued to respond to the requests of several jurisdictional committees for studies on key energy issues. In fiscal year 1981, we completed reports on financing the Strategic Petroleum Reserve, managing oil disruptions, the naval petroleum reserve, and the Clean Air Act. The results of these studies were presented in testimony and were used by committees in preparation of legislation. On the Clean Air Act, for example, although our formal study has not yet been published, we presented testimony in June before the Senate Environment and Public Works Committee. We have also

responded to specific inquiries from the staff of that committee, enabling them to assess the effect of alternative new performance standards on the electric utility industry and the coal markets.

Another area of concern to the Congress in the first session was tax issues. We completed an in-depth report on tax-exempt small-issue industrial revenue bonds (IRBs) for the Oversight Subcommittee of the House Committee on Ways and Means, and assisted that subcommittee in preparing hearings and legislation on small-issue IRBs. We also provided informal assistance to the Senate Finance Committee on the same subject.

We prepared a report on tax expenditures that offers extensive historical data, examines a number of definitional and measurement issues, and reviews some of the considerations in choosing among tax expenditure subsidies, general tax cuts, and direct expenditure subsidies. We testified on the subject before the Senate Budget Committee and the House Rules Committee and provided assistance on legislative proposals to control tax expenditures.

Other key issues addressed by CBO during fiscal year 1981 included compensation for federal blue-collar workers, federal credit activities, civil service retirement, and indexing with the Consumer Price Index.

Based on our current committee requests, we expect to complete approximately the same number of reports in fiscal year 1982 as in 1981. Currently, for example, we have studies under way in

the areas of oil and gas consumption by public utilities, natural gas pricing, the steel industry, Antrak, youth employment, Social Security, health care expenditures, housing assistance, social services, tanker force modernization, military manpower requirements, and naval forces.

The Committee has a list of CBO reports (see TAB 1). Part I of that list shows the projects currently in progress. Part II lists the studies completed in fiscal year 1981. The list gives the CBO division responsible for the report, its title, a summary of its contents, the requesting Congressional committee or statutory authority, and the completion date.

THE FISCAL YEAR 1983 REQUEST

As I previously indicated, our fiscal year 1983 request reflects our needs in four important areas: automatic data processing (ADP); systems, data, and model development; staffing; and the requirements of P.L. 97-108 which mandates state and local bill cost estimating.

ADP Contracts

Computer support services are essential to CBO's budget estimating and analytical capability. With the budget dominating the agendas of both the Congress and the Administration, the whole Congress, not just the Budget Committees, has become increasingly dependent on the accuracy and timeliness of CBO budget numbers.

Our request for an increase of \$1,577,000 for computer services in fiscal year 1983 is due to three factors: (1) increased charges, (2) increased computer utilization, and (3) required maintenance for existing systems.

Anticipated price increases account for \$269,000 of the \$1,577,000. Under a three-year contract with our largest commercial supplier, we have enjoyed price protection since March 1980. In 1983 this contract must be renewed, and consequently we must expect that our commercial costs will increase--we are estimating a 12 percent increase. To minimize such price increases, we have continued to follow our policy of using existing government facilities when they can provide the services we need at less cost. We have a commitment from our largest government supplier that their price increase will not exceed 2 percent. Accordingly, we estimate that price increases in our 1983 ADP budget will average out to 5.3 percent.

Increased computer utilization in fiscal year 1983 is estimated to require an additional \$1,124,000, amounting to 21 percent of our total computer costs. These resources are needed to support defense costing and scoring, analysis of the impact of tax changes, development of more frequent and more detailed economic assumptions, analysis of human service program revisions, improved services to the appropriations committees, and development of state and local government cost estimates. The costs associated with increased utilization are:

	<u>Dollars</u>
Budget analysis (scoring, costing, Appropriations Committee support)	268,000
Tax analysis	130,000
Economic analysis	171,000
Human services programs	164,000
Natural resources and others	26,000
State and Local Government Cost Estimating	<u>365,000</u>
Total	1,124,000

The final factor in our request for ADP resources is the need for systems revisions and maintenance. In 1982 we have had to limit our maintenance activities very strictly. We believe that the \$184,000 requested to improve systems will enable us to be more responsive to the increasing number of new requests from Congressional committees.

Systems, Data, and Model Development

In fiscal year 1980, we spent \$1,084,000 in this category. Because of our limited budgets in the last two years, however, we have had to reduce sharply the resources devoted to this area--to \$466,000 in 1981 and to \$354,000 in 1982. Yet, our ability to respond to Congressional demands is highly dependent on our ability to utilize the analytical capability provided by continuously updated, refined, or newly developed systems and models. Thus, for fiscal year 1983 we are requesting \$899,000 in this category.

Congressional committees frequently come to CBO with "what if" questions. They need to know the consequences of changes in current federal policy. For answers to these "what if" questions, we must be able to work with the most recent information available. For example, data from the new Consumer Expenditure Survey (CES) will be available by the beginning of fiscal year 1983. These new data will allow us to analyze changes in expenditures between the last survey made in 1972 and the more recent survey, thereby capturing the effect of inflation on population and income groups. This information is necessary to assess the impacts of proposals to modify the indexation of programs such as Social Security.

To give another example: the data from the March 1982 Current Population Survey (CPS) are extremely useful for modeling and estimating the budgetary and distributional effects of most transfer and tax programs. To use this data correctly, we need to enhance it in two ways. First, we should correct it for underreporting and nonreporting of income, and simulate it to include the effects of programs still not covered in the survey. Second, we should modify the data to represent a future fiscal year. This enhanced and "aged" data base can then be used, in conjunction with other comparative models, to analyze a large variety of legislative issues in the income security, health, education, and employment areas.

I have gone into some detail to describe two specific examples of systems and models needed to support our analyses of domestic social programs. Similar needs exist in all analytical areas. In the defense area, for example, we need to work on models connected with educational benefits, manpower costs, military retirement costs, and civilian manpower retention as well as with the domestic economic impact of the projected defense industry buildup. Also, our plans call for modifications to our existing systems: first, to align them with the Senate program structure; and second, to reduce the Congress's reliance on Administration assumptions and parameters, thus giving us a more independent base for analysis.

In the natural resources area, our work relating to the Clean Air Act has required, and continues to require, extensive new modeling. Congressional demand for our analyses suggests requirements for work in pollution control, the Clean Water Act, the electric utility sector, highway cost allocation, and water use in the West.

In our budget analysis area, the program changes resulting from the Reconciliation Act of 1981 require that we modify and update several of our computer systems and data bases. We also plan to expand our credit budget application in response to Budget Committee requests. Finally, given the proposed growth in defense programs, it will be necessary to obtain additional costing capability to support our analyses in this area.

Permanent Positions

For fiscal year 1983, we are requesting \$7,877,000 to fully fund our current 218 positions and to make allowance for eight additional staff members to handle the increased work load of state and local cost estimating.

Although the extraordinary attention to budget matters has put a great strain on our staff, I am on record to this committee that CBO would not seek additional positions unless more responsibilities were mandated by the Congress. The recently passed State and Local Government Cost Estimate Act of 1981 expanded CBO responsibilities by requiring us to make state and local cost estimates for pending legislation.

After consulting with the Congressional sponsors of the legislation and after thoroughly analyzing our needs, we are requesting eight additional full-time positions to perform that task. Seven of these would be for professional analysts. The eighth position would provide clerical support.

In summary, the resources we are requesting for permanent positions would fund our currently authorized staff level and would allow us to bring on the staff required to implement the provisions of the State and Local Government Cost Estimate Act of 1981.