

STATEMENT OF ALICE M. RIVLIN
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before the
Committee to Investigate a Balanced Federal Budget
Democratic Research Organization
May 6, 1976

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to discuss with you today the role of the Congressional Budget Office in the new budgetary process. The 1974 Budget Act put in place a whole new set of procedures aimed at making the budgetary process more orderly and responsive to the collective view of Congress. All those concerned about controlling government spending will want to take into account the existence and possible promise of these new procedures.

Before the Budget Act of 1974, spending and revenue proposals were considered in a piecemeal fashion. Individual spending programs were scrutinized by authorization and appropriation committees, and revenues by other committees but there was no procedure for Congress to vote on the budget as a whole. The new budget process has created Budget Committees in each House to formulate a preliminary and final budget resolution for each fiscal year. Through these resolutions, Congress considers overall totals and broad divisions of these totals by functional category, both in the Budget Committees and on the floor of the Senate and the House.

There are explicit votes not only on aggregate spending and revenue, but the deficit or surplus as well.

The role of the Congressional Budget Office in the new budget procedure is to provide a flow of budget information and to analyze the impact of alternative budgetary decisions. This is an analytical rather than a policymaking role. CBO does not take a position for or against spending and tax proposals, but rather supplies its best estimate of what costs or revenues would be and what the affects would be on major economic indicators.

One example of the budget information provided by CBO is five-year cost estimates provided for bills that are reported out of committee. Excerpts from one such cost report are shown in the following table:

CONGRESSIONAL BUDGET OFFICE					
COST ESTIMATE					
1. BILL NUMBER: H.R. 2525					
2. BILL TITLE: The Indian Health Care Improvement Act					
3. PURPOSES OF BILL: To authorize additional funds for the purposes of recruiting Indians into personal health training programs and to provide for their training in schools of health professions (Sections 102-106); to supplement funds available for health services (Section 201); to provide for additional support for the construction and renovation of health and environmental facilities (Sections 301-303); to extend Medicare and Medicaid eligibility to Indian Health Service beneficiaries (Sections 401-402); to extend services being provided to urban Indians (Sections 501-506); and to provide funds for the establishment of an American Indian School of Medicine (Section 603(a)).					
4. COST ESTIMATE: (\$ in millions)					
	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>	<u>FY 80</u>	<u>FY 81</u>
	<u>Budget Authority/Outlays</u>				
Section 401 (Medicare)	.52	1.65	1.75	1.86	1.97
Section 402 (Medicaid)	6.28	19.96	21.14	22.51	23.79
Total	<u>6.80</u>	<u>21.61</u>	<u>22.89</u>	<u>24.37</u>	<u>25.76</u>
	<u>Increased Authorization Levels</u>				
Section 603(a) (AISOM)	.50	1.10	2.53	2.76	3.10
Increased Capitation Support	.07	.13	.22	.32	.37
Total	<u>.57</u>	<u>1.23</u>	<u>2.75</u>	<u>3.08</u>	<u>3.47</u>

The requirement that these estimates be made for five years provides a basis for a realistic estimate of the cost of a program even in cases where only "start-up" costs are incurred in the first one or two years.

Scorekeeping reports are another example of information available to the Congress provided by CBO. A sample table from one of these reports appears at the end of this statement. These scorekeeping reports keep track of pending and completed spending proposals and compare the levels of spending associated with these proposals to those given in the Concurrent Resolutions on the Budget. I draw your attention particularly to the last two lines of the excerpt, which compare budget resolution totals with what might be authorized or spent if each House voted in favor of all spending action underway and on all pending and anticipated spending requirements. From these reports, Congress can determine how close it is getting to the spending ceiling imposed by the budget resolution.

Reports on the state of the economy such as Recovery: How Fast and How Far? which was produced last year, are examples of the analyses done by CBO. These reports attempt to project major economic indicators, such as the Gross National Product, the unemployment rate and the inflation rate, and to estimate how these indicators might be affected by alternative policy choices. In keeping with the mandate from the Congress, CBO has endeavored to be strictly nonpartisan in stating views on the effects of different policies on inflation and unemployment. However, since these effects are much more uncertain

than costs estimates or numbers in the scorekeeping reports, and since they are always the subject of extensive debate, it is inevitable that the Congressional Budget Office's judgment on these issues will be criticized. Recent CBO reports have been criticized by some for underestimating, and by others for overestimating, the inflationary impact of expansionary fiscal policy.

The only basis any forecaster has for predicting the future is analysis of past experience, whether systematized in econometric models or simply arranged for judgmental analysis. Past experience indicates that the effect of fiscal policy on inflation depends heavily on the state of the economy. Just now, in spite of a vigorous recovery since last spring, there remains a substantial amount of unemployed plant, equipment, and labor. In such a time of excess capacity, past experience indicates that increased spending, either private or government, translates largely into increased output and only to a small extent into increased inflation. As the recovery carries the economy nearer to full employment and high capacity use, the inflationary impact of increased spending would be greater. In a period of high employment such as the late 1960s, for example, one would expect increased spending by the government to have substantial inflationary impact.

A similar dependence on the state of the economy affects estimates of the seriousness of the "crowding out" problem. In a period of low private demand for investment and much

unused economic capacity, past experience indicates expansionary policies accompanied by federal borrowing would on balance stimulate investment through boosting the general economy more than it would crowd out private investors by causing tight credit markets. Events of 1975 bear out this view. In contrast, in a period of little unused capacity and high private investment demands, we would expect an increase in government borrowing to increase interest rates substantially and to reduce real private investment.

Changes in federal outlays and revenues and the deficits or surpluses which accompany them have important impacts on employment, prices, and output. Surpluses and deficits themselves are not terribly useful measures of how big the impact on the economy is, since some kinds of spending and some kinds of taxes have much bigger impacts than others. Furthermore, the relative impact of fiscal changes on output versus the impact on prices depends a lot on how close the economy is to capacity, as I have just discussed.

More useful than a single deficit or surplus number is the separation of deficits or surpluses into "automatic" components--those, like income tax revenues and unemployment compensation outlays, which respond without any legislative moves when economic conditions change--and "policy-determined" components. Geoffrey Moore of the National Bureau of Economic Research, in his testimony before this group in March, made this separation and presented a table showing what had happened

to the budget balance, when separated in this way, during periods of economic recession and periods of expansion. Here is one of the summary tables from Dr. Moore's testimony.

Recession	Changes in Real Deficit during Recession		Expansion	Changes in Real Deficit during Expansion	
	Auto-matic (billions 1972 \$)	Policy-Determined		Auto-matic (billions 1972 \$)	Policy-Determined
1948-49	+ 8	+13	1949-53	-13	+20
1953-54	+ 7	- 9	1954-57	+ 1	-15
1957-58	+11	+ 8	1958-60	- 2	-18
1960-61	+ 4	+ 6	1961-69	-17	+ 1
1969-70	+17	+ 6	1970-73	- 6	- 1
1973-75	+39	+13			

SOURCE: Geoffrey H. Moore, "The Federal Deficit as a Business Cycle Stabilizer," statement before the Committee to Investigate a Balanced Federal Budget, Democratic Research Organization, March 25, 1976.

The table shows that the "automatic" changes have nearly always moved the budget toward smaller deficits or surpluses during expansions and toward larger deficits during recessions. By any calculation, the great bulk of the deficit for fiscal year 1976 is an "automatic" response to the recession.

The policy-determined changes are a more mixed picture. In recessions they have nearly always moved the budget toward larger deficits; but in the last two expansions they have shown essentially no change.

The future record need not be a repetition of the past. The future would look different if a policy, much discussed a few years back, of stabilizing a "high-employment" budget were adopted. The idea of such a policy is to limit sharply "policy-determined" changes while continuing to allow "automatic" movements toward deficit in downturns and toward surplus in expansions. The future would differ even more sharply from the past if the DRO proposal for controlling the budget were adopted; probably under such a policy both "policy-determined" and "automatic" changes would be restricted much more than at present.

The new budget procedures introduced last year do not imply any particular budget philosophy but they make the surplus or deficit a focus of much more explicit Congressional attention than it has been in the past. The desirability of each year's budget from the point of view of economic stability will be debated extensively and voted each year, as it is during the current budget cycle.

Influencing the economy is, of course, only one among many goals in the choice of a federal budget. Controlling the size of the public sector is another major goal which is being extensively debated under this new process. Striking a wise balance among major national priorities is a third major goal which is receiving explicit attention.

No one knows at this early stage what the ultimate outcome of the new procedures will be in terms of actual changes

in the behavior of the budget. In this area I have no forecasts to make. I will only express once more the hope that in your deliberations you keep in mind that major changes have taken place in the budget process and may already be having some influence on the behavior of the budget.

Mr. Chairman, I thank you again for this opportunity to appear and will be pleased to answer any questions that the Members of the Committee may have.

CBO SCOREKEEPING REPORT: EXCERPT

Status of Congressional Action on the 1976 Budget
as of March 18, 1976

SUMMARY

(In millions of dollars)

	<u>House</u>		<u>Senate</u>	
	<u>Budget Authority</u>	<u>Outlays</u>	<u>Budget Authority</u>	<u>Outlays</u>
I. <u>COMPLETED ACTION</u>				
Previously enacted or permanent	260,122	265,620	260,122	265,620
Enacted this session:				
Appropriation legislation:				
Defense (P.L. 94-212)	90,467	64,704	90,467	64,704
Labor, Health, Education and Welfare (P.L. 94-206)...	36,074	30,721	36,074	30,721
Legislative Branch Supplemental, 1976 (P.L. 94-226)..	33	--	33	--
Other spending legislation:				
Deferral resolutions (H.Res. 1058, S.Res. 366, S.Res. 385, S.Res. 388)	--	16	--	16
Subtotal, enacted this session	<u>126,574</u>	<u>95,441</u>	<u>126,574</u>	<u>95,441</u>
TOTAL, COMPLETED ACTION	<u>386,696</u>	<u>361,061</u>	<u>386,696</u>	<u>361,061</u>
II. <u>ACTION UNDERWAY</u>				
Conference agreement:				
Appropriation legislation:				
Supplemental Railroad, 1976 (H.J.Res. 801)	587	545	587	545
Other spending legislation:				
Third Rescission Bill, 1976 (H.R. 11665)	-71	-5	-71	-5
Social services-increase funding for child care programs (H.R. 9803).....	<u>62</u>	<u>62</u>	<u>62</u>	<u>62</u>
Subtotal, conference agreement	<u>578</u>	<u>602</u>	<u>578</u>	<u>602</u>

(continued)

	House		Senate	
	Budget Authority	Outlays	Budget Authority	Outlays
II. ACTION UNDERWAY (cont.)				
Passed:				
Appropriation legislation:				
Foreign Assistance, 1976 (H.R. 12203)	5,001	2,430	--	--
Further continuing appros., 1976 (H.J.Res. 857)	*	*	--	--
Other spending legislation:				
Requiring subsequent appro- priation action:				
Food stamps-speedup of application process (S.1662)	--	--	25	25
Civil service, provide annuitant choice to elect retirement re- duction upon remarriage (H.R. 8550)	-3	-3	--	--
Extend entitlement period for veterans' educational benefits (H.R. 9576)	46	46	--	--
Increase payments for veterans in State homes (H.R. 10394)	3	3	--	--
Increase juror fees and allowances (S.539).....	--	--	4	4
Not requiring subsequent appropriation action:				
Black lung benefits reform (H.R. 10760)	37 1/2	8 1/2	--	--
Energy conservation and con- version trust fund (H.R. 6860)	1,824	--	--	--
Increased payments to States from mineral lease receipts (S.391, 521, 586, H.R.6721)	25	25	45	45
Federal Aid Highway Act of 1975 (S.2711, H.R. 8235)..	1,497	--	1,693	--
Airport and airway develop- ment grants (H.R. 9771)...	465	22	--	--
Subtotal, passed.....	<u>8,895</u>	<u>2,531</u>	<u>1,767</u>	<u>74</u>

(continued)

	House		Senate	
	Budget Authority	Outlays	Budget Authority	Outlays
II. ACTION UNDERWAY (cont.)				
Reported:				
Appropriation legislation:				
Foreign Assistance, 1976 (H.R. 12203)	--	--	5,318	2,239
Further continuing appros., 1976 (H.J. Res. 857).....	--	--	*	*
Other spending legislation:				
Requiring subsequent appropriation action:				
Civil service, retirement after 30 years (H.R.5397)	210	30	--	--
Food stamps-speedup of application process (H.R. 7887)	25	25	--	--
Civil service, early retire- ment for customs and immigration inspectors (H.R. 7110).....	11	11	--	--
Not requiring subsequent appropriation action:				
Health benefits for the unemployed (H.R. 5970, S.625)	375	375	390 ^{2/}	390 ^{2/}
Airport and airway develop- ment grants (S. 3015)	--	--	540	27
Subtotal, reported.....	<u>621</u>	<u>441</u>	<u>6,248</u>	<u>2,656</u>
TOTAL, ACTION UNDERWAY..	<u>10,094</u>	<u>3,574</u>	<u>8,593</u>	<u>3,332</u>
III. PENDING AND ANTICIPATED REQUIREMENTS				
President's appropriation requests not yet reported:				
District of Columbia	508	461	508	461
Labor-HEW items not considered	774	204	774	204
Public assistance amendment..	1,980	1,980	1,980	1,980
Transportation items not considered	1	*	1	*

(continued)

	House		Senate	
	Budget Authority	Outlays	Budget Authority	Outlays
III. PENDING AND ANTICIPATED REQUIREMENTS (cont.)				
1976 supplementals:				
Pay	2,106	1,927	2,106	1,927
Other	6,237	4,603	6,237	4,603
Labor-HEW supplemental amendment (H.Doc. 375).....	180	162	180	162
Legislative Branch supplemental amendment (H.Doc. 356)	6	6	6	6
U.S. Arms Control Supplemental (H.Doc. 396).....	1	1	1	1
Bureau of Land Management (H.Doc. 397)	1	--	1	--
Foreign Affairs Supplemental (H.Doc. 399)	1	*	1	*
Federal Railroad Administration (H.Doc. 402)....	12	12	12	12
Anticipated supplementals:				
Medicaid	111	111	111	111
International financial institutions	255	7	255	7
Public assistance	111	111	111	111
TOTAL, PENDING AND ANTICIPATED REQUIREMENTS	12,284	9,585	12,284	9,585

POSSIBLE TOTAL IF ACTION IS COMPLETED
AND PENDING SPENDING REQUESTS ARE
APPROVED AS REQUESTED409,074 374,220 407,573 373,978

SECOND CONCURRENT RESOLUTION.....408,000 374,900 408,000 374,900

1/ A portion of this amount will require further appropriation action

2/ Senate bill will require further appropriation action

Note: May not add due to rounding

* Less than \$500,000