

Statement of
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Acting Director
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before the

Subcommittee on Legislative Branch
Committee on Appropriations
United States Senate

Appropriation Request for Fiscal Year 1988

March 5, 1987

Mr. Chairman and Members of the Subcommittee, I am pleased to present the fiscal year 1988 budget request for the Congressional Budget Office (CBO). As you know, CBO is a nonpartisan analytic organization that furnishes the Congress with information and analyses on issues relating to the U. S. economy, the federal budget, and federal programs. The CBO does not make policy recommendations, but presents the Congress with options and their possible budgetary and economic consequences.

Since being appointed Director of the Congressional Budget Office, I have sought to keep our budget increases to the minimum necessary to perform adequately the tasks assigned us by the Congress. By carefully keeping track of costs, and through gains in productivity from automation, we have been able to achieve significant economies in these times of fiscal restraint. This year's budget request seeks to maintain that same level of fiscal responsibility. Indeed, we are requesting virtually no increase in our budget at all except for items mandated by new laws. Those mandated outlays are, however, quite substantial.

BUDGET REQUEST

For fiscal year 1988, CBO is requesting **\$18,988,000**, an increase of 5.9 percent (or \$1,058,000) over our estimated fiscal year 1987 operating level of \$17,930,000.

Over half of the total increase, \$589,000, is to cover additional costs of the new Federal Employees Retirement System (FERS). CBO must also make a net expenditure of \$277,000 for a new telecommunications system, as required by actions by the Congress.

These mandated expenditures add to \$866,000, or nearly 82 percent of the agency's requested increase. The discretionary spending increase that we have requested amounts to just \$192,000, an increase of but 1 percent over the fiscal year 1987 level, far less than CBO's estimate of inflation for the fiscal year 1988 period. Moreover, we are not requesting additional positions.

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

NEW CBO SERVICES TO THE CONGRESS

Fiscal year 1986 was the first year the Congress and the Congressional Budget Office operated under the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985. The Balanced Budget Act is intended to balance the budget by 1991 by reducing the annual deficit in \$36 billion dollar increments. The act called for automatic across-the-board cuts in most federal programs if the Congress failed to meet annual deficit targets through legislative action. Although the Supreme Court declared last July that the automatic cutting provision of the law was unconstitutional, the annual deficit targets and other provisions of the law remain in force.

The Balanced Budget **Act** assigns numerous new tasks to the CBO. First and foremost among them is the Sequestration Report. This report is jointly prepared by the CBO with the Office of Management and Budget (OMB) of the Executive Branch. As required by law, this joint report:

- o Estimates budget base levels, including the amount by which the projected deficit exceeds the maximum deficit amount for the fiscal year;
- o Provides OMB and CBO economic assumptions, including the estimated rate of real economic growth; and
- o Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate any deficit excess.

The CBO prepared a detailed Sequestration Report a year ago and a second one last August for fiscal year 1987. We will prepare another detailed Sequestration Report this coming August for fiscal year 1988, as the Supreme Court's decision of last year had no bearing on the work the law assigns us.

Preparing the Sequestration Report is a major undertaking. CBO analysts review over 1,000 budget accounts and apply cuts in hundreds of them to complete it. In addition, the report must be prepared for publication in the Federal Register, all within a five-day deadline.

Despite the imposing time constraints, CBO staff performed their duties with distinction. I cite this to underscore how proud I am of the work of the CBO staff, in this and all of our other endeavors.

In addition to the Sequestration Report, the Balanced Budget Act gives the Director of the CBO responsibility for alerting the Congress to a recession or downturn in the economy that might warrant the suspension of the deficit targets. I did not see the need to make such a report in 1986 and our current economic forecast does not envision a recession in the foreseeable future.

Finally, the Balanced Budget Act requires CBO to provide the Congress with a report on unauthorized appropriations and expiring authorizations. For the most **part**, this consists of information the CBO has been collecting and **providing on request** to the House and Senate Budget Committees. We now file this report with the Congress by January 15 of each year. A copy of our latest report is included in Appendix B.

CURRENT CBO SERVICES TO THE CONGRESS

The Congressional Budget Act of 1974, as amended, mandates that CBO prepare certain reports on a regular basis and undertake other studies in response to Congressional requests. Specifically, CBO carries out the following tasks: maintains current tabulations of Congressional revenue and spending actions (**scorekeeping**); prepares five-year cost estimates for bills reported by authorizing committees; prepares outlay estimates for bills providing new budget authority; supplies tax expenditure and revenue information; reports annually 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. The scorekeeping

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

The bulk of CBO 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 keeps track of Congressional action on all these bills from the time they are reported from committee to the time when they are enacted into law. As a result, the CBO scorekeeping data base for budget authority and outlays is very complex and keeping it current represents a major effort. CBO scorekeeping estimates are derived from its 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 reviews its scorekeeping estimates on a comprehensive basis at least twice a year to incorporate new information provided by the Office of Management and Budget (OMB) and other federal agencies, as well as revised economic assumptions that may be adopted by the Budget Committees, 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. Advisory letters also have been sent on request to the Chairman of the House Appropriations Committee concerning the budgetary impact of individual appropriation actions, such as a supplemental appropriation bill or a continuing resolution. The CBO automated scorekeeping data base also is used to provide special computer reports to the Appropriations Committees for use in preparing their February 25 reports, and in dividing budget resolution allocations among subcommittees.

The 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 Budget Act. Copies of these reports are provided to the staffs of the Appropriations and Budget Committees of both Houses. These automated reports originate from a request by the House Appropriations Committee. In addition, CBO has developed a scorekeeping capability for tracking Congressional action on the federal credit budget. This separate, automated data system is used primarily by the two Budget Committees.

Baseline Budget Projections

Each year, CBO prepares a new set of baseline budget projections. 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. A longer-term framework is helpful in making annual budget choices. These annual budget decisions sometimes have little impact on the budget in the short run, although they can significantly influence relative budget priorities over a period of several years. Because the annual budget resolution now includes a credit budget component, the CBO also prepares to develop baseline budget projections for federal credit activities.

CBO's budget projections capability has enabled the Congress to move more and more in the direction of multiyear budgeting. For example, for several years both Budget Committees have used the CBO 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, now required by February 25. 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. Both Budget Committees include three-year targets in their recommended budget resolutions.

The CBO budget projections took on added importance in 1981 when they served as the baseline **for** computing the spending reductions to be achieved in the budget reconciliation process. They have served this purpose for every reconciliation bill since. 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 information is particularly important for calculating the budgetary effects of changes in various entitlement programs. 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 addi-

tion, CBO publishes a five-year budget projections report at the beginning of each session of Congress and updates it each August.

Analysis of the President's Budget

The Congressional Budget Office carefully reviews the budget estimates that the Administration submits to the Congress. These reviews evaluate the Administration's budget estimates and, where necessary and appropriate, **reestimate** the Administration's budget estimates using different economic assumptions and CBO's estimating techniques and methods. **The** economic assumptions used by the Budget Committees to formulate the annual budget resolutions usually are different from the **assumptions** the Administration uses in preparing 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 on budget outlays of various budget proposals. To keep these techniques and methods as accurate as possible, CBO staff members carefully monitor actual spending trends as reported monthly by the Treasury and various data

series that show trends in the use of federal benefits and services, the growth in beneficiary populations, and other factors affecting federal spending. The 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, each year CBO prepares an overview analysis of the **President's** budgetary proposals. This publication is requested annually by the Senate Committee on Appropriations 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 **assump-**tions and on **CBO's** estimating techniques and methods.

Bill Cost Estimates

The CBO prepares cost estimates for virtually every public bill reported by legislative committees in the House and Senate that would have a budget 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; indeed they are having an impact on 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. For 1986, the number of individual cost estimates was 667, as shown in Table 1.

A large part of CBO's bill costing activity in 1986 was for the House and Senate Committees receiving reconciliation instructions on the budget resolution for fiscal 1987. When combined with corresponding work on reconciliation proposals in 1981-1985, these efforts are equivalent to several

TABLE 1. BILL COST ESTIMATES (Formal and informal)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---------------------------|------|------|------|------|------|------|------|
| Federal Estimates | 861 | 553 | 747 | 676 | 687 | 601 | 667 |
| State and Local Estimates | n.a. | n.a. | 4 | 573 | 641 | 533 | 588 |

NOTE: n.a. = not applicable.

hundred bill cost estimates. Because CBO's bill cost estimate tracking system has treated work on all the reconciliation proposals as if they were a few large bills, this workload is not reflected fully in the figures shown in Table 1 for 1981-1986.

In addition to cost estimates for bills reported by legislative committees, CBO also provides the Appropriations Committees with outlay estimates for all appropriation bills. These outlay estimates 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 used by the Appropriations Committees.

State and Local Government Cost Estimates

The State and Local Government Cost Estimate Act (Public Law 97-108) enacted in late 1981 expanded CBO's bill costing responsibilities by requiring estimates of the cost that would be incurred by state and local governments in carrying out or complying with legislation that is reported in the House or the Senate. CBO's policy is to review as many bills as possible to identify

their potential impacts on state and local government costs. These cost estimates may be limited to bills that, in the judgment of CBO, are likely to result in an aggregate 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 1986, CBO prepared state and local cost estimates for 588 bills. Of these bills, CBO estimated that 47 had some potential effect on the budgets of state or local governments and 541 had none.

Budget Process Analysis

As part of its ongoing study of government-sponsored enterprises, the Budget Process unit of the Budget Analysis Division reported on the Student Loan Marketing Association (Sallie Mae) in Government-Sponsored Enterprises and Their Implicit Federal Subsidy: The Case of Sallie Mae. Analysis of this type is likely to become more and more important as Congress focuses on ways to improve the budget process. Beside continuing its analysis of government-sponsored enterprises, the Budget Process unit will look at such issues as the sale of government assets, capital budgeting, and other proposed process changes.

Economic Forecasts

Each fiscal year, CBO provides the Congress with two economic forecast reports. They are issued to coincide with Congressional consideration of the concurrent resolutions on the budget.

CBO does not maintain its own **macroeconomic** model of the economy. Instead, it uses the major commercially available econometric models (Data Resources, Inc., **Wharton** Associates, **Townsend-Greenspan**, and Ray Fair Economic Model). It also relies on the advice of a distinguished panel of advisers representing a wide spectrum of economic views. The panel is supplemented from time to time 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 February and August of 1986 focused on recent economic developments, discussed fiscal and monetary policy, forecast short-term economic trends, and detailed the federal budget outlook under these economic assumptions. As has been previously mentioned, the CBO will have to run its models of the economy continuously in the future to conform to the requirements of the Balanced Budget Act. With the growing internationalization of the U.S. economy, the task has become more **com-**

plex, since it is important to monitor developments abroad as well as in the United States.

Tax Analysis

In 1986, Congress passed a sweeping reform of the country's tax law. To aid Members of Congress in their deliberations of the bill, CBO provided background analysis of a number of important aspects of tax reform, including the likely long-term revenue effects of various proposals. The CBO also supplied members with many estimates of the effects of specific proposals on the tax burdens of selected sample taxpayers and on taxpayers with incomes near or below the poverty level.

CBO tracked the major tax revision proposals, by specific provision, regularly supplying committee staff with spreadsheets comparing the major proposals in great detail. Throughout the process, CBO responded to a significant number of questions from Congressional staff on virtually every aspect of the tax reform legislation.

CBO also continued to provide to the Budget Committees a set of standardized tables showing considerable background detail on CBO's base-

line revenues and estimates of recent tax legislation. CBO received favorable comments about the usefulness of the tables from the Budget Committee staff members and will provide these tables each time CBO presents a new economic and budget baseline forecast. 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 their preparation of 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 the Budget Committees. The reports provide five-year revenue effect estimates of each tax bill in 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.

The CBO staff also continued to provide estimates of the revenue effects of many alternative deficit reduction plans. In addition, last year, the CBO completed a major study looking at the use of student loan bonds, the cost to the government of such tax-exempt financing, and the arbitrage earnings that accrue to issuers of the bonds. The report studies a number of alternatives to the present system.

Program Analysis

The CBO's program **divisions--Human Resources, Natural Resources, National Security, and the small General Government unit in Intergovernmental Relations--respond** to requests from Congressional committees for analyses of 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 directly analogous to, or **in** support of, the efforts of the Budget Analysis Division. Often 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 issue areas, considering a full range of policy options. These projects typically result in **pub**-lished papers.
- o Testimony at Congressional hearings, which often follows from other work CBO has done.

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

In fiscal year 1986, CBO completed 24 such reports for 15 Congressional committees-seven of the House and eight of the Senate. Appendix B of this statement shows the distribution of reports completed for House and Senate committees in fiscal year 1986. 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, Congress can see more clearly whether its policies are having the intended effect.

Some recent studies of this type are: Federal Policies for Infrastructure Management; Quality Soldiers: Costs of Manning the Active Army; Toll Financing of U.S. Highways; Trends in Educational Achievement; Employee Turnover in the Federal Government; and Improving the Army Reserves.

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, which often expands and complements information provided in a CBO cost estimate.

Recent published examples of such work by the CBO include: Curbing Acid Rain: Cost, Budget, and Coal-Market Effects; Uranium Enrichment: Options for a Competitive Program; and Financial Condition of the U.S. Electric Utility Industry.

Finally, in terms of direct support of the budget process by the program divisions, CBO undertakes studies that address the budgetary implications of changes in program emphasis or direction. 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: The Economic Viability of Conrail; Trident II Missiles: Capability, Costs, and Alternatives; Physician Reimbursement Under Medicare: Options for Change; The Budgetary and Economic Effects of Oil Taxes; Budgeting for Defense Inflation: Analysis of the Budgetary Effects of the Space Shuttle Accident; Improving U.S. Strategic Mobility: The C-17 Program and Alternatives; and Earnings Sharing Options for the Social Security System.

Based on current committee requests, the CBO expects to complete at least the same number of reports in fiscal year 1987 as in fiscal year 1986.

We further assume that our level of activity in fiscal year 1988 will be similar to that in previous fiscal years. CBO's program areas have remained remarkably stable in terms of staffing and funding since the inception of CBO. Through the years, they have accounted for approximately one-third of CBO's staff positions and a little more than one-quarter of its funding.

Published reports are only the most obvious example of the analytic support provided to the Congress by the program divisions. Regularly, they provide **short-term** analysis in the form of unpublished papers, staff memoranda, and letters to committee **staffs**. During Congressional deliberations on the new Federal Employees Retirement System, for example, CBO staff provided extensive technical assistance to the Budget and authorizing Committees concerning the budgetary impacts of numerous proposals.

In addition, the CBO maintains a heavy agenda of testimony. CBO was called upon to testify on 29 separate occasions during the last fiscal year before a variety of Congressional committees. This testimony is often in connection with an ongoing or completed report, though we sometimes prepare new analyses for such appearances.

Finally, CBO's 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 for use in its cost estimates, and program analysts frequently help revise or improve existing BAD models. This 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 demands made on our program units will not lessen under the Balanced Budget Act. To carry out its policy objectives during these times of severe fiscal constraint, the Congress will consider large numbers of new and innovative approaches in a myriad of programs. The CBO will be called upon, and stands ready to assist, in the evaluation and analyses of all such proposals, assuring the Congress of the best possible information on which to base its decisions. In addition, the Congress will 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 THE CBO

From time to time, questions arise about the CBO's organizational structure, the functions of each unit, and the interrelationship among them. For management and administrative purposes, our staff is divided into seven divisions. While the functions of each division are unique, the work of each is highly dependent on that of the other, 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--support primarily the needs of the House and Senate Budget and Appropriations 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 the **General** Government unit of the Office of Intergovernmental Relations--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 Budget Analysis often

depend on methodological studies done in the program divisions. Finally, all numbers developed in connection with analytic studies are reviewed by the cost analysts in the Budget Analysis Division. This crosswalk among our divisions is absolutely essential to our ability to provide accurate cost estimates and comprehensive analyses of alternative legislative strategies.

The interdependence of our organization is best exemplified by the report, Reducing the Deficit: Spending and Revenue Options. (Incidentally, Mr. Chairman, over the years, Members of Congress have told us they find this to be one of the most useful documents we produce.) The study describes several broad strategies for reducing the federal deficit and analyzes numerous specific spending and tax options for implementing those strategies. Each option lists the outlay savings or revenue increases that would result from its enactment. The Fiscal Analysis Division prepares the economic assumptions used in the report. The Budget Analysis Division prepares the baseline projections using these economic assumptions. The program divisions develop strategies and options. The cost analysts in Budget Analysis provide the savings estimates associated with each option. The Tax Analysis Division provides the analysis of revenue increases.

THE FISCAL YEAR 1988 REQUEST

As I indicated previously, the increment over the 1987 operating level comprises mostly mandatory spending items. Of the \$1,058,000 increase being requested, \$866,000, nearly 82 percent, is new spending **being** required of **CBO** by legislation and other changes mandated by the House and Senate. The other \$192,000 requested, an increase of just 1 percent over the fiscal year 1987 level, is for a variety of items. The CBO is not seeking any new positions.

Mandatory Spending

The substantial increase in expenditures that CBO is required to make in fiscal year 1988 is due to two events: the implementation by the Congress of a new federal employee retirement system (FERS) and the Congressional decision to select a new telecommunications system.

The Federal Employees Retirement System Act of 1986 (P.L. 99-335), passed June 6, 1986, established a retirement program for Federal civilian employees and postal workers hired after December 31, 1983, who are covered by social security, and for employees under the Civil Service Re-

irement System (CSRS) who **choose** to transfer to the new system. This act sets an effective date of January 1, **1987**, to begin coverage under FERS of employees hired after 1983.

Before enactment of the Retirement Act, employing agencies made payments matching employees' retirement contributions (7 percent of the basic pay for federal employees, and 7.5 percent for Congressional employees, law enforcement **officers**, and firefighters) to the civil service retirement and disability fund. Since these employee and agency contributions fall far short of the actual cost of CSRS benefits, an annual payment is made to the fund by the Treasury to finance the additional unfunded liability.

Unlike CSRS, the new FERS will be fully financed by agency and employee contributions beginning January 1, 1987. The CBO FERS contribution, including the savings plan, will be about 31 percent per participant versus a 7.5 percent per participant contribution under CSRS. These costs are compounded by the fact that CBO is an agency with a relatively young and regularly changing staff. Almost half of CBO's payroll will be enrolled in FERS by the end of fiscal year 1988. As a result, the additional cost of FERS in fiscal year 1988, including **annualized** costs of employees enrolled on January 1, 1987, and those employees projected to switch from CSRS between July 1, **1987** and January 1, **1988**, amounts to \$589,000.

The other major component of our mandatory spending is the purchase of a new telecommunications system. Over the past several months, CBO examined the telecommunication options offered by both the House and Senate. After careful study of the **costs**, the capabilities, and the management controls available to CBO, I elected to go with **C&P** Telephone, the system our analysis demonstrated would be the best for CBO and the least expensive for the Legislative Branch. On February 4, 1987, I sent to the Chairman of the Subcommittee on Office Systems of the Committee on House Administration a letter of our analysis of the two competing systems. A copy of that letter is included as part of Appendix B.

Capital costs for the new system amount to \$349,000. Operation and maintenance costs for fiscal year 1988 are estimated to be \$68,000, a savings of more than \$70,000 from current operating costs. The total cost of acquiring and operating the new telecommunications system in fiscal year 1988, net of operating savings, amounts to \$277,000, if the transition is made at the beginning of the fiscal year.

Discretionary Spending

As usual, the bulk of our request in discretionary spending increases is for people and computers. The two major cost increases are for merit increases

and related benefits and for ADP **timesharing** price increases. These costs and many others, however, are offset by continued savings from transferring expensive mainframe applications to microcomputers and by more **efficient** use of the mainframe computers.

Merit increases and related benefits amount to \$226,000 in fiscal year 1988. Increases are budgeted at 2.3 percent of base salaries. This amount, by far, comprises the largest part of our discretionary request.

In addition, according to information provided by our major vendors, we expect that our ADP timesharing prices will increase 3 percent in fiscal **year 1988** to \$115,000.

The rest of the increases we have requested are for a variety of purposes. Among them are:

- o \$73,000 for the last quarter of the January 1, 1987, for a 3 percent **cost-of-living** adjustment;
- o \$43,000 to purchase the next generation of our primary mainframe software and for micro software upgrades;
- o \$40,000 to replace and upgrade word processing equipment; and,
- o \$23,000 to replace and upgrade ADP hardware.

CBO continues to benefit greatly from the efficiencies and price advantages of transferring our major mainframe system from commercial vendors to

HIS, as well as from the transfer of mainframe applications to microcomputers. Last year alone, we reduced our computer costs by more than 16 percent. Total savings from these changes in fiscal year 1988 will amount to \$428,000. We also expect savings of \$45,000 next year in the area of ADP systems and data development, resulting at least in part **from** a greater emphasis on in-house development.

When combined with the requested spending increases, these savings bring the total amount of the discretionary spending increase to \$192,000, just 1 percent over the fiscal year 1987 level and well below CBO's anticipated rate of inflation.

CONCLUSION

Mr. Chairman, as I stated at the opening of this justification, I have tried to maintain an austere approach to budgeting as Director of the CBO. For fiscal year 1988, we are not requesting any new positions. We have **sub-**mitted a budget that, in its discretionary spending, is well below the expected rate of inflation. It is a budget, however, that we believe will allow CBO to **continue** to serve the Congress at the professional level it has come to expect. Thank you.

APPENDIX A.

CBO PANEL OF ECONOMIC ADVISERS

Barbara **Bergmann**
Professor of Economics
University of Maryland

Barry P. **Bosworth**
Senior Fellow
The Brookings Institution

J. Dewey Daane
Valere Blair Potter **Professor of Banking**
Graduate School of Management
Vanderbilt University

Martin Feldstein
President, National Bureau
of Economic Research

Alan Greenspan
President, **Townsend-Greenspan**
& Company, Inc.

Eric A. **Hanushek**
Chairman, Department of Economics
University of Rochester

Walter W. Heller
Regents' Professor of Economics, Emeritus
University of Minnesota

Walter E. Hoadley
Senior Research Fellow, Hoover Institution
Bank of America

F. Thomas **Juster**
Institute for Social Research
University of Michigan

Lawrence R. Klein
Benjamin Franklin Professor of Economics
University of Pennsylvania

John **Makin**
Director, Fiscal Policy Studies
American Enterprise Institute

Leif H. **Olsen**
President
Leif H. Olsen Associates, Inc.

Rudolph Oswald
Director, Research Department
AFL-CIO

Joseph A. Pechman
Senior Fellow
The Brookings Institution

George Perry
Senior Fellow
The Brookings Institution

Alice M. Rivlin
Director, Economic Studies
The Brookings Institution

Paul **Samuelson**
Institute **Professor**
Department of Economics
Massachusetts Institute of Technology

Charles L. **Schultze**
Senior Fellow
The Brookings Institution

Herbert Stein
Senior Fellow
American Enterprise Institute

James **Tobin**
Sterling Professor of Economics
Yale University

Murray Weidenbaum
Director
Center for the Study
of American Business
Washington University

Paul W. McCracken
Professor Emeritus of Business
Economics and Public Policy
Graduate School of Business
University of Michigan

APPENDIX B. SUMMARY OF COMPLETED CBO REPORTS
BY REQUESTER (October 1, 1985 to September 30, 1986)

| Requester | Number of Requests |
|--|-----------------------|
| House Appropriations Committee | 2 |
| House Armed Services Committee | 5 |
| House Budget Committee | 3 |
| House Education and Labor Committee | 1 |
| House Energy and Commerce Committee | 1 |
| House Public Works and Transportation Committee | 1 |
| House Science, Space, and Technology Committee | 1 |
| House Ways and Means Committee | 2 |
| Senate Appropriations Committee | 2 |
| Senate Armed Services Committee | 4 |
| Senate Banking, Housing and Urban Affairs Committee | 1 |
| Senate Budget Committee | 4 |
| Senate Commerce, Science, and Transportation Committee | 1 |
| Senate Energy and Natural Resources Committee | 2 |
| Senate Environment and Public Works Committee | 2 |
| Senate Finance Committee | 2 |
| Senate Labor and Human Resources Committee | 2 |
| Mandated by the Congressional Budget Act of 1974 | 3 |
| Mandated by the Balanced Budget Act of 1985 | <u>2</u> |
| Total | 41 |
