

Statement of
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Before the Task Force on Legislative Savings
Committee on the Budget
U.S. House of Representatives

July 24, 1979

Mr. Chairman, and members of the Task Force, I am pleased to appear before you this morning to discuss the possibilities for legislative savings. These savings, which come about through changes in laws that currently require federal spending, have become an important part of the budget resolutions adopted by the Congress. Because of the long lead times usually needed to achieve such savings, the Task Force should be applauded for starting so early to identify possible legislative savings for next year's budget cycle. My statement this morning will focus on four points:

- o The role of legislative savings in the budgets of the Congress;
- o The difficulty of achieving legislative savings;
- o The advantages of a multiyear agenda of proposed legislative savings; and
- o Potential legislative savings.

The Importance of Legislative Savings

Each year an ever-greater percentage of the federal budget is a direct result of decisions made by previous Congresses. Three-fifths of the federal outlays estimated for fiscal year 1980 were required by laws enacted before January 1979--that is, before the President first submitted or the Congress first considered budget proposals for that year. As the proportion

of the federal budget that the Congress can control by its current decisions has declined, so has the ability of the Congress to make significant changes in the composition of the budget in a single year.

To achieve its budgetary goals, the Congress must examine both those programs with budgetary levels it can currently control and those with levels dictated by law. Proposals to change laws requiring federal spending--termed legislative savings by this Committee--thus have an important role in helping the Congress establish its current priorities.

The Difficulty of Achieving Legislative Savings

Notwithstanding the importance of legislative savings to the overall Congressional budgetary strategies, only very limited success has been achieved for any fiscal year. A notable success was the elimination in 1976 of the 1 percent kicker for federal retired pay. Most of the other savings proposed by the Budget Committee have not been enacted; all of them have encountered stiff opposition. One obvious reason for this resistance is that every proposal to stop or reduce federal expenditures required by law affects someone. Each program has beneficiaries who are the targets of the program's assistance; they are naturally interested in continuing these programs. A second reason is that the longer a program has been in operation, the more likely it will have developed a life or purpose of its own--independent of its original goals.

Impact aid is a good example of a program for which efforts to reduce or eliminate benefits have been successfully resisted. Every Administration since that of President Eisenhower has proposed eliminating federal impact aid for the so-called 3(b) children--the children of parents who either live or work on federal property, but not both. The 3(b) payments account for about 10 percent of the average per pupil expenditure. Yet, over the 30-year history of the program, the funds have become part of the budgetary "base" of the recipient districts.

Moreover, the achievement of legislative savings will require a sustained effort by the Congress, including close cooperation between the Budget Committees, the Appropriations Committees, and the other standing committees. Each proposed saving will require careful scrutiny, during which the committees can review an entire program and question whether it is still a major priority item. This argues for proposing only a limited agenda of legislative savings each year. A long laundry list of items that have been proposed year after year is less likely to be carefully considered by the committees than a shorter list that is well-tailored to the issues the Congress will consider in that session.

Advantages of Multiyear Approach

We believe that the best way to consider possibilities for legislative savings is within a multiyear framework. This would work hand-in-hand with the multiyear budget targets that the Budget Committees are now beginning to use with success. The multiyear approach has three advantages over the current approach.

First, it provides a clearer picture of the impact of a savings proposal, insofar as the short-term consequences of a change cannot so easily overwhelm the longer-term consequences. For example, some legislative savings, such as reform of military retired pay, may impose additional costs in the first few years, after which they will show substantial savings. Eliminating a program entirely may even cost more in the first year than keeping it going unchanged. A longer-term perspective will permit the Congress to see beyond such short-term consequences.

Second, the multiyear approach allows the savings to be phased in over time. This is particularly important when a program of grants to state and local governments is being reduced. Such savings should be at least proposed, if not enacted, a year before the savings are to begin, in order to warn the state and local governments adequately about the reduction in aid. Otherwise, the Congress will be under great pressure not to enact a proposed saving because state and local governments will have already budgeted for the money.

Third, the multiyear approach would allow the Congress to tailor its consideration of proposals for legislative savings to its legislative calendar. Many programs for which savings can be proposed are already on an authorization cycle of two, three, or even four or five years. It might be more effective to postpone until 1981 proposals to change a program expiring on September 30, 1981, than to include such proposals in next year's agenda of savings. The standing committees will find it easier to review proposals for change to a program when they are reauthorizing that program than during a year when they are reviewing other programs in their jurisdictions. If the Congress adopts a sunset review mechanism with a regular schedule of terminations and reviews, the multiyear approach to legislative savings could dovetail closely with the sunset schedule.

The Potential for Legislative Savings

The Congressional Budget Office has reviewed a number of areas in which legislative savings might be possible. A first area is reducing the effect of inflation on federal outlays, particularly automatic adjustments to benefit programs for increases in the cost of living. Over time, these automatic adjustments assume a larger and larger role as the cause of growth in federal spending. In general, we have found in our current policy projections that each 1 percent increase in the rate of inflation adds

\$1-2 billion to the current policy outlays for those programs required by law to be automatically adjusted.

In its regular review of benefit programs, the Congress should be alert to benefits that may have outlived their original purpose or administrative requirements that cause inefficiencies or result in excessive cost to the federal government. These constitute a second area of legislative savings.

Equally important are potential savings on the tax side of the budget. Modification or elimination of tax expenditures is a third area of savings. Direct spending programs and tax expenditures should be reviewed together in any assessment of the effectiveness of federal efforts to achieve specified goals.

Several specific proposals can be identified in each of these general areas. Some of these have been proposed before and are now under consideration by the Congress. Others are new and offer interesting possibilities. The following list is not intended to be exhaustive, nor does it constitute a set of recommendations by CBO of legislative savings that should be enacted by the Congress. It is merely an illustration of the kinds of savings that might be considered by the Congress.

Changes to Federal Employee Retirement. Cost-of-living adjustments for federal retirement payments could be made once a year instead of twice, as currently required by law. Other changes to civil service retirement benefits would involve reducing benefits for those retiring before age 65 and capping the cost-of-living adjustments at 70 percent of the increase in the CPI. If all three changes were enacted, the federal government could save \$11.6 billion over the next five years. These changes would make federal retirement more comparable to private sector plans. They would, however, reduce the real benefits of existing retirees and could force current employees to continue working to avoid the financial penalties for early retirement.

Hospital Cost Containment. Imposing controls on soaring medicare and medicaid hospital costs could provide substantial budgetary savings and also help to reduce inflation. For example, CBO has estimated that the hospital cost containment bill reported by the Senate Finance Committee could reduce federal expenditures by more than \$10 billion and reduce the rate of inflation by 0.4 percent cumulatively during the next five years, a significant impact for a single proposal.

Indexing Social Security Benefit Formulas. Unlike the cost-of-living adjustments for existing retirees, which are pegged to increases in the CPI, the current social security benefit formulas for new retirees are pegged to wage indexes. Historically, prices have not risen as fast as wages, though that has not been the case this year. Pegging the benefit formulas to price indexes instead of wage indexes could achieve significant savings in the longer run. Savings in the first year are estimated to be only \$110 million, but by fiscal year 1990 they would grow to \$15 billion. Proponents of this change contend that these savings could permit funding of both Old Age and Survivors Insurance and Disability Insurance for the next 75 years with only a 9.9 percent combined payroll tax, as opposed to the 13.4 percent combined tax required under current law. The proposal is not without opponents, however, who argue that the more slowly rising price indexes will cause benefits for the elderly and disabled of the future to lag behind the rising standard of living of workers.

Wage Board Reform. Changing the way the federal government pays its blue-collar workers has been urged for several years. Proponents of the change argue that the current system, which attempts to set federal blue-collar wage rates at the prevailing local levels, has resulted instead in federal workers receiving 8 percent more than their private sector counterparts. Like other federal salaries, wage board employee pay hikes

were capped at 5.5 percent for fiscal year 1979. Assuming a catch-up pay raise in fiscal year 1981, the proposed changes would save the federal government \$2.9 billion in the first four years. Opponents of the changes argue that in the next few years federal wage board employees would receive wage increases significantly below their private sector counterparts.

Child Nutrition Program. The Administration has proposed restricting eligibility in the free lunch program to children from families whose incomes are at or below the poverty level and restricting eligibility for the reduced-price lunch program to children from families whose incomes do not exceed 175 percent of the poverty level. These restrictions, designed to target the program to those most in need, could save almost \$800 million over a five-year period. The changes could, however, cause hardships for some families.

School Lunch Program. The Administration has proposed reducing the total subsidy for lunches served to non-needy children by 5 cents, from 32 to 27 cents. By reducing the amount of the subsidy, the federal government could realize savings of almost \$700 million within five years. Unless the local school districts absorb the reduction, school lunch prices would have to be increased.

Disability Insurance. By limiting eligibility to persons with only physical or medical disabilities, the federal government could save as much as \$7.6 billion over the next five years. This change would deny disability awards to those applicants whose physical or medical condition alone is not severe enough to warrant disability benefits but who currently receive benefits on the basis of combined medical and nonmedical factors such as vocational and educational background and advanced age. Low-income workers who are denied benefits by this change could seek Supplemental Security Income (SSI) benefits if SSI definitions maintained unchanged.

Postal subsidies. By eliminating nearly all categories of free or reduced-rate mail permitted under current law, the federal government could save as much as \$150 million annually, beginning in fiscal year 1983. The phasing-out of subsidies could severely affect the financial well-being of many charitable and public service organizations that depend on reduced-rate mail to solicit contributions.

Food Stamp Administrative Changes. The Administration's proposal to reduce fraud and error in the Agriculture Department's Food Stamp Program would establish in law financial liability on the part of states with excessive error rates, would intensify fraud detection and overpayment recovery procedures, and would intensify computer matching of income

records. These changes would be similar to procedures applied by the Department of Health, Education, and Welfare (HEW) in the Aid to Families with Dependent Children (AFDC) program. The potential savings from such changes could be as much as \$1 billion over a five-year period.

Assisted Housing. Previously, CBO has discussed proposals to increase the rent-to-income ratio--which would increase the amount renters pay out of their own income--and to rely more heavily on existing housing, instead of building more expensive new units or substantially renovating others. During the first five years, these two changes could save as much as \$2.6 billion. These savings, which would result from changes in the focus of programs, are not strictly legislative savings as defined by the Committee.

Deduction for State Sales Taxes. The Administration proposed eliminating this deduction last year, but it was not adopted by the Congress. The main argument for repeal is that this deduction does not effectively distinguish among taxpayers on the basis of ability to pay, since most taxpayers use standard IRS tables to estimate the deduction. On the other hand, the deduction to some extent may make additional state and local resources available, by reducing taxpayer resistance to state sales taxes.

Tax Subsidies for Health Insurance Plans. These subsidies might be reevaluated in conjunction with proposals for hospital cost containment and national health insurance. For example, the present exclusion from tax of employer contributions for employee health insurance plans tends to promote the rise in medical spending by encouraging firms to provide health insurance coverage with few incentives for cost control. Limiting this exclusion could increase employees' awareness of health insurance and medical care costs.

Deduction of Home Mortgage Interest Payments. The unlimited amount of home mortgage interest payments that can be deducted by taxpayers who itemize their deductions provides much larger tax savings to higher-income homeowners than it does to those with moderate incomes. It also has the effect of increasing the demand for, and thus the price of, homeownership. Limiting the deduction to a fixed-dollar amount or converting it to a credit would reduce the regressivity of this tax expenditure and lessen its impact on the housing market.

Conclusion

The potential for legislative savings could be significant. The examples I have cited are only illustrations of this potential. Large sums of money are often involved. To achieve any substantial savings, however, will

take a sustained effort by the Congress over several years. A multiyear planning approach would provide a useful framework for achieving these savings.

This concludes my prepared statement, Mr. Chairman. I would be pleased to answer any questions that you or other Members of the Task Force may have.

