

STATEMENT BY
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BEFORE THE
SUBCOMMITTEE ON THE RULES AND
ORGANIZATION OF THE HOUSE

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Mr. Chairman and Members of the Committee, I am pleased to discuss with you some proposed amendments in the Congressional Budget Act of 1974, as recommended by the House Budget Committee and the Ways and Means Committee.

In general, we believe that the Budget Act is working remarkably well and that it is fulfilling the basic objectives envisioned by the framers of that act. Nevertheless, we also believe that a number of modifications in the budgetary process could strengthen Congressional control over the federal budget. For example, the transactions of off-budget entities could be included in the budget, annual Congressional control over guaranteed loans could be established, and a multiyear approach to setting budget targets could be adopted. The Budget Act required CBO to analyze the feasibility and advisability of advance budgeting, and in our report to the Congress last year, we recommended that the Budget Committees move to a system of setting multiyear budget targets.

This afternoon, however, I shall limit my remarks to two of the issues on which you requested comment: the proposal to shift legislative responsibility for setting the public debt limit to the budgetary process, and the proposal to expand CBO bill cost estimates to include estimates of costs to state and local governments.

Public Debt Limit

The Budget Act now requires the first and second concurrent resolutions on the budget to set the appropriate level of the public debt and the amount (if any) by which the statutory limit on the public debt should be increased or decreased. Such an increase or decrease in the public debt is obviously related to the outlay, revenue, and deficit totals contained in the budget resolutions. We believe that it would be appropriate for the Congress to act on any necessary changes in the statutory limit on the public debt at the same time that it acts on the second budget resolution. This shift would avoid the need for a separately scheduled debate on the debt ceiling, and it would put the ceiling into a context of consideration of the budget decisions that determine it.

CBO Cost Estimates

Section 403 of the Congressional Budget Act requires CBO to prepare, to the extent practicable, estimates of the five-year costs of implementing each bill or resolution of a public character reported from any committee of the House or Senate (except the Appropriations Committees). Section 403 also requires CBO to include in its analysis a comparison of its bill cost estimates with other available cost estimates prepared by the reporting committee or by any federal agency. Further, CBO cost estimates are to appear in the committee report accompanying each

reported bill or resolution, if they are available to the committee before the report is filed.

Section 308 of the Budget Act requires any committee of either House to consult with CBO on the costs involved whenever it reports a bill or resolution directly providing new budget authority or new or increased tax expenditures. Reports accompanying bills or resolutions that provide new budget authority are to include a comparison of the proposed new budget authority with the authority set forth in the most recent concurrent resolution on the budget and allocated to the committee, a five-year projection of the outlays associated with the proposed budget authority, and an estimate of the amount of new budget authority (and resulting budget outlays) that would provide financial assistance to state and local governments. Section 308 also requires committee reports accompanying bills that provide new or increased tax expenditures to include an estimate of its impact on existing levels of tax expenditures and a five-year projection of the tax expenditures that would result from the bill.

Our cost estimates prepared to meet the requirements of Section 403 have generally been limited to analyses of the budget costs that would be incurred by the federal government in carrying out new legislation. Occasionally, however, we have expanded our analysis to include broader areas of concern, such as the potential impact of the recent farm bills and the President's every proposal on inflation.

Last year, CBO prepared more than 700 cost estimates for bills reported from committee or considered by committees. This year, we are significantly ahead of last year's performance: as of last week, we had prepared nearly 300 bill cost estimates for the second session. Further, in our experience, committees are increasingly interested in having cost estimates available earlier in the legislative process, before they reach the stage at which they report bills. For example, the House Veterans Affairs Committee has asked us to prepare cost estimates for a large number of legislative proposals considered at the subcommittee level.

CBO work pursuant to Section 308 has been limited to reviewing the tax expenditure estimates of the Joint Tax Committee staff and providing the Appropriations Committees with budget outlay projections and state and local government financial assistance estimates.

We believe that the availability of CBO cost estimates has significantly heightened Congressional awareness of the current and future cost implications of proposed legislation for the federal budget. Largely because of this, several proposals have been recently made to expand the scope of CBO's bill analyses to include other factors. Your request that we evaluate the impact of new federal legislation on state and local government costs is one such proposal. In addition, the Chairman of the House Budget

Committee has asked us to consider the feasibility of providing inflationary impact estimates for reported bills. And, on April 11, the President suggested that the Budget Committees begin reporting regularly to the Congress on the inflationary effect of pending legislation, as part of a general effort to moderate inflation.

Mr. Chairman, all of these proposals for additional types of analysis could provide important additional information for the legislative process. Expansion of CBO's bill analyses to cover their impact on state and local government costs, inflation, and other possible economic effects could provide very useful information not now available. It would be most helpful, however, if they could be considered together, rather than on a piecemeal basis.

We believe that most of the bills reported from committee would not need such additional analyses. On the basis of a review of the bills for which we prepared cost estimates last year, we estimate that inflation impact estimates would be relevant or useful for about 10 percent of all reported bills, and that state and local government cost estimates would be useful for about the same proportion. The preparation of inflation impact estimates and estimates of state and local government costs takes considerable amounts of time and resources. They are generally more difficult to prepare

than estimates of the impact of reported legislation on the federal budget, because they require specialized knowledge about particular sectors of the economy and state and local government finances.

In our appropriations request for fiscal year 1978, and in our current request for 1979, we stated that we had enough staff to do our current job, and that we would ask for additional positions only if we were given additional responsibilities. It is clear, however, that if we were to undertake more types of analysis, we would need more resources than we now have. If the proposed requirements for additional estimates could be limited to the major bills for which broader analysis would be especially pertinent, we should be able to meet them with a relatively small increase in staff and in funds for computer support, special studies, and surveys. Since it would take us several months to develop our staff capability and procedures, we recommend that the effective date for any new requirements be January 1979, to coincide with the convening of the 96th Congress. That date would also give us time to request additional resources from the Appropriations Committee.

As we understand it, the proposal that CBO prepare state and local government cost estimates is based primarily on a need for estimates of the aggregate impact of pending federal

legislation on state and local government budgets and finances. The costs of the additional resources needed to prepare individual state and local estimates would be very high, and experience has shown that those estimates are often quite conjectural.

More specifically, we interpret the state and local costs for which CBO would provide estimates to include potential increases or decreases in state and local government spending that would result from new matching requirements for federal grants, changes in federal payroll taxes or minimum wage law, or new environmental goals and requirements. Such estimates would not include indirect effects caused, for example, by the general inflationary impact of a proposed law. In addition to costs, however, we should contemplate estimating revenue increases to states, like those that have been provided in the past to compensate for federally imposed costs or losses. The loss of property taxes on federal lands is an example here.

The first step in preparing such cost and revenue impact estimates would be to acquire an extensive data base on state and local government budgets and finances. We now have this only in part. Beyond that basic step, however, estimation techniques proliferate. For example, the way in which we would estimate a matching requirement differs substantially from the way in which we would examine the costs of an environmental

constraint. In all these cases, however, we would expect to receive substantial help from public interest groups that represent state and local governments, such as the National Governors Conference, the National League of Cities, and the National Association of County Officials.

Finally, we do not believe that it is feasible for CBO to estimate the impact of proposed federal agency rules and regulations on state and local government budgets. We believe that preparation of such estimates should be the responsibility of the Executive Branch, as part of its rule-making procedures, and that the scope of CBO's responsibilities should be limited to analyses of the impact of legislative actions.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions that you or Members of the Committee may have.

