

**Statement of  
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**before the  
Subcommittee on Legislation and National Security  
Committee on Government Operations  
U.S. House of Representatives**

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Mr. Chairman, it is my pleasure to testify before this subcommittee today on H.J. Res. 372, the Balanced Budget and Emergency Deficit Control Act of 1985.

While CBO takes no position on the desirability of this legislation, I certainly appreciate the goals of its proponents. There is a broad consensus regarding the desirability of deficit reduction and deep frustration with the difficulty of achieving it through program-by-program changes on either the spending or tax side of the budget. It is the intent of this legislation to provide powerful incentives for making difficult policy choices and further to provide a forceful enforcing mechanism if the Congress fails. While my remarks point to problems in the legislation as it is now written, I hope that I will be understood to be making constructive suggestions to ease its implementation. If the Congress chooses this particular route toward deficit reduction, you can be sure that CBO will do its utmost to help make the new process work.

H.J. Res. 372 would significantly change CBO's role by endowing it with powers far beyond anything envisioned when the institution was created.

We would be instructed to work with OMB to develop an economic forecast and consistent budget projections which would determine whether the Congress was on a path that, within a specified percentage, satisfied the

deficit targets defined by the law and, if not, to determine how much the deficit must be cut to achieve these targets. The cuts can be made according to a Presidential plan endorsed or modified by the Congress or failing the development of such a plan, funds would have to be sequestered by the President in a fashion stipulated by the law.

In the event of a disagreement between OMB and CBO, our economic forecasts and budget projections are to be averaged--a process that can lead to some logical difficulties and inconsistent results.

Mr. Chairman, given the recent record of economists, it won't be difficult to convince anyone that economic forecasting is a very uncertain art. Reasonable men and women can differ widely about what the future holds, and even if there is agreement on an economic forecast, there is an added layer of uncertainty involved in translating that forecast into an estimate of budget totals. For example, our economic forecast may give us a reasonable estimate of the number of people who are eligible for a program such as food stamps, but there may still be considerable uncertainty about how many of the eligibles choose to participate in the program.

In dealing with such uncertainties we have to make a large number of more or less arbitrary choices and substantial errors are possible. We might fail to trigger the process when subsequent events show that a sequester was

called for, or perhaps worse, we might trigger a sequester when future events show that it was unnecessary.

It is hard to think of other instances when the Congress has given nonelected officials such power to do good or evil. The closest I can come is to refer to the creation of the Federal Reserve Board.

I strongly believe that there should be some legislative check on the powers conveyed to the Directors of OMB and CBO. One possible approach would be to have CBO and OMB prepare separate reports to the Congress. The Congress could then vote in favor of one or the other report or an average of the two. I recognize that this would somewhat weaken the intent of the proponents of the bill to devise an automatic action forcing procedure in the event that the Congress fails to achieve the specified deficit target through its own budget process. Moreover, the choices of a report would have to take the form of legislation that could be vetoed. There are, therefore, obvious disadvantages to my suggestion, but I think that the disadvantages of conveying so much power to mere technicians are even more obvious. Moreover, by limiting the choices available to a few possibilities, the Congress would find it more difficult to escape the discipline intended by the act.

While there are some special problems that arise because of the joint responsibilities of OMB and CBO, the fundamental issue is one of linking

budgetary policies, which should be determined by elected representatives, to the inherently uncertain forecasts of technicians. Thus, simply eliminating one of the agencies--either CBO or OMB--from the triggering of the sequester provisions would not avoid the problem.

There are a number of areas in which the law, as currently drafted, is ambiguous because it would be left to us to determine Congressional intent as to how the law is to be implemented. In its current form, the law provides little guidance as to how the budget projections are to be made. This problem is already being considered by the Conference. I presume that the intent is to have us project the deficit implications of the policies in effect when we are required to report. (November 1 this year and September 26 in subsequent years.) This presents a particularly difficult problem when the Congress has not completed its budget actions by the report date. While the law specifies a schedule that should prevent this from happening, we know that budget schedules have a way of slipping and we would face a particularly difficult problem this year. I very much hope that we will be given detailed guidance on how to handle such matters as temporary continuing resolutions, a temporary extension of the cigarette and other taxes, the pending reconciliation bill, and a host of other problems involved in defining what current policy is. It may be that the Congress would prefer that we simply estimate the implications of the budget resolution, but the budget resolution may not be fully implemented. I

certainly would not like to get into the business of forecasting by how much that resolution is violated.

The law requires us to stipulate the percentage amount by which different spending categories must be cut in order to achieve the appropriate target. It is especially important to determine whether the base for the sequester (i.e., the totals from which the cut is defined) should be the same or different from the base used to project budget totals. If we project on the basis of laws in force when the report is due and if budget action is not yet complete, it cannot be said that sequestering from the base defined by current law completely reflects the budget priorities chosen by the Congress. The budget resolution may be a better indicator of these priorities and therefore a better base on which to define the cuts. Whatever the final choice of the Congress, I very much hope that the law can be as clear and as detailed as possible on this issue.

The current legislation is also somewhat ambiguous as to what programs would be considered to be automatically indexed, what programs are deemed controllable and what programs should be exempt from possible sequesters. Our favorite solution to this problem is to list all of the federal government's programs in the budget and explicitly assign each to one of the categories.

The legislation, as now written, would also impose upon CBO a huge data collection task, which is impossible to perform with our current resources. It now defines prior year obligations as automatic spending, but there is no currently available, reliable source for such information. It also specifies that funds for existing contracts are controllable, unless a reduction violates legal obligations of the government or would result in a net loss to the government. It would take a considerable effort for us to acquire information on contracts in order to determine how much is controllable. Moreover, even in the best of worlds, it is unlikely that such information could be obtained in a timely enough manner to meet the reporting requirements of the bill.

While the intention of the contracting provisions are clear, there appear to be serious limitations on the implementation of this, and we would urge the Congress to consider alternatives. For example, the sequestering could be related to new budget authority, thus eliminating the need to know the details of individual contracts.

There is also a requirement for CBO to examine all contracts over \$20 million and to search for excess inflation adjustments. This requirement does not seem to play an integral role in administering the legislation and it would involve far more resources than are now available to CBO. We simply cannot now satisfy this requirement and I would urge the Congress to eliminate it. There is also a requirement that we, along with Treasury and

OMB, report on certain detailed management issues at IRS. We have no expertise whatsoever on such issues and I would request relief from this obligation.

My last point involves a requirement that we publish quarterly growth figures in our forecast. The intent is to see whether we forecast the two successive quarters of negative growth that would trigger the recession provisions of the bill. Quarterly numbers contain a great deal of statistical noise and are therefore highly erratic. Thus quarterly forecasts can be widely in error even though the forecast for the entire year is fairly accurate. Instead of publishing quarterly numbers, I would suggest simply having us say in plain English whether or not our annual forecast implies two successive quarters of negative growth.

In conclusion, I would like to make clear that I am not taking a position on this legislation nor do I wish to imply that CBO would shirk new tasks. If the Congress is persuaded that the budget enforcement and emergency provisions of this legislation are necessary to correct the deficit imbalance, some changes in CBO's role are probably inevitable and may well be worth it. We'll do our best, in any event.