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before
Committee on the Budget
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Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to appear before you today as you begin your work on the fiscal year 1977 budget cycle. I think it would be most useful if I confine my remarks to four areas:

- o the economic climate and outlook;
- o the economic impact of the Administration's budget;
- o what would happen to the budget over the next five years if current policies are continued; and,
- o priorities in the President's 1977 budget.

To summarize briefly the economic climate: The outlook is for growth of GNP at a rate of 5 to 7 percent in real terms during 1976 slowing to 4 to 6 percent during 1977. Inflation is likely to range between 5 and 7 percent in both years. The unemployment rate is likely to remain above 7 percent at the end of 1976 and above 6.5 percent at the end of 1977.

These projections assume a current policy budget in fiscal 1977, that is, they assume that present tax legislation and current government programs will be continued with allowances for inflation. Projections based on the Administration's somewhat more restrictive budget are somewhat less optimistic with respect to output and employment -- GNP would be about 1.6 percent lower at the end of 1977 and the unemployment rate would be about .6 percentage points higher. Substituting the President's budget for a current policy budget would have little immediate impact on the rate of inflation, but by 1980 the inflation might be .3 or .4 percentage points lower under the President's budget.

The Economic Outlook

Because the budget both affects and is affected by the economy, an examination of the current economic climate is a logical starting place for your deliberations on the fiscal year 1977 budget.

While 1975 was a bad year for the economy, it ended in better shape than it began. Fiscal policy moved in an expansionary direction---some problems proved less serious than had been anticipated.

After the sharp downswing during the first half of the year came a near record rebound in output during the third quarter followed by moderate expansion (5.4 percent growth in real GNP, according to preliminary figures) during the last quarter. The fourth-quarter deceleration was all in inventory investment; real final sales rose a little faster than in the third quarter.

The rate of inflation moderated to 7 percent by late 1975, which, while well below the double-digit pace of the preceding year, was extremely high by historical standards. This slowdown of inflation occurred partly because of the recession but primarily because of favorable developments in food and fuel markets.

Unemployment in 1975 was at the highest rate since 1941. It has declined since last spring, but at year end the unemployment rate was still higher than during earlier postwar recessions.

The recovery resulted partly from natural forces in the economy--mainly, the slowing down of inventory liquidation--and partly from the 1975 tax cuts, which restored consumer real incomes and aided the housing and investment sectors. "Crowding out" of private spending by the federal sector does not appear to have occurred; in spite of the large federal deficit and modest rates of money supply growth over the year, interest rates generally did not increase.

The recession is still with us in the form of many serious problems--for example, high unemployment, financial difficulties experienced by banks, other businesses, and state and local governments. The latest broad indicators of business activity, however, suggest continued expansion. Employment, the workweek, industrial production, and retail sales all rose significantly in December. It is also somewhat reassuring that consumer confidence appears to be rising despite the continuing legacy of the recession.

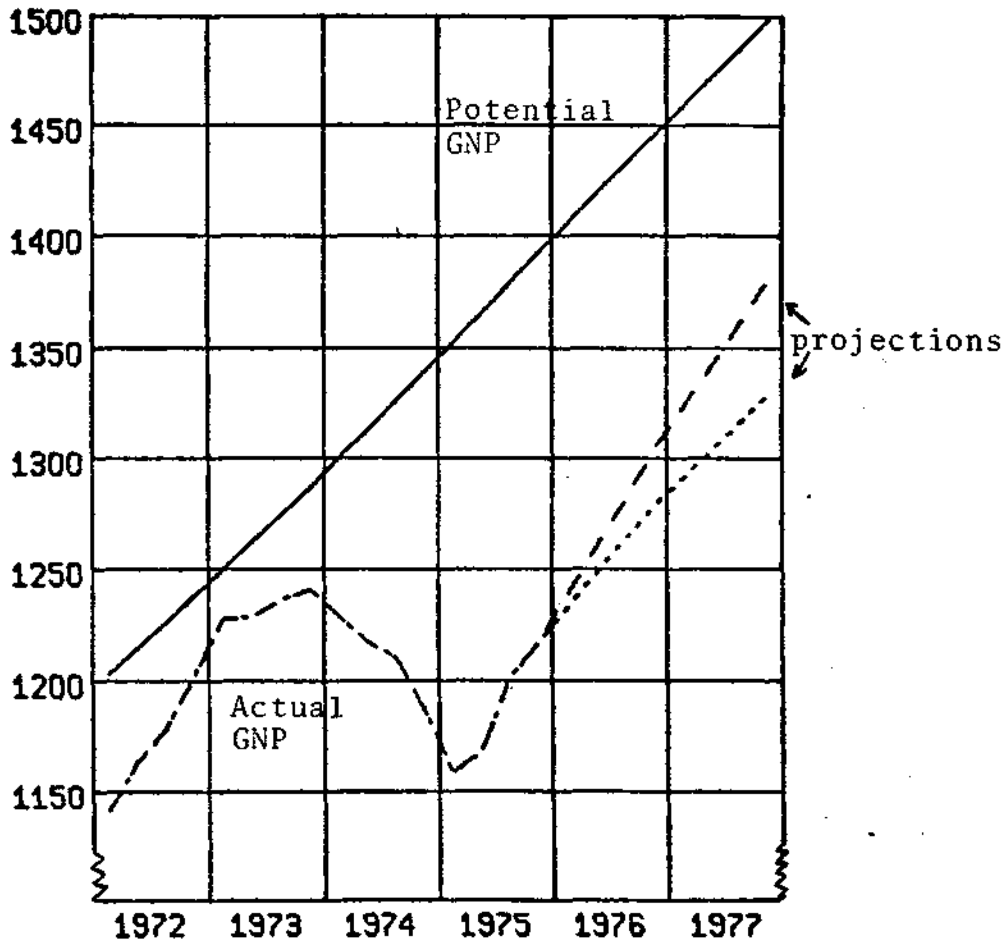
As I said earlier, the Congressional Budget Office anticipates a rate of growth of real GNP somewhere in the 5 to 7 percent range this year and in the 4 to 6 percent range next year. Chart I illustrates this projected growth in relation to potential GNP, which measures what the economy could produce at 4 percent unemployment. Inflation--as measured by the increases in the GNP deflator--seems likely to continue at a 5 to 7 percent pace in both years. While the unemployment rate is likely to decline from the current level of more than 8 percent, it is unlikely to fall below 7 percent by the end of 1976; even a year later, unemployment will probably be above 6.5 percent.

Like all forecasts this one is predicated on a number of assumptions. The major ones are:

- o federal outlays at a "current policy" level--roughly the level required to maintain the services called for in the second concurrent resolution with adjustments made for inflation
- o federal receipts equivalent to those that would be generated by current tax laws

Chart 1

ACTUAL AND POTENTIAL GNP
Billions of 1972 dollars,
seasonally adjusted annual rate



Notes: Potential GNP converted from 1958 dollars and projected to 1977 by CBO. Growth in potential GNP is estimated at 4 percent per year through 1975 and 3.75 percent thereafter; the lower growth rate takes account of low levels of capital investment in 1975 and 1976. Potential GNP was associated with an unemployment rate of 4 percent of the labor force in mid-1955.

- o rate of monetary growth (demand deposits and currency) of 7 percent per year
- o increases in food or fuel prices at about the same rate as overall inflation.

Departures from these assumptions would change the forecast. A resurgence of food price increases, for example, could reduce real growth and raise the inflation rate. Lower monetary growth could reduce the growth rate and eventually lower the inflation rate; though it should be added that monetary and interest behavior in the last few months has been puzzling. It is far from clear that 7 percent growth in money, and not some lower or higher number, is the assumption appropriate to the forecast.

The Administration projects growth in real GNP of 6.2 percent for 1976 over 1975, just about in the center of CBO's range. However, the Administration projection is based on a budget more restrictive than the current policy budget assumed by CBO, and money growth of 6.25 percent rather than the 7 percent assumed by CBO. It therefore appears that the Administration is projecting greater strength in demand outside the federal sector than the CBO and most other projections.

On balance, we do not see convincing evidence that we have underestimated private demands. Some recent developments, to be sure, do support the prospect of a stronger-than-expected private economy in 1976. Interest rates are lower than might be expected given the GNP growth and the slow growth of the money supply. Low interest rates are clearly favorable to recovery. Not only do they directly facilitate private investment, especially in housing, but they also tend to raise common stock prices, increasing the wealth and spending of consumers and the capital spending plans of business. Consumer confidence improved significantly in late 1975, according to a Conference Board survey, and the interest rate and stock price developments of early 1976 are likely to improve it further. Rising confidence may soon be reflected in a lower rate of saving; gains in consumer demand may begin to cause capital spending plans to be revised from levels that now imply little or no real growth in 1976.

On the other hand, the indicators suggest that demand for capital goods will continue to be weak. In addition to the decline indicated in current dollar terms by the latest Commerce Department survey, contracts and orders for plant and equipment have been declining in constant dollar terms in recent months. The most recent data on housing starts and building permits indicate an unexpected plateau in activity. Until recently, housing starts had been rising about as fast as in previous recoveries, but they remain at a comparatively low annual rate of less than 1.5 million.

Finally, state and local governments are likely to add little to the strength of the recovery--far less than past experience might lead one to expect. The widely publicized troubles of New York City were followed, last November, by voter rejection of an unusually high proportion of the bond issues proposed, and approval of a small dollar volume. Other factors, such as a declining school-age population, have reduced the growth of demand in this sector. Furthermore, state and local governments have been forced to raise effective tax rates during the recession. The result has been that state and local governments would show a rising surplus if the economy were at full employment. According to estimates by the Council of Economic Advisers, the full employment surplus of state and local government was $37 billion in 1975, overwhelming the federal full employment deficit of $7.5 billion. Thus it would appear that state and local governments are offsetting much of the stimulus supplied by the federal government fiscal policy.

The Economic Impact of the Administration Budget

Whatever the underlying strength of private demand turns out to be, the Administration budget is on balance less expansionary than a current policy budget. This is offset by the revenue side, where the Administration calls for personal corporate income tax cuts in mid-1976 amounting to about $10 billion more than simple extension of the 1975 tax cut and only partially offsets these by increases in social security and unemployment insurance taxes in January 1977. The net reduction in revenues, however, is more than offset by proposed cuts in outlays. Defense outlays are only slightly lower under the Administration proposals than under a current policy budget with the difference due entirely to proposed ceilings on pay increases. However, outlays for nondefense purchases and grants-in-aid are substantially lower--about $5 billion and $7 billion, respectively, in fiscal year 1977. The biggest proposed cut below a current policy budget is in transfer payments to individuals; the cut amounts to about $15 billion in fiscal year 1977.[1]

1. These comparisons are based on a translation of both budgets from the "unified" basis to a "national income and product" basis, which is generally used in gauging the fiscal impact of the federal budget. Comparison between the two budgets is also affected by the fact that the base budget used to measure current policies is the fiscal year 1976 budget in the second concurrent resolution, and not the Administration's 1976 budget.

We estimate that substituting the Administration proposed budget for a current policy budget would lower output (constant-dollar GNP) by about 1.6 percent by the last quarter of 1977. This reduction in output would cause the unemployment rate to be .6 percentage points higher under the Administration budget than under a current policy budget, representing approximately 600,000 unemployed persons. Since unemployment is projected as declining quite slowly even under a current policy budget, the probable effect of substituting the Administration's budget would be essentially no change in the unemployment rate during 1977.

The Administration budget would eventually lower the rate of inflation, although the effect on prices in 1976 and 1977 will probably be small. The proposed cap on federal pay increases would have an immediate favorable impact on the price of government services and hence on the overall rate of inflation; on the other hand the increase in labor costs due to higher payroll taxes and the probable slowdown in productivity growth due to less output expansion would work in the opposite direction. After a few years, the reduction in demand pressure would tend to dominate the other, special factors, so by 1980 the rate of inflation might be 0.3 to 0.4

percentage points lower under the Administration budget. That is, the rate of inflation would be 4.6 to 4.7 percent if it would otherwise be 5 percent. These estimates of the impact of the President's budget appear in Table 1.

Under either a current policy budget or the President's budget, the deficit for fiscal year 1977 will be below 1976's approximagely $75 billion. The Administration estimates the deficit under its budget at $43 billion; but if the economic assumptions underlying this estimate err on the side of optimism that estimate might need to be revised upward. A current policies budget would result in a substantially larger deficit; under economic assumptions roughly equivalent to those of the Administration the deficit would probably be in the neighborhood of $60 billion.[2]

The current policy budget and the Administration proposals are only two of a large number of possible fiscal strategies for 1977. Forthcoming CBO reports will deal with the economic implications of a number of these strategies, both expansionary and restrictive.

2. This estimate represents an upward revision of one we prepared within the first two days after receiving the President's budget documents. In preparing the earlier estimate, we were unaware that the President's economic assumptions incorporated revisions in current and historical estimates of GNP which the U. S. Commerce Department has just completed.

TABLE 1--ESTIMATED EFFECTS OF
THE ADMINISTRATION BUDGET

Effect On:	
GNP in constant dollars, end of 1977 (percent	-1.6
Unemployment Rate, end of 1977 (percentage points)	+0.6
Rate of Inflation (GNP deflator, annual change), 1979-80 (percentage points)	-0.3 to -0.4

Note: These estimates are based on comparisons of forecasts assuming enactment of the Administration budget with forecasts assuming continuation of a current policies budget based on the Second Concurrent Resolution on the Budget. They are based on several statistical models of the U.S. economy.

A Budget Baseline

It is essential in the process of comparing competing budget options to have a reference point against which alternatives can be arrayed. Only with such a baseline can proposed shifts in spending priorities and taxing policies or suggested changes in the overall size of government be clearly seen. In the past, the estimates for the current fiscal year published in the President's budget have served most often as the baseline against which the President's proposals for the budget year are compared. Budget options suggested by others generally have been contrasted to the President's proposals.

These practices have not worked well for several reasons. First they are often confusing. The current fiscal year estimates reported in the President's budget often contain policy changes that do not conform with enacted legislation or the probable outcome of pending Congressional actions. They usually reflect proposed recissions and deferrals, proposed legislative initiatives, and accounting changes, all of which obscure the real year-to-year differences.

Second, the comparison of the Administration's budget year request with the current year levels gives little insight either into the discretionary changes that are being proposed or the changes that are being suggested in the real levels of various government programs. For example, a large increase in outlays in the income security function may represent no more than a continuation of existing programs whose spending levels are being forced up automatically by the entitlement nature of these programs. Similarly, what may seem to be a significant increase in the budget authority requested for a particular grant-in-aid program in fact may turn out to represent less than the amount needed to provide recipient state and local governments with grants with unchanged purchasing power.

Hence, it seemed useful to the authors of the Congressional Budget Control Act to require the CBO to produce a baseline budget projection to which budget proposals, including the President's proposals, could be compared. As is required by the Budget Act, the CBO on January 26 issued its first Five-Year Budget Projections. These projections represent the estimated cost of continuing on-going federal programs and activities at 1976 levels. The latest statement of Congressional policy--namely, the Second Concurrent Resolution on the Budget-Fiscal Year 1976 (H. Con. Res. 466)--is taken as the 1976 level. These projections assume "no policy changes" from the second concurrent resolution; current programs are continued except in those few instances, such as temporary study commissions, where the program is clearly of a one-time nature. Adjustments are made for inflation both in those programs that by law are indexed to inflation and in all others except those--such as social services grants--for which there is an explicitly mandated ceiling. Anticipated changes in the number of beneficiaries receiving social security, food stamps and the other entitlement programs are also taken into account. The projections of receipts are based on the assumption that the tax laws currently on the books will be continued.

The outlays required to sustain services at current levels and the receipts collected under current tax laws depend, of course, on overall economic conditions. Because of the uncertainty surrounding the economic outlook, particularly in the long run, the projections were made under two sets of economic assumptions. The first, path A, assumed a strong recovery from the current recession with the unemployment rate falling to 4.5 percent in 1980 and 1981. Under the second, path B, recovery would not be quite as strong, but it would still be close to the most rapid five-year economic growth rate actually experienced since World War II. Even so the path B unemployment rate would fall only to just below 6 percent by 1981. The rate of inflation would remain at the historically high levels of 6 to 7 percent under path A, and would be somewhat lower under path B.

The CBO baseline projections indicate that, under path A, outlays of $420 billion would be required in fiscal year 1977 to maintain the service levels provided by the second concurrent resolution. Under this path, receipts of $383 billion would be generated by current tax laws and the resulting deficit would be $37 billion. Under path B, outlays would be $425 billion, receipts would be $360 billion and the deficit would be $65 billion.

The economic assumptions underlying the President's budget fall closer to path B than to path A. Path B projections from the CBO report can be used as an approximate--and I underscore the word approximate--baseline to highlight the changes in current service levels proposed by the President. Table 2 presents these differences on a function by function basis. The outlays in all but the revenue sharing function (850) and allowances implied by the President's request fall below the fiscal year 1977 approximation of the cost of providing the service levels called for by the second

TABLE 2: ESTIMATED OUTLAYS BY FUNCTION, FISCAL YEARS 1976 AND 1977

FUNCTION	FISCAL YEAR 1976: SECOND CONCURRENT RESOLUTION (A)	FISCAL YEAR 1976: PRESIDENT'S ESTIMATE (B)	FISCAL YEAR 1977: PRESIDENT'S BUDGET REQUEST (C)	FISCAL YEAR 1977: CBO PROJECTIONS OF CURRENT POLICY 1/ (D)	FISCAL YEAR 1977: PRESIDENT'S REQUEST MINUS CBO PROJECTION OF CURRENT POLICY (C-D)
050 National Defense	91.9	92.8	101.1	103.4	-2.3
150 International Affairs	4.9	7.1 5/	6.8	6.8	0.0
250 Gen Science, Space & Tech	4.6	4.6 2/	4.8 2/	5.0	-0.2
300 Natural Resources	11.4	11.5 2/	13.5 2/	14.2	-0.7
350 Agriculture	2.6	2.9	1.7	2.3	-0.6
400 Commerce & Trans.	18.3	17.8	16.5	18.4	-1.9
450 Community & Regional Dev.	7.0	5.8	5.5	7.6	-2.1
500 Education, Training Employment & Social Service	20.9	18.9	16.6	21.4	-4.8
550 Health	32.9	32.1	34.4	37.7	-3.3
600 Income Security	128.2	127.3 3/	136.5 3/	145.6	-9.1
700 Veterans	19.1	19.0	17.2	18.7	-1.5
750 Law Enforcement	3.4	3.4	3.4	3.7	-0.3
800 General Government	3.3	3.5	3.4	3.6	-0.2
850 Revenue Sharing	7.3	7.2	7.4	7.4	--
900 Interest	35.4	34.8	41.3	42.2	-0.9
Allowances	0.8	0.2	2.3	2.2	0.1
950 Offsetting Rec.	-17.1	-15.2	-18.8	-15.3	-3.5
Total	374.9	373.7 4/5/	393.6 4/	424.9	-31.3

1/ The CBO Projection of Current Policy is based on "Path B" economic assumptions, as presented in CBO's Five-Year Budget Projections Fiscal Years 1977-81.

2/ The President's figures for Functions 250 and 300 are adjusted to make them compatible with the Fiscal Year 1976 Functional breakdown.

3/ In October 1975 OMB revised its accounting treatment for the refundable portion of the earned income credit to treat it as an outlay rather than a negative receipt as is done in the Fiscal 1976 Second Concurrent Resolution and CBO's Projections of Current Policy. To achieve consistency, $1.2 billion for Fiscal 1976 and $0.6 billion for Fiscal 1977 have been deducted from the President's budget figures for Function 600.

4/ The President's budget totals for Fiscal 1976 and 1977 differ from those listed in The Budget of the United States Government: Fiscal Year 1977 because of the accounting change for Function 600 described above.

5/ The outlays and budget authority of the Export-Import Bank will be off-budget through fiscal year 1976, but will be returned to the budget in fiscal year 1977. In order to maintain comparability between 1976 and 1977, the President's 1976 figures have been adjusted to include the budget authority and outlays of the Export-Import Bank.

concurrent resolution. With respect to budget authority, the President's budget is above the "current policy" level with respect to allowances and in the national defense (050), international affairs (150), agriculture (350), and commerce and transportation (400) functions (see Table 3). Overall the President's budget falls below the baseline by some $33 billion in budget authority and $31.1 billion in outlays. It should be stressed that there is nothing sacred about the baseline levels. Changing national problems and needs imply changing budget priorities; in turn, some programs and functions will grow less and some more than is required to match current levels of services. In fact, a general decision to moderate the growth of government spending may be consistent with all functions being funded below the levels required to maintain current services.

(1/23/76)

TABLE 3: ESTIMATED BUDGET AUTHORITY BY FUNCTION, FISCAL YEARS 1976 AND 1977

FUNCTION	FISCAL YEAR 1976: SECOND CONCURRENT RESOLUTION (A)	FISCAL YEAR 1976: PRESIDENT'S ESTIMATE (B)	FISCAL YEAR 1977: PRESIDENT'S BUDGET REQUEST (C)	FISCAL YEAR 1977: CBO PROJECTIONS OF CURRENT POLICY 1/ (D)	FISCAL YEAR 1977: PRESIDENT'S REQUEST MINUS CBO PROJECTION OF CURRENT POLICY (C - D)
050 National Defense	101.0	102.3	114.9	110.0	4.9
150 Internat'l Affairs	6.0	9.0 5/	9.7	9.5	0.2
250 Gen. Sc., Space & Tech.	4.7	4.6 2/	4.9 2/	5.2	-0.3
300 Natural Resources	18.7	18.9 2/	9.4 2/	9.3	0.1
350 Agriculture	4.1	4.1	2.3	2.2	0.1
400 Commerce & Transportation	19.0	18.6	17.9	17.4	0.5
450 Community & Regional Development	9.5	4.8	5.8	6.9	-1.1
500 Education, Training, Employment & Soc. Svcs.	21.3	19.7	15.9	21.8	-5.9
550 Health	33.6	32.3	38.0	39.3	-1.3
600 Income Security	137.5	139.1 3/	157.1 3/	181.5	-24.4
700 Veterans	19.9	19.9	17.7	19.0	-1.3
750 Law Enforcement	3.3	3.3	3.3	3.6	-0.3
800 General Government	3.3	3.6	3.5	3.6	-0.1
850 Revenue Sharing	7.3	9.6	7.3	7.3	-0.1
900 Interest	35.4	34.8	41.3	42.2	-0.9
Allowances	0.5	0.2	2.6	2.0	0.6
950 Offsetting Receipts	- 17.1	- 15.2	- 18.8	- 15.3	-3.5
TOTAL	408.0	409.7 4/5/	432.8 4/	465.6	-32.8

1/ The CBO Projection of Current Policy is based on "Path B" economic assumptions, as presented in CBO's Five-Year Budget Projections Fiscal Years 1977-81.

2/ The President's figures for Functions 250 and 300 are adjusted to make them compatible with the Fiscal Year 1976 Functional breakdown.

3/ In October 1975 OMB revised its accounting treatment for the refundable portion of the earned income credit to treat it as an outlay rather than a negative receipt as is done in the Fiscal Year 1976 Second Concurrent Resolution and CBO's Projections of Current Policy. To achieve consistency, $1.2 billion for Fiscal 1976 and $0.6 billion for Fiscal 1977 have been deducted from the President's budget figures for Function 600.

4/ The President's budget totals for Fiscal 1976 and 1977 differ from those listed in The Budget of the United States Government: Fiscal Year 1977 because of rounding errors and the accounting change for Function 600 described above.

5/ The outlays and budget authority of the Export-Import Bank will be off-budget through fiscal year 1976, but will be returned to the budget in fiscal year 1977. In order to maintain comparability between 1976 and 1977, the President's 1976 figures have been adjusted to include the budget authority and outlays of the Export-Import Bank.

The President's Budget: A Capsule Analysis

The President's Budget for FY 1977 does exactly what a budget ought to do. It expresses in coherent form the philosophies and priorities of the Administration.

No President---and no Congress---makes up a budget from scratch. Much of what the government does is already determined, the consequence of a past and continuing consensus. We are going to have a social security program; we are going to have an Army. Such issues are not up for discussion. The discussion is about decisions at the margins---whether old age benefits should be changed; whether there should be 13 or 16 Army divisions. It is within those kinds of limits that a President gets a chance to express his philosophy of government in a budget. This budget clearly does that.

The basic point made in the President's budget is that we must not continue drifting in the direction of bigger and bigger government and that we must rely on and nurture the private sector. To that end, he has proposed a program which, in constant dollar terms, will lead to 3 percent less federal spending next year than this.

There are areas, however, in which the President clearly believes that the government is not doing enough.

The budget reflects the Administration's view that a downward turn in real defense spending endangers national security. High priority is therefore accorded to national security in the budget, especially weapons procurement and other nonpay items for which the President is recommending a real increase in spending of about 8 percent.

Another high priority item in the President's budget is fostering energy independence. On-budget outlays for energy Research and Development (R&D) will increase by $626 million, a rise of more than 30 percent. The President also again proposes creation of a $100 billion Energy Independence Authority to provide loans, loan guarantees and other assistance to private sector developers. The $100 billion would be off-budget.

With respect to assistance to individuals, the President's budget reflects a view that federal programs have been growing too fast, and that the rate of growth must be slowed---and in some cases reversed.

Four functions contain the bulk of individual assistance: education, training, employment and social services (500); health (550); income security (600); and veterans (700). The President proposes that the education and veterans functions be cut below fiscal year 1976 levels; and that the four functions combined be cut $19 billion below a current policies budget.

To achieve such cuts, the President made some difficult choices, for example:

- o Phasing out 260,000 public service employment jobs, mostly after December, 1976.
- o Providing catastrophic health coverage for the elderly at a fiscal year 1977 cost of about $0.6 billion, but increasing the cost sharing of medicare patients generally by about $1.7 billion.
- o Increasing basic grants to needy college students by $50 million, but cutting other forms of student aid by $700 million.
- o Cutting child nutrition outlays $400 million below fiscal year 1976 levels.
- o Tightening food stamp eligibility, at an estimated outlay savings of $1.2 billion, with 2 million fewer beneficiaries.

None of these examples is arbitrary; each is supported by a rationale in the budget document, and while reasonable people may and doubtless do differ on the desirability of any particular cut, those and others that the President has recommended are consistent with the stated basic purpose of his budget.

The President's budget also places major emphasis on the consolidation of grants to state and local governments, and the transfer of authority to the states to allocate the funds within block grant programs. For example, medicaid and 15 other categorical health programs would become a single block grant program, with no matching required.

The proposed consolidations are accompanied by proposed real reductions in the sum of federal grants to state and local governments, going only from $59.8 billion this year to $60.5 billion next year, far less than enough to cover inflation. On a current policy basis, allowing for inflation, aid to state and local governments would not decline; it would rise by about $6.5 billion.

The President's intent to encourage the private sector finds expression in recommendations for corporate and individual income tax reductions of $10 billion more than would occur through a simple extension of the Revenue Adjustment Act of 1975. These reductions would be offset in part by $5.4 billion in higher social insurance taxes and contributions proposed to begin January 1, 1977. The overall effect of the President's proposals for fiscal year 1977 is a revenue reduction of about $5 billion and a spending reduction -- from a current policy budget -- of about $31 billion.

In my view, the President and his advisors are to be congratulated on giving the Congress a budget that coherently and consistently expresses a set of priorities and a philosophy of government. These priorities and this philosophy may or may not command the support of a majority of the Congress, but they are clearly worthy of earnest study and extended discussion.

Quite obviously, the course which the President has recommended is only one of many which are possible. The Congress will have to decide how much to stimulate or to restrain the economy, how to spend and to tax, and on what to spend and whom to tax. Pursuant to its statutory mandate to provide this Committee and its House counterpart with a fiscal policy report which includes a discussion of budget alternatives, CBO will later this month furnish you its annual report. We hope that the document will be useful to you as you deal with the issues posed by the state of our society and by the President in his budget message.