

Statement of

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Committee on Government Operations
Subcommittee on Legislation and National Security
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Mr. Chairman, I am pleased to have the opportunity to testify on the Congressional Budget Act Amendments of 1984, H.R. 5247. As reported by the House Committee on Rules, the bill contains a coherent set of procedures that would strengthen the Congressional budget process.

The bill includes several recommendations that would change the enforcement mechanisms specified in the Congressional Budget Act. For the most part, these procedural recommendations would codify present practices that have been added informally through use of the **act's** elastic clauses. Revised procedures would somewhat alleviate Congressional scheduling problems and lead to more effective budget controls. The Congressional Budget Office (CBO) believes that the most important procedural changes proposed by the bill are:

- o Shifting to a binding first **resolution--a** change that would acknowledge the need both to make choices on priorities early in the budget process and to have a workable procedure for implementing the resolution;
- o Expanding the budget resolution from one year to three years, recognizing that an expanded horizon is needed to make major budgetary changes; and

- o Expanding the coverage of the budget to include the full range of government fiscal **activities--including** two particularly important categories of activity, federal credit and tax expenditures.

At the same time, the bill also recognizes the continued importance of the elastic clause, which may be needed in the **future--as** it has in the **past--to** allow the Congress to adjust to changing budget circumstances.

I will focus the remainder of my comments on those matters included in H.R. **5247** that fall within the legislative jurisdiction of the Committee on Government **Operations--specifically**, bringing off-budget spending on-budget and the potential impact of the legislation on the CBO. Since representatives of the General Accounting Office (GAO) and the Office of Management and Budget (OMB) are testifying before the Committee, I will not comment on the **bill's effect** on those agencies.

Off-Budget Activities and Programs

CBO has generally taken the position that the federal budget should be as comprehensive as possible, and that the Congress should implement appropriate budgetary procedures to control all of the government's financial activities. Many of the activities now off-budget are explicitly excluded from the unified budget in their authorizing statutes. H.R. **5247**

would require that all off-budget activities and programs be restored to the unified federal budget. The issues involved in bringing off-budget entities into the unified budget vary among the agencies described below.

Federal Financing Bank. The Federal Financing Bank Act of 1973 assumed that the **financing** conducted by the Federal Financing Bank (FFB) would not affect the budgetary status of FFB-financed activities. The act thus excluded the FFB from the unified budget. In practice, however, the FFB has **affected** the budget by purchasing agency loan assets (certificates of beneficial ownership) and by financing agency guaranteed loans. These transactions result in FFB off-budget direct loans that are **recorded--net of repayments--as** off-budget outlays. The budgetary treatment of the FFB should, in CBO's view, be corrected by recording agency loan asset sales as a source of **financing**, rather than as a loan repayment, and by recording FFB-financed agency guarantees as direct loans of the originating agency. The FFB would then be a neutral financial intermediary as was originally intended, and it would make no **off-budget** outlays.

Appropriately, H.R. **5247** would correct the budgetary treatment of the FFB. It does not, however, preclude the agencies originating lending transactions, which are **financed** through the FFB, from returning directly to the financial markets to avoid budget scrutiny. Another bill now pending before the Ways and Means and Banking Committees--H.R. **4629**, introduced

by Representative **Gradison**--would both correct the budgetary treatment of the FFB and preclude budgetary avoidance.

Other Off-Budget Entities. The activities of four other **entities**--the Rural Electrification and Telephone Revolving Fund, the Rural Telephone Bank, the Strategic Petroleum Reserve account, the United States Railway Agency, and the Synthetic Fuels **Corporation**--are currently excluded by law from the unified budget. The government established each of these entities, and appointed agencies to administer them. Inasmuch as the budget is intended to reflect the full range of government activities, these agencies should be included in the budget. H.R. 5247 would achieve this end. It would not revise the **off-budget** status of the Federal Reserve and the Postal Service. (CBO is currently preparing a paper for the Joint Economic Committee on the budgetary status of the Federal Reserve.)

Social Security. The Social Security Act of 1983 (P.L. 98-21) removed from the budget the disbursements and receipts of three of Social **Security's** four trust funds beginning in fiscal year 1993. CBO opposed this action in a March 14, 1983 letter from Alice Rivlin to Senator **Domenici**. Dr. Rivlin's letter made three points in particular:

- o The budget should be as inclusive of federal activities as possible;

- o Exclusion of Social Security could confuse public understanding of the government's fiscal policy; and
- o Exclusion of Social Security from the budget would establish a bad precedent.

H.R. 5247 would **effectively** amend the Social Security Act to withdraw this exclusion.

Finally, Section 406(c) of H.R. 5247 provides that any bill that has the effect of exempting an agency or program from the budget should be referred to the Committee on Government Operations. The Committee would have jurisdiction to report such a bill with an amendment striking budgetary exemptions.

CBO Procedures and Workload

The bill would require that CBO undertake several new tasks. These new duties would require only marginal changes in present CBO procedures and workload, so we could probably accomplish them without additional resources. Some of these tasks could be undertaken under existing authority and would not necessarily require any changes to the Budget Act. Additional requirements for scorekeeping, five-year projections, and CBO

cost estimates are included in the amendments to **Title III** of the Budget Act--the title that specifies Congressional budget procedures. The remaining requirements are amendments to **Title II** of the Budget Act--the language that authorizes CBO.

Consideration of Spending and Tax Bills

H.R. 5247 would continue to require that CBO cost estimates be included in reports on legislation providing new budget authority and tax expenditures. But it would expand this provision to cover new credit authority and new direct spending **authority--that** is, non-appropriated spending. The bill would also require the committees of jurisdiction to provide estimates of the costs of **conference** reports after consulting with CBO, at least two hours prior to considering such reports.

As part of our scorekeeping activities, CBO already prepares cost estimates for reports on spending legislation and shares responsibilities with the **Joint** Committee on Taxation in preparing estimates of the revenue effects of tax legislation. Expanding these estimates to cover direct spending and credit need present no problem. In our comments to the Rules Committee on their task force report, we raised a potential problem of timing in requiring CBO cost estimates to be included in **conference** reports. Generally, conference reports are filed very soon after a conference is

completed. As a result, little time is available to review conference language and prepare cost estimates. The Rules Committee responded by changing the requirement from including such estimates in conference reports to providing the estimates prior to consideration on the **floor**. "Fast track" bills could still pose some problem, but in most cases we would still be able to respond promptly enough.

Regular Scorekeeping Reports

H.R. 5247 would also require that CBO submit at least monthly reports to committees on the status of action on the budget. At present, the language of section 308(b) requires CBO to submit such reports "from time to time."

CBO currently maintains an elaborate automated data base on outlays for tabulating Congressional action on the budget and making comparisons with the budget resolutions. Using this data base, we provide computer reports on a weekly (and sometimes daily) basis to the staffs of the Budget and Appropriations Committees. We could provide computer-generated scorekeeping reports to the authorizing committees as well. CBO could transmit these reports each month to the authorizing committees by letter from its Director. This procedure would provide the authorizing committees

with timely data, while enabling CBO to retain the **flexibility** to respond to each **committee's** individual needs.

H.R. 5247 would also require the Budget Committees to provide summary scorekeeping reports to Members of their respective Houses. The Chairman of the House Committee would have to submit such reports to the Speaker, and they would be printed as House documents. Since CBO has traditionally supported the Budget Committees in compiling their scorekeeping **reports--the** House "early warning reports" and letters to the **Parliamentarian--these** new requirements would not require additional resources for CBO.

Cost Estimates on Authorization Bills

To discourage use of new financing mechanisms that escape annual review, H.R. 5247 would require CBO to include a description of any proposed indirect financing mechanism (for example, revolving funds and monetary credits) in its section 403 bill cost estimates. We could include these descriptions without any **significant** additional **effort**.

The bill would also require the GAO to maintain an annual inventory of indirect financing mechanisms. CBO's effort would address only reported

bills, whereas GAO would maintain an inventory of all existing indirect financing mechanisms.

Other Requirements Affecting CBO

H.R. 5247 contains a number of other requirements that **affect** CBO.

As part of the accelerated timetable for budget resolutions, the bill would change the timing of the CBO annual report to the Budget Committees from April 1 to February 15. This should not present any problem, since in recent years, **CBO's** annual reports have been submitted in early February.

In addition, the **bill's** recommended accelerated schedule for authorizing appropriations includes a requirement for CBO to submit, by the first Monday after every **January 3**, a report that would list the expiring authorizations affecting the budget year. CBO's staff already prepares such a report each year for use by the House Budget Committee. The timing of the report would not pose any difficulty, unless the Congress remains in session late into December.

Baseline projections used in CBO projection reports and in our cost estimates for budget resolutions have been defined in the bill in an

amendment to section 202 of the Budget Act. The **bill's** language calls for a projection based on current-year funding. The Rules Committee report would preclude CBO from including planned growth figures for **national defense--such** as we have used in recent **years--that** base the growth rate on previous budget resolutions. The change would present no technical problem for CBO, but because the defense budget contains many long term **commitments--both** explicit and **implicit--the** Congress has often found it convenient to assume something other than zero defense growth in the baseline that it uses; this provision might unnecessarily restrict our options in the future.

As part of the effort to broaden the coverage of the budget resolutions, the bill would also direct CBO to study further the feasibility of comparing outlays with credit and tax expenditures. Any of these comparisons will be difficult to make. CBO has, however, begun to examine trade-offs between credit and spending programs. This past spring, CBO completed for the Senate Banking Committee a study on credit subsidy estimates. Where it can, CBO is also expanding its cost estimates on pending legislation authorizing credit programs to provide estimates on the costs **for** the duration of the loans.

Finally, the bill would require that CBO, after consulting with the **Joint** Committee on Taxation (**JCT**), submit an annual inventory of tax expenditures. At present, the **JCT** provides its estimates and five-year

projections of revenue losses attributable to tax expenditures at the beginning of each year. CBO incorporates the 3CT estimates in its report on tax expenditures. As long as this collaboration continues, CBO would be able to fulfill this requirement without additional resources.

Conclusion

In conclusion, Mr. Chairman, I must emphasize that the federal budget process cannot by itself resolve the federal **government's** budgetary problems. The process can, however, help to build a consensus for a budgetary plan and, by generating useful information, aid the Congress in implementing that plan. The procedures defined by H.R. **5247**, the Congressional Budget Act Amendments of **1984**, offer good prospects for making the process more effective. CBO strongly supports the provisions that would bring off-budget spending into the unified budget, and we see the changes in the **CBO's** duties presenting no serious **difficulties**. Thank you for the opportunity to appear before this Committee.