

CBO TESTIMONY

Statement of
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Director
Congressional Budget Office

before the
Subcommittee on Legislative Branch
Committee on Appropriations
United States Senate

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to present the fiscal year 1992 budget request for the Congressional Budget Office (CBO). CBO is a nonpartisan analytic organization that furnishes the Congress with information and analyses on issues relating to the U. S. economy, the federal budget, and federal programs. CBO does not make policy recommendations, but presents the Congress with options and alternatives in a wide range of subject areas, all of which have economic and budgetary impacts.

BUDGET REQUEST

For fiscal year 1992, we are requesting \$23,400,000, an increase of 10.5 percent, or \$2,217,000, over our estimated fiscal year 1991 operating level of \$21,183,000. This budget maintains the agency's staff at its authorized level of 226 positions. No additional positions are being sought at this time.

Of CBO's requested increase, \$1,824,000, or 82 percent, is for personnel-related expenses. Our current appropriation will enable us to staff to 226 positions. As Congressional demand for, and legislative mandates requiring, CBO work continues to be strong, we believe it is important to

maintain our work force at the authorized staff ceiling once that level is attained.

Our request also includes an additional \$89,000 for automated data processing (ADP) and an additional \$211,000 for systems, data, and model development work in fiscal year 1992. After decreasing approximately 3 percent in fiscal year 1991, our ADP budget increases 3.4 percent in our 1992 request, leaving it virtually flat since fiscal year 1990. Our ADP budget has been declining in nominal terms, and even more so in real terms, for over a decade. At 11.6 percent, our 1992 ADP spending as a percentage of the total agency request is still the lowest of the past decade.

The systems, data, and model development increase, while appearing significant, does no more than restore spending in this critical area to more appropriate levels after a decrease of 30 percent in 1991. Spending for systems, data, and model development is but 1.4 percent of our total budget. The remaining \$93,000 of our requested increase is spread across a broad array of areas, including travel, printing, supplies, and training, and is the result of price increases.

Before discussing our request in detail, I will review for the Committee the principal services that CBO provided the Congress during this past fiscal year.

CURRENT CBO SERVICES TO THE CONGRESS_____

Once again in fiscal year 1990, CBO played a pivotal role in support of Congressional actions on the budget. From May 9, 1990, when the President and Congressional leaders agreed to begin budget negotiations with no "preconditions," through the arduous sessions at Andrews Air Force Base in September to the breakthrough agreement and subsequently adopted measures of October, the Congressional Budget Office devoted thousands of manhours to providing summit negotiators with timely, up-to-the-minute cost estimates of a wide variety of legislative initiatives, particularly in the area of entitlements.

CBO responded decisively to the needs of the summit in June, when we accelerated our economic forecasting process, and again in October, when we adjusted that forecast to take better account of the staggering events in the Persian Gulf. Throughout the summit, CBO contributed extensively to the

complex fiscal policy analysis required in this period of extreme uncertainty in the budget, the economy, and the nation. Much of CBO's work in support of the summit found its way into the final products.

CBO also published a number of landmark reports in 1990, reports that have made lasting impressions on current and future budget and fiscal policy issues. Many of the concepts contained in a major 1990 CBO study on reforming the budgetary treatment of credit activities were codified by Title XIII of the Omnibus Budget Reconciliation Act of 1990. A CBO study of last winter estimated the potential economic effects on Puerto Rico of changes in its political status, a question Congress is expected to deal with in the very near future. CBO also weighed in with a study of the effects on the U.S. economy and energy markets of taxing fossil fuels (carbon charges) to delay global warming, an issue sure to loom larger and larger on the Congressional agenda.

We continued our work in the area of deposit insurance in 1990 with a detailed study examining the objectives of deposit insurance and developing an analytical framework for evaluating reform proposals. We also estimated the budgetary effects of major reductions in military forces in the wake of changes in the Soviet Union and Eastern Europe as well as the cost of

compliance with proposed and signed arms and forces treaties. Another major CBO study done in fiscal year 1990 that has proved timely since the start of the Gulf hostilities is our analysis of social representation in the military.

As always, Mr. Chairman, CBO studies are done at the written request of chairmen of full committees, subcommittees, and budget task forces, the ranking minority member of full committees, and the leadership on both sides of the aisle. In keeping with the intent of the Congressional Budget Act of 1974, we do not undertake studies that do not have clear budgetary and economic implications.

The Balanced Budget and Emergency Deficit Control Act

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act) was amended in 1990 by the Omnibus Budget Reconciliation Act of 1990 (OBRA). While continuing the many tasks assigned to CBO by the original law, OBRA also gave CBO a number of new tasks under Title XIII, the Budget Enforcement Act, which resulted in a major overhaul of the entire budget process.

First and foremost, CBO continues its current role in the sequestration process, though that process has itself been changed considerably. And while CBO's role continues to be advisory, the agency must still prepare very detailed reports involving even more complex calculations than in the past. CBO now prepares three sequestration reports each year, instead of two as in the past, including the Sequestration Preview Report released last week as Appendix A of our annual report to Congress, *The Economic and Budget Outlook: Fiscal Years 1992-1996*. Because of the lengthy nature of last year's budget debates, we will actually do four of these sequestration reports in fiscal year 1991.

Our responsibility under the Balanced Budget Act for alerting the Congress to a recession was maintained by **OBRA**, and I recently notified the leadership of both Houses of Congress that our current economic forecast contains two consecutive quarters of negative growth. This requires the Senate to introduce a resolution calling for the suspension of the Balanced Budget Act's spending constraints. Such notification by my office precipitates a similar option, but not a requirement, of the House leadership.

The Balanced Budget Act also requires CBO to provide the Congress with a report on unauthorized appropriations and expiring authorizations. This year, we filed that report with the Congress on January 15.

Finally, the Budget Enforcement Act gives CBO an enhanced role in preparing cost estimates for bills and in estimating the act's pay-as-you-go provisions with regard to future entitlement spending proposals. In addition, CBO is required to perform two analytical studies and report its findings to the Congress this spring: one report is on the correct accounting in the federal budget for federal deposit insurance spending; the other analyzes the financial risk posed to the federal government of government-sponsored enterprises (GSEs).

The Budget Act of 1974

The Congressional Budget Act of 1974, as amended, mandates that CBO prepare certain reports on a regular basis and that it undertake other studies in response to Congressional requests. Specifically, CBO carries out the following tasks: it maintains current tabulations of Congressional revenue and spending actions (scorekeeping); prepares five-year cost estimates for bills

reported by the authorizing committees (and now, upon final passage as well); prepares outlay estimates for bills providing new budget authority; supplies information on tax expenditures and revenues; annually reports projections of new budget authority, outlays, and revenues for the coming five fiscal years; estimates the cost to state and local governments of carrying out or complying with federal legislation; prepares periodic forecasts of economic trends and alternative fiscal policies; and analyzes issues that affect the federal budget.

Scorekeeping

CBO provides the Congress with up-to-date tabulations of Congressional actions on revenue and spending bills. These tabulations are used, particularly by the Budget and Appropriations Committees, to measure the status of Congressional budget actions relative to the targets or limits specified in the concurrent resolution on the budget.

The bulk of CBO scorekeeping activities involves spending actions. The spending side of the federal budget is complex, consisting of more than 1,000 separate accounts. Furthermore, the Congress acts each year on a large number of individual legislative bills that affect spending, including 13

appropriation bills. CBO's scorekeeping system tracks Congressional action on all these bills from the time they are reported from committee to when they are enacted into law. As a result, the CBO scorekeeping data base for budget authority and outlays is very complex, and keeping it current represents a major effort. This effort will be all the more intense now that caps have been placed on discretionary appropriations through 1995. It will also be affected by the changed budgetary treatment of credit activity, which CBO had recommended.

CBO scorekeeping estimates are derived from our analysis of the President's budget, baseline budget projections, and bill cost estimates, as well as from the economic assumptions used for the concurrent budget resolution. CBO conducts a comprehensive review of its scorekeeping estimates at least twice a year to incorporate new information provided by the Office of Management and Budget (OMB) and other federal agencies, revised economic assumptions that may be adopted by the Budget Committees, and other relevant data.

Specially designed computer scorekeeping reports are provided weekly, and sometimes daily, to the Budget and Appropriations Committees. Frequent letters are also sent to the Chairmen of the two Budget Committees

to advise them on current budgetary levels. In addition, advisory letters have been sent on request to the Chairmen of the Senate and House Appropriations Committees on the budgetary impact of individual appropriation actions, such as a supplemental appropriation bill or a continuing resolution. The CBO automated scorekeeping data base also provides special computer reports to the Appropriations Committees to use in preparing their "views and estimates" reports due February 25, and in dividing budget resolution allocations among subcommittees.

CBO also prepares a weekly automated report on the legislative status of selected entitlement and other bills that would directly affect budgetary requirements. Similar reports provide information on the legislative status of bills affecting credit activities, bills providing required authorizations for requested appropriations, and proposed revisions of the Congressional Budget Act of 1974. Copies of these reports are provided to the staffs of the Appropriations and Budget Committees of both Houses.

Baseline Budget Projections

Each year, CBO prepares a new set of baseline budget projections. As in the past, the projections take as their starting point the budgetary decisions made by the Congress through its most recently completed session and show what would happen to the budget if no new policy decisions were made during the next five fiscal years. These projections do not represent a forecast of future budgets, because the Congress does make numerous new policy decisions in response to changing national needs and economic circumstances. But they do provide a useful baseline or benchmark against which proposed changes in taxes or spending policies may be measured and assessed. A longer-term framework is helpful in making annual budget choices, since these decisions sometimes have little impact on the budget in the short run. They do, however, significantly influence relative budget priorities over a period of several years.

Because the discretionary spending limits in the Budget Enforcement Act do not grow as fast as inflation, the baseline no longer represents current budgetary policy for discretionary programs in the out-years. Nonetheless, the baseline still serves several important purposes. It remains a reference point for estimating changes in revenues or entitlement spending for pay-as-you-go.

The difference between the baseline and the caps for discretionary programs shows the amount of real spending reductions still to be made. And many of the adjustments to the discretionary caps are computed using the baseline.

CBO's capability to do budget projections has enabled the Congress to move more and more in the direction of multiyear budgeting. In the past, both Budget Committees have used CBO's baseline budget projections as a starting point for formulating their recommendations for the annual budget resolution. The CBO baseline spending projections are distributed to the Appropriations Committees and the authorizing committees as background information for preparing their "views and estimates" reports to the Budget Committees, now required by February 25. The Budget Committees then use the CBO baseline projections in their budget resolution markup materials to assess how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. Indeed, this ability is now essential to the Budget Committees as they seek to implement the Budget Enforcement Act requirement for five-year budget resolutions.

The CBO budget projections took on an added role in the 1980s. They now serve as the baseline for computing the spending reductions to be achieved in the budget reconciliation process. Moreover, CBO has made

similar use of baseline budget projections in its bill cost estimates for calculating the costs or savings that would result from legislative proposals to change existing law. This process is particularly important for calculating the budgetary effects of changes in various entitlement programs, especially considering the new pay-as-you-go provisions.

The growing use of budget projections requires CBO to maintain a large multiyear data base on a year-round basis. CBO now provides both Budget Committees with numerous sets of five-year projections of revenues and spending throughout the year, usually in the form of computer tabulations. In addition, CBO publishes annually a five-year budget projections report at the beginning of each session of the Congress and updates it each summer.

The current baseline deficit projection, formally released in a hearing before the House Committee on the Budget on January 30, 1991, projects a baseline deficit of \$298 billion in fiscal years 1991 and 1992, declining to \$135 billion by 1996.

The concept of a budget baseline was incorporated in the Balanced Budget Act for determining the need for and magnitude of across-the-board

spending reductions to meet specific deficit targets. When the act was amended in 1987, the baseline concept was modified to approximate more closely the methodology we use in our baseline projections. The major change was to include a factor for inflation and pay adjustments in projecting discretionary appropriations. The Budget Enforcement Act of 1990 further refined the baseline methodology to project more adequately the level of resources necessary to maintain current services for personnel-intensive activities, such as those provided by the Legislative Branch.

Analysis of the President's Budget

The Congressional Budget Office carefully reviews the budget estimates that the Administration submits to the Congress. Where necessary and appropriate, CBO reestimates the Administration's budgetary proposals using its own economic assumptions and technical estimating methods.

The economic assumptions used by the Budget Committees to formulate the annual budget resolutions are sometimes different from the assumptions the Administration used to prepare the President's budget. A different set of economic assumptions may significantly alter the budgetary

impact of the President's proposals. Both Budget Committees periodically ask CBO to reestimate the President's budget using different economic assumptions.

CBO has an independent capability for estimating the impact of various budgetary proposals on budget outlays. To keep these techniques and methods as accurate as possible, CBO staff carefully monitor both actual spending trends, as reported monthly by the Treasury, and various program data series that provide information on recent trends in the use of federal benefits and services, the growth in beneficiary populations, and other factors affecting federal spending. CBO uses these independent methods to reestimate the effect of the President's budgetary proposals. In recent years, these so-called "technical reestimates" have been significant.

In addition to reviewing carefully the Administration's budget estimates, CBO prepares an analysis of the President's budgetary proposals. This publication is requested annually by the Senate Committee on Appropriations to assist Members and staff in preparing for overview hearings on the Administration's annual budget. The report discusses the economic outlook for the next several years and the possible economic impact of the President's proposals. It also presents CBO's reestimates of the budget

impact of these proposals based on alternative economic assumptions and on CBO's estimating techniques and methods.

Federal Bill Cost Estimates

CBO prepares cost estimates for virtually every public bill reported by legislative committees in the House or Senate that would have a budgetary impact. CBO also prepares numerous cost estimates at committee request for use in earlier stages of the legislative process. CBO's bill cost estimates have become an integral part of the legislative process. Committees refer to them increasingly at every stage of bill drafting, and they have an impact on the final outcome of legislation.

The number of such bill cost estimates prepared each year varies, depending on the amount of legislation being considered and reported by legislative committees. In 1990, CBO prepared 855 individual cost estimates, as shown in Table 1.

A large part of CBO's bill costing in previous years was for the House and Senate Committees receiving reconciliation instructions in the budget

resolution. This year was no different, as CBO prepared cost estimates for all the spending provisions included in the Omnibus Budget Reconciliation Act of 1990. In the past, CBO's tracking system for bill cost estimates has treated work on the reconciliation proposals as if they were a few large bills. As a result, this system understates the true work load shown in the figures in Table 1 for 1983 through 1990. Work on a reconciliation bill alone is equivalent to one hundred or more bill cost estimates.

In addition to cost estimates for bills reported by legislative committees, CBO also provides the Appropriations Committees with estimates on outlays for all appropriation bills. These outlay estimates are prepared for each appropriation account and are transmitted to the staffs of the committees largely in the form of computer tabulations. For example, many

TABLE 1.

BILL COST ESTIMATES (Formal and informal)

	1983	1984	1985	1986	1987	1988	1989	1990
Federal Estimates	676	687	601	667	743	771	603	855
State and Local Estimates	573	641	533	588	531	675	470	720

reports display both budget authority and outlay data in the Comparative Statement of Budget Authority (CSBA) formats used by the Appropriations Committees. Judging by the number of inquiries that CBO receives, it is fair to say that our estimating function is, by far, the most extensive of any legislative body in the world. CBO is always pleased to furnish technical assistance to other bodies interested in following the U.S. Congress as a model.

State and Local Government Cost Estimates

The State and Local Government Cost **Estimate** Act, enacted in late 1981, temporarily expanded CBO's responsibilities for bill costing by requiring estimates of the cost that would be incurred by state and local governments as a result of proposed federal legislation. The Balanced Budget and Emergency Deficit Control Reaffirmation Act made this requirement permanent.

CBO reviews as many bills as possible to identify their potential impacts on state and local government costs. We focus on bills that, in our judgment, are likely to result in an aggregate annual cost to state and local

governments of at least \$200 million, or to have exceptional fiscal consequences for a geographic region or particular level of government. During 1990, CBO prepared state and local cost estimates for 720 bills. Of these bills, CBO estimated that 20 bills had an aggregate annual cost exceeding the \$200 million threshold, 107 were below the threshold but had some potential effect on the budgets of state or local governments, and 593 had no impact.

Economic Forecasts and Fiscal Analysis

Each fiscal year, CBO provides the Congress with two reports on the economic forecast. The first is issued early in the legislative session to coincide with Congressional consideration of the concurrent resolution on the budget. The second report is issued in midsummer.

CBO does not maintain its own **macroeconomic** model of the economy.

Instead, it uses the major commercially available econometric models: Data Resources, Inc., the WEFA Inc., and the Washington University Macroeconomic Model. Moreover, CBO uses three models of the international economy developed by outside analysts to help track this

increasingly important aspect of the nation's economy: the **McKibbin-Sachs** Global Model, developed by Warwick **McKibbin** and Jeffrey Sachs; **INTERMOD**, a world model developed by the Canadian Department of Finance; and **MULTIMOD**, developed at the International Monetary Fund.

We also rely on the advice of a distinguished panel of advisers who represent a wide spectrum of economic views. The panel meets **semiannually**, before a new forecast is issued, and the panel is supplemented from time to time with guests possessing expertise in particular areas of interest. Appendix A to this statement lists the current members of the panel.

The reports issued in January and **June** of 1990 focused on recent economic developments, discussed fiscal and monetary policy, forecast short-term economic trends, projected long-term trends, and detailed the federal budget outlook under these economic assumptions. CBO must use various models of the economy to comply with the requirements of the Balanced Budget Act that we report to the Congress if we foresee a recession. With the growing internationalization of the U.S. economy, the task has become more complex, because it is increasingly important to monitor developments abroad as well as in the United States.

More and more, the Congress is concerned with the way in which fiscal policy, as well as specific federal programs, affects the overall economy. Recently, CBO has enhanced its analytic capabilities in such areas of Congressional interest as the financial condition of thrift institutions, international debt, national saving, and U.S. living standards. Studies currently under way include an analysis of the Brady Plan, the outlook for national saving, and the potential economic risks of default in the insurance industry.

Tax Analysis

With each new economic and budget baseline forecast, CBO provides the Budget Committees with a set of standardized tables providing considerable background detail on our baseline revenues and estimates of recent tax legislation. The Budget Committee staff members have found these tables very useful.

CBO also provides several sets of five-year baseline revenue estimates based on alternative economic forecasts developed by the staffs of both

Budget Committees. Most of these are done to aid the staffs in preparing the budget resolution.

Revenue scorekeeping reports, with bill-by-bill detail, are sent biweekly, or as needed, to the staffs of the Ways and Means, Finance, and Budget Committees. The reports provide five-year estimates of the revenue effects of each tax bill on the legislative process, and compare the cumulative revenue effects of enacted legislation with the targets set in the budget resolution. The revenue estimates shown in the reports are drawn from CBO cost estimate letters and are furnished to the tax-writing committees when each tax bill is reported.

CBO issued reports on a number of aspects of the capital gains tax issue, including indexing capital gains, the distributional effects of a reduction in the capital gains tax rate, and the effects of a lower capital gains rate on economic growth. In addition, CBO published a report on federal taxation of tobacco, alcoholic beverages, and motor fuels.

Program Analysis

The CBO's program divisions--Human Resources, Natural Resources, National Security, and the General Government unit in the Office of Intergovernmental Relations--respond to requests from Congressional committees to analyze issues and options that help the Congress anticipate the consequences of legislative proposals. Four types of products illustrate the range of efforts carried out by the program divisions:

- o Formal and informal cost estimates and other budget analytic work analogous to, or in support of, the efforts of the Budget Analysis Division. Much of this work involves developing simulation models to estimate the impacts of technical and other changes in legislation;
- o Short-term policy analyses, usually to estimate the likely effects -other than costs--of proposed legislation;
- o Longer-term analyses of broad issues, considering a full range of policy options. These projects typically result in published papers; and

- o Testimony at Congressional hearings, which often follows from other work we have done.

The principal responsibility of the program divisions is to assist Congressional committees in examining the effects of legislative policy options on the budget. Over the years, CBO has responded to requests for analyses of key program issues from almost every committee of both Houses of the Congress.

In fiscal year 1990, CBO's program divisions completed 37 such reports for 14 Congressional committees--6 in the House and 8 in the Senate. Appendix B of this statement shows the distribution of all reports completed by CBO for Congressional committees in fiscal year 1990.

The subject areas of these reports have typically reflected the major budgetary issues before the Congress and the nation. Our program divisions support Congressional debate by organizing and presenting policy goals, often scattered among disparate programs in different budget functions and tax provisions, into a single analysis. In this way, the Congress can see more clearly whether its policies are having the intended effect.

Some recent studies of this type are *Reforming Federal Deposit Insurance; Using R&D Consortia for Commercial Innovation: SEMATECH-Ray Lithography, and High-Resolution Systems; Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits;* and *Social Representation in the U.S. Military.*

Much legislation with purposes not closely related to the federal budget nevertheless has important budgetary and economic consequences. Many committees have shown a strong interest in the analysis of the effects of such legislation. These analyses often expand and complement information provided in a CBO cost estimate.

In 1990, CBO provided Congress with several such reports, including *U.S. Costs of Verification and Compliance Under Pending Arms Treaties; Carbon Charges as a Response to Global Warming: The Effects of Taxing Fossil Fuels; Federal Liabilities Under Hazardous Waste Laws; Budgetary and Military Effects of a Treaty Limiting Conventional Forces in Europe;* and *Farm Program Flexibility: An Analysis of the Triple Base Option.*

In terms of direct support of the budget process by the program divisions, many CBO studies address the budgetary implications of changes in

program emphasis or direction or changes in the carrying out of new initiatives. Committee interest in such analyses may be prompted by budget constraints or by the perception that existing programs may be inefficient or have outlived their original intent.

Recent CBO studies along these lines include *Options for Paying Military Physicians*; *Medicare's Disproportionate Share Adjustment for Hospitals*; *Physician Payment Reform Under Medicare*; *Options for Improving Munitions Sustainability: A Summary*; *Updated Estimates of Medicare's Catastrophic Drug Insurance Program*; and *Moving the Marine Corps by Sea in the 1990s*.

Based on current committee requests, CBO expects to complete a significant number of reports this fiscal year. We further assume that our level of activity in fiscal year 1992 will be similar to that of recent fiscal years. CBO's program divisions have remained remarkably stable in terms of staffing and funding since the inception of CBO. Through the years, they have accounted for approximately 30 percent of CBO's staff positions and about 30 percent of the funding.

Published reports are only the most obvious example of the analytic support that the program divisions provide to the Congress. Short-term

analysis in the form of staff memoranda and letters is provided regularly to committee staffs by the program divisions. In addition, CBO is frequently called on by committees to testify. During the last fiscal year, CBO testified on 37 separate occasions. This testimony is often in connection with an ongoing or completed report, though we sometimes prepare new analyses for such appearances.

Finally, our program divisions have developed a number of sophisticated analytic computer models of federal programs. The output from these models is provided to our Budget Analysis Division (BAD) for use in its cost estimates, and program analysts frequently help revise or improve existing BAD models. This capability allows our program units to respond to requests that require sophisticated analytic treatment, such as simulating the effects of options on beneficiaries of federal programs. Similarly, the program divisions have developed models, both for the Budget Committees and authorizing committees, that estimate the costs and revenues of specific programs. The models are used by the committees to respond to proposals made during the markup of legislation.

The requests and demands made of our program units have not lessened under the Balanced Budget Act. The Congress, to carry out its

policy objectives during these times of severe fiscal constraint, is considering numerous new and innovative approaches in an increasing number of program areas. CBO is being asked to evaluate and analyze many of these proposals and to put them in a budgetary context. In addition, the Congress will need to continue to assess the programmatic and policy implications of budget reductions. The CBO program divisions have the resources in place to provide information as the Congress makes these important reassessments.

ORGANIZATION OF CBO

For management and administrative purposes, CBO is divided into six divisions plus the Office of the Director and the Office of Intergovernmental Relations. While the functions of the divisions are unique, the work of each is highly dependent on that of the other, and I would like to take time today to share with you how this "crosswalk" works.

Three of our divisions--the Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions--primarily support the needs of the House and Senate Budget and Appropriations Committees for accessible, comprehensive, and technical budget and economic information. The other three

divisions--Natural Resources and Commerce, National Security, and Human Resources and Community Development, as well as the General Government unit of the Office of Intergovernmental **Relations--provide** key support, often early in the legislative process, to the budget and authorizing committees in analyzing various programmatic and policy options and their associated costs. To perform these tasks, each unit must collaborate with the others.

For example, the economic assumptions developed by the Fiscal Analysis Division serve as the basis for our cost estimating, projections, and analysis of issues. The budget numbers developed by the Budget Analysis Division often depend on methodological studies done in the program divisions. Finally, all numbers developed in connection with analytic studies are reviewed by the cost analysts in the Budget Analysis Division. This cross-walk among our divisions is absolutely essential to our ability to provide accurate cost estimates and comprehensive analyses of alternative legislative strategies.

THE FISCAL YEAR 1992 REQUEST

As I indicated previously, Mr. Chairman, the increase being requested over the 1991 operating level consists mostly of personnel-related expenses needed to fund CBO at the authorized staff level. Of the \$2,217,000 increase being requested, \$1,824,000, or 82 percent, is increased personnel costs. Of the remainder, \$89,000 is for ADP purposes and \$211,000 is for systems, data, and model development. Increases in prices in a wide array of other administrative areas account for the remaining \$93,000 being requested.

Personnel Costs

Escalating personnel costs are the driving force behind most of CBO's requested increase. The steady rise in pay and benefit costs has driven up the personnel component of CBO's budget to 79.5 percent of the total 1992 request, compared with 59 percent as recently as fiscal year 1985. Similarly, benefit costs in 1992 will reach nearly 26.1 percent of payroll, far above the rate of 12 percent in effect before enactment of the Federal Employees' Retirement System in 1986. The required increases in funding for payroll and benefit costs puts enormous pressure on other portions of CBO's budget.

Merit pay increases averaging a modest 3.4 percent account for \$578,000. Annualization of executive pay raises and of full-staff funding from fiscal year 1991 increases costs another \$419,000. These components of personnel costs, along with the benefit increases, amount to 62 percent of CBO's requested increase. Overtime costs, required by legislation that became effective on September 28, 1990, will have to be absorbed. Cost-of-living adjustments for portions of calendar year 1991 and 1992 make up the remainder, over \$700,000.

In the recent past, CBO has been forced to absorb **cost-of-living** increases, which we have accomplished by taking funds from other areas of the budget, such as **ADP** and systems development, and by holding our staff level below the ceiling. The continued robbing of Peter to pay Paul on our part, however, threatens the quality of the service CBO has thus far been able to supply.

ADP Costs

ADP costs increase 3.4 percent in the current request, by \$89,000. These funds represent price increases and a small rise in anticipated use of time-

sharing. CBO is proud of having substantially reduced ADP costs over time while increasing productivity and overall computing resources. We have accomplished this by switching time-sharing mainframe applications to microcomputers, redesigning and **reprogramming** existing mainframe applications to take advantage of current technology, and carefully managing ADP resources. ADP is 11.6 percent of our 1992 budget, as compared with 29 percent of our 1983 budget. Actual ADP costs continued their steady downward trend in 1990 and are expected to hit an all-time low in 1991. Full funding of the 1992 request will allow us to maintain our technological edge in this critical area, but it is still only 59 percent of the amount spent on ADP in 1984.

Systems, Data, and Model Development Costs.

The systems, data, and model development component of our budget is used primarily to purchase and modify data needed to update existing models. Spending in this area can vary widely, depending on such things as the availability of data and legislative changes in a specific program. Some models are updated annually, while others must wait for less frequently available data, such as those from the decennial census. Timing shifts of data

availability in fiscal year 1991 allow CBO to cut spending here 30 percent from 1990 levels, which were already the lowest in more than a decade. The \$211,000 increase being requested for 1992 returns spending in this category to more historical levels and would allow us to acquire critical data updates in the area of health care costs.

Other Costs

Administrative expenses in our 1992 request, at \$1,764,000, shrink to 7.5 percent of our budget, down from 9.5 percent in 1990 and a projected 7.9 percent this year. They are lower, by \$64,000, than our 1990 administrative expenses, unadjusted for inflation. The \$93,000 increase being requested covers price rises in a variety of goods and services and, at an average of 5.6 percent, is slightly higher than inflation because of higher printing and postal increases.

CBO'S 1992 REQUEST VERSUS CBO'S BASELINE ESTIMATE

CBO's fiscal year 1992 budget request exceeds its baseline calculation for the agency by a little over \$400,000, primarily because of two types of increases not accounted for by the strictly inflationary adjustments granted in the baseline. The current method of calculating the baseline, however, cut by 39 percent the difference between CBO's 1992 request and the baseline as calculated under the old Balanced Budget Act law.

The \$400,000 difference is split almost perfectly between pay and non-pay calculations. Were it not for the \$262,000 annualization of additional salaries for staffing to the authorized ceiling in the 1992 request, the new baseline calculation would have exceeded the request by \$65,000. Similarly, on the nonpay side, the \$217,000 difference between the request and the baseline is almost entirely the \$211,000 increase requested for systems, data, and model development.

Unlike the old law, which had an absorption requirement for pay adjustments and a lower inflator for pay and nonpay items, the new baseline calculations appear to capture the inflationary increases required to continue current services.

CONCLUSION

Mr. Chairman, as I stated at the opening of this justification, I believe this to be a most prudent budget for CBO. Our budget request is driven primarily by mounting personnel costs, though no new positions are being sought. It is, I believe, a budget that will allow CBO to continue to serve the Congress at the level of excellence it has come to expect. Thank you, Mr. Chairman.

APPENDIX A

CBO PANEL OF ECONOMIC ADVISERS

Barry P. Bosworth
Senior Fellow
The Brookings Institution

Andrew Brimmer
President
Brimmer & Co., Inc.

Robert Dederick
Executive Vice President
and Chief Economist
Northern Trust Company

Martin Feldstein
President
National Bureau
of Economic Research

Edward M. **Gramlich**
Professor of Economics
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Institute of Public Policy Studies
University of Michigan

Lawrence R. Klein
Benjamin Franklin
Professor of Economics
Department of Economics
University of Pennsylvania

John Makin
Director, Fiscal Policy Studies
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Rudolph Oswald
Director, Research Department
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Rudolph G. Penner
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The Brookings Institution

William **Poole**
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Lawrence Summers
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Sterling Professor of Economics
Department of Economics
Yale University

Murray Weidenbaum
Director, Center for the Study
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APPENDIX B. SUMMARY OF COMPLETED CBO REPORTS BY
REQUESTER (October 1, 1989, to September 30, 1990)

Requester	Number of Reports
House Committee on Agriculture	1
House Committee on Armed Services	2
House Committee on Banking, Finance and Urban Affairs	1
House Committee on the Budget ^a	4
House Committee on Energy and Commerce	1
House Committee on Ways and Means ^a	5
Senate Committee on Agriculture, Nutrition, and Forestry ^a	1
Senate Committee on Appropriations	1
Senate Committee on Armed Services	3
Senate Committee on the Budget ^a	8
Senate Committee on Energy and Natural Resources	1
Senate Committee on Finance	1
Senate Committee on Governmental Affairs ^a	2
Senate Committee on Labor and Human Resources	2
Mandated by the Congressional Budget Act of 1974	3
Mandated by the Balanced Budget Act of 1985	6
Total	42

a. Dual requesters.
