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Statement of

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before the

Committee on the Budget

U.S. House of Representatives

on the

President's Program for Economic Recovery

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Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the President's Program for Economic Recovery. The President has proposed a multiyear plan which includes proposals for reducing Federal spending and taxes. Specific budgetary and legislative proposals to implement these plans are expected to be submitted in the very near future. Views expressed in this statement are based on proposals made public to date.

Over the years, GAO has made many recommendations for changes in programs and administrative practices to achieve savings and to improve program effectiveness. Many of our recommendations have been adopted as part of the President's plan. We have provided your committee a report summarizing our comments on the individual program proposals in the President's plan. We previously provided information on the program reduction alternatives

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reported by the Congressional Budget Office (in our report OPP-81-01, February 17, 1981). In each case, our comments cite the individual audit and evaluation reports which form the basis for our views. All of this information has been provided the new Administration.

The President's proposal is a multiyear plan which, if it is to be implemented, will involve many individual legislative actions by the Congress. Acting on this plan will involve trade-offs between the need for longer term, stable commitment by the Federal Government to people who voluntarily or involuntarily participate in Federal programs versus the need for the Congress to "control" the budget in both the short-term and the long-term. There is no magic formula for making these trade-offs. They must be made on a program-by-program basis dealing with specific groups of people, specific sectors of the economy, and specific problems.

Today, I will be addressing both the overall scope of the plan and specific aspects including matters not covered by the President's plan which we think should have been; areas that are covered and to which we want to lend our support; a few aspects of the plan on which we have some reservations; and several administrative reforms that can help and should also be given attention by the Congress.

ECONOMIC BASIS FOR THE PLAN

The stated basis for the plan is that reduced taxes, reduced spending and a stable, slower rate of growth in the money supply are essential for a return to more stable prices and sustained economic growth. The obvious question is whether this program will work? In other words, will there be some improvement in the overall performance of the economy--a deceleration of inflation, an acceleration in the rate of growth, a fall in interest rates, and (as a minimum) no significant increase in the rate of unemployment.

As we understand it, the Administration expects the combination of expenditure and tax cuts to result, this year, in a substantial decrease in interest rates, a 2.1 percentage point decrease in the rate of increase of the Consumer Price Index (CPI)--relative to what the previous Administration had forecast, the same average unemployment levels forecast by the Carter Administration (7.8) but a slightly lower real rate of growth of (1.4 percent vs. 1.7 percent). In 1982 and beyond, the Administration expects very rapid rates of growth of the GNP, marked decreases in the rate of increase of the CPI and interest rates, and a slow decrease in the overall unemployment rate.

In order to focus on key aspects of the Administration's scenario, we simulated the effects of the plan using two large private econometric models of the national economy--Data Resources Incorporated and Wharton. In summary both models show a pattern of rising output, declining inflation, and falling unemployment from 1982 through 1985 which is qualitatively similar to the Administration's assumptions. However, both predict less growth, more unemployment, and more inflation than is anticipated by the Administration.

With regard to the Administration's overall plan, I continue to believe that if tax reductions are to be enacted, they should be accompanied by substantial constraints on expenditures in order to minimize the risk of a further acceleration of inflation.

AREAS NOT COVERED IN THE PRESIDENT'S PLAN

Turning to the specifics of the plan, I wish to call the Committee's attention to several general areas which receive little or no attention in the President's program--tax expenditures, the indexing of Federal programs, audit findings and debt collection, and several programmatic items. I am convinced these areas represent missed opportunities which warrant further examination by the Congress in its efforts to reduce spending, taxes, and the deficit.

Tax expenditures

The 1974 Congressional Budget and Impoundment Control Act defines tax expenditures as "* * * revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." They are certainly used to pursue public policy objectives and should, in most cases, be viewed as alternatives to budget outlays. It is estimated that in 1982 this loss in tax revenue will amount to $62.3 billion. While many of these tax expenditures help to implement important public policy goals, I can only urge that the Administration and Congress subject tax expenditures to the same careful scrutiny afforded direct expenditures.

Limit the indexing of program benefits

The President's plan deals in only a minor way with the indexing of Federal spending (automatic adjustment for cost of living changes). We strongly believe the Congress should change the procedures for making cost of living adjustments.

Explicitly indexed programs now account for fully 30 percent of Federal budget outlays. These outlays, of course, are driven by inflation and, by adding to the deficit, contribute to inflation. The Administration's confidence that it can bring inflation under control by other means does not, in my mind, diminish the need to deal directly with indexation.

We have just issued a report on entitlements and indexing which I will provide to your committee. In that report we describe the growth in these programs and suggest several approaches for limiting that growth. In particular, there are three options for altering present indexing practices that we believe merit early consideration:

1. Give the President and the Congress the discretion to modify the amount of the index through the budget process. The President could be authorized to recommend a specific percentage adjustment to benefit levels that would take effect unless the Congress acted to change it. This is the same procedure now used to adjust Federal white collar pay. This alternative has the advantage of returning some flexibility to the cost of living increases. Clearly any reduction in indexation could adversely affect the lives of truly needy recipients. One way of overcoming this problem is to authorize the President to use differential rates of indexation at different benefit levels. This approach would require decisions by the President and the Congress each year based on budgetary considerations.
2. Limit the adjustment to the level of the average increase in worker pay or the CPI, whichever is less. This alternative moves away from the exclusive use of a price index. The argument for making such a change is based on equity

considerations. While, at present, income from indexed entitlement programs is protected against inflation, not all entitlement programs are indexed and wage earners' income and pensions are certainly not protected. Thus, in periods of rapid inflation and slow productivity growth, the present formulas redistribute income in favor of the indexed groups--and increase the burden on wage earners. Switching to this alternative would have wage earners and entitlement recipients share equally in the burdens imposed by falling real incomes.

Two arguments have been advanced in opposition to this approach. First, during periods of high inflation, benefits would not be fully protected against inflation. Second, if we are able to return to greater price level stability and higher productivity growth we would normally see wages increasing at a faster rate than the CPI. Under this proposal, increases for those receiving entitlements would be limited to the amount of the cost of living increases.

3. <u>Substitute for the present CPI an index judged more efficient in measuring changes in the cost of living of those receiving entitlements or make adjustments in the index to compensate for its alleged statistical deficiencies</u>. Proponents argue that if such measures could be found, adopting them would preserve the benefits inherent in automatic adjustment processes, without incurring the social costs associated with overcompensating program receipients. If there were, at present, agreement on how

best to adjust the present CPI so that it more accurately measured changes in the cost of living, such changes should be adopted whether or not the CPI is used to index entitlement programs. Unfortunately, there is, at present, no consensus on how best to make such changes, nor is there agreement on what cost of living index, other than the CPI, should be used to adjust entitlements during inflationary periods.

Despite drawbacks, some limitation on the present indexing system is absolutely essential. Any of these three indexing options would enable the Congress to gain additional control over the growth of this segment of the budget. We favor the first option because it would permit the President to recommend and the Congress to consider the cost of living increases as part of the budget process.

Action on audit findings and debt collection

In addition to the two general areas I just discussed, there are many other opportunities to reduce spending and improve Government efficiency and economy that the Administration--to the best of our knowledge--has not addressed. Two areas--acting on the findings and recommendations of Federal auditors, and collecting debts owed the Government--could save the Federal Government billions of dollars.

Between $3 and $4 billion could be collected by the Federal Government on the basis of the findings of various Federal auditors that recipients of Federal funds either misused them or did not use them at all. Why hasn't the money been recovered? Federal departments and agencies are not sufficiently aggressive in trying to act on the auditors' findings to recoup the funds. We have made repeated recommendations to OMB to help improve this situation. Total expenditures questioned by agency auditors continue to increase--from $4.3 billion in 1978 to $14.3 billion in 1980.

Possibly as much as $6 billion in delinquent accounts and loans receivable could be collected by the Government. Why hasn't the Government done so, thus reducing very significantly the Federal budget deficit? Again because top management officials haven't given debt collection a sufficiently high priority. Agencies are more interested in delivering services and disbursing funds than in collecting amounts owed them. Additional legislation now being considered in the Congress would help by permitting Federal agencies to use more effective commercial practices to collect debts.

An additional $3 billion in delinquent tax accounts could be collected by IRS as part of its usual collection process if it could focus more on this effort and adequate audit staff authorized.

Programmatic changes

In addition to the items mentioned above, chapter 3 of our report dealing with the President's budget proposals, issued today, identifies 29 specific cost savings proposals not included in the President's package to date. Adoption of these proposals would reduce Federal expenditures and increase revenues by many billions of dollars.

Two examples of the specific cost savings proposals contained in chapter 3 of our report are:

--repeal of the Davis-Bacon Act wage requirements; and

--revising the Social Security benefit formula to eliminate the advantageous rate of the return enjoyed by short-term workers.

In our April 1979 report to the Congress (HRD-79-18), we stated that the Davis-Bacon Act should be repealed because (1) significant changes in economic conditions and other factors occurring since passage of the Act make the Act unnecessary, (2) the Department of Labor has not developed an effective program to issue and maintain current and accurate wage determinations, and (3) the Act results in unnecessary construction costs of several hundred million dollars annually and has an inflationary effect on the economy as a whole.

With respect to the Social Security benefit formula, we found that benefits intended for low wage workers were being enjoyed by high wage earners who work for only short periods in employment covered by Social Security. These short-term workers have contributed a relatively small amount of Social Security tax because they had little work in covered employment. They receive, however, a higher return on their contributions than the average wage earner because of the benefit formula used to attain the program's objective. According to Social Security Administration actuaries, eliminating the short-term worker advantage could save from $11 to $15 billion over the next decade.

AREAS GAO SUPPORTS

Now I will turn to several parts of the President's plan that we support. These include reform of regulations, extension of user charges, reform of the Federal Financing Bank, reduction of defense costs, greater use of block grants, and reform of unemployment programs.

Regulation

The Administration has committed itself to careful review of Federal regulatory policy with the aim of eliminating unnecessary regulations. We support this objective. Federal regulations have major effects on private capital formation, productivity, and economic growth. In the past decade the scope of Federal regulation has dramatically increased. Regulatory reform offers a major opportunity to enhance productivity and faster economic growth.

Important steps have already been taken by the Congress and the executive agencies to improve regulatory practices. In some cases where regulations have outlived their usefulness, the regulations have been lifted. Deregulation of airlines, trucking, railroads, and the financial industry are examples. At the same time, steps have been taken to oversee the regulatory process. In the previous Administration, the Regulatory Analysis Review Group and the Council on Wage and Price Stability established procedures to review and comment on proposed regulations. Experiments are underway to test alternative methods of achieving regulatory goals. An example is the Environmental Protection Agency's "bubble concept," in which air pollution standards are set for an area rather than for each source of pollution within the area. This practice gives private decisionmakers the opportunity to find the most efficient method to achieve the goal set by the regulator without sacrificing the ultimate objectives of the regulation. These examples suggest the direction in which further attempt at regulatory reform might go.

Existing regulations should be reviewed periodically to determine whether they still meet a real social need, and whether alternative and more efficient methods exist to achieve the goals for which they were established. In some cases it will be found that the costs of regulation outweigh its benefits or that competition can be relied upon to achieve what previously required Federal rules. In these cases, deregulation is appropriate. In other cases, regulatory alternatives can be devised to enable the regulatory agency to achieve its objectives in a more cost-effective fashion.

User charges

One of the Administration's budget criteria is the recovery of "clearly allocable costs from users," for which a number of user fee proposals are made. We agree with the principle that those who benefit from publicly-provided goods and services should, as far as feasible, bear the associated costs. GAO believes that there are other areas, such as Federal water, where user fees could be successfully applied in addition to those cited by the Administration.

It is both equitable and efficient that, in many cases, those who receive clearly identifiable benefits from the Government pay for those benefits. The Government often subsidizes beneficiaries of its activities by simply not charging the market value of the goods or services it bestows on them, regardless of the costs it actually incurs. Unless some public purpose is achieved by this subsidization (e.g., equity considerations may call for the subsidization of low income individuals), it should be eliminated, if possible. Our position on this and other aspects of user charge policy is discussed in our report, "The Congress Should Consider Exploring Opportunities to Expand and Improve The Application of User Charges by Federal Agencies" (PAD-80-25, March 28, 1980).

Federal Financing Bank reform

The Director of OMB has testified that reform of the Federal Financing Bank (FFB) is needed. We totally agree.

GAO has consistently opposed the off-budget status of the FFB as well as other questionable budget practices which combine to produce an inadequate and incomplete picture of Federal credit assistance activity. The current relationship between Federal credit agencies and the FFB causes misleading changes in the Federal budget totals, and creates incentives for the inappropriate use of Federal credit assistance.

Most notable among the questionable budget practices are the budget treatment accorded certificates of beneficial ownership, FFB purchases of agency assets, and FFB acquisition of federally guaranteed loans. The combined effect of these practices resulted in a cumulative net understatement of Federal outlays that totaled $62 billion at the end of fiscal year 1980. When the transactions between the Federal Financing Bank and off-budget agencies are taken into account the figure becomes $64 billion.

The Federal Financing Bank now holds about $64 billion worth of certificates of beneficial ownership (CBO's) issued mainly by the Farmers Home Administration. Though these instruments are debt securities and represent debt transactions, they are defined legislatively as asset sales. Therefore, proceeds from sale of CBO's to the FFB are treated as an offset to the agency's loan outlays. This practice should be eliminated by removing language in the relevant agencies authorizing statutes which specifically defines CBO transactions as asset sales.

Federal Financing Bank purchases of Government-guaranteed loans is another troublesome consequence of its off-budget status. This practice results in conversion of guaranteed loans into direct loans which are not recorded as outlays. It also reduces or eliminates sharing of risk, creates the potential for oversubsidization of program beneficiaries, and encourages the use of credit assistance when this device may not be appropriate.

The most serious problems would be avoided by (1) including the FFB's receipts and disbursements in the budget totals, and (2) assuring correct budget treatment of the sale of CBO's.

Defense cost reductions

With the new Administration's dedication to increased defense spending to upgrade the manning, equipping, and logistical support of the armed services, the necessity for frugal management of resources and operating costs has never been more important.

We have produced numerous reports over the past few years pointing to ways of reducing defense costs. While the services have acted on some of our recommendations, they have resisted others, notably inter-service consolidations to eliminate duplication of facilities and overhead.

While there have been spurts of progress since the Department of Defense was established in 1947, the time has come, in our opinion, when these opportunities must be dealt with more aggressively. At stake are several billion dollars a year of savings which are urgently needed to offset essential increases for modernization, sustainability, and readiness. I summarized our suggestions in a January 21, 1981, letter to Secretary Weinberger which I am furnishing for the record.

We are delighted that the President's program includes certain proposals to reduce overhead and personnel costs in fiscal year 1982 of $2.9 billion growing to $7.5 billion by 1986. This is a commendable beginning and appears to recognize many of the items we have dealt with in our letter. While our information is limited it appears that a number of our proposals have not been addressed in this first presentation. Thus we believe there are additional opportunities for economies in DOD over the next 5 years, particularly by the consolidation of base support activities, management of consummable supplies, aircraft depot maintenance, and traffic management activities.

Grant consolidation

Over the past two decades, the number and variety of Federal assistance programs and their dollar amounts have increased at a phenomenal rate. The number of categorical grant programs available to State and local governments (now about 500) has almost tripled since 1963, while funding has increased twelvefold in that period to the current $89 billion level.

To cope with the problems resulting from the multiplicity of Federal assistance programs, attempts have been made to improve coordination of program planning and administration. However, the large number and variety of programs serving similar objectives and the fragmented administrative responsibilities for these programs present a virtually insurmountable barrier to effective coordination. The key to improving the administration of Federal domestic assistance programs lies in the legislative consolidation of separate categorical programs serving similar objectives into broader categories of assistance, and the placing of like programs in a single agency. Accordingly, we support the Administration's consolidation initiative recognizing that the specific implementation details are not yet available. Enactment of legislation along the lines of S. 878 which passed the Senate last year would be of great assistance.

Incentives for improving labor markets

The plan contains a number of proposals which are intended to improve producer, consumer, and labor market incentives. Without commenting on the particular form of the tax provisions which are intended to encourage greater savings and investment, we can agree that some relief is needed.

Effective tax rates have increased in recent years as a result of inflation, for both individuals and businesses. Individuals have been pushed into higher tax brackets as inflation has increased their incomes, and businesses have seen the real value of depreciation allowances decline. Increases in the effective rate of taxation have lowered the real return from additional work and saving. There is statistical and historical evidence to suggest that increasing work and saving incentives by lowering tax rates will stimulate capital formation and employment. The exact magnitude of this effect cannot be estimated precisely.

In a similar vein, we agree with the direction of the Administration's approach to reforming the Trade Adjustment Assistance program by eliminating payments to people already receiving unemployment insurance benefits. GAO has issued several reports to the Congress in this area. The latest report, (HRD-80-11), issued on January 15, 1980, assessed the worker adjustment assistance program nation-wide and found that weekly cash payments have helped few import-affected workers adjust to the changed economic conditions during their layoff because the payments were received by most in the form of a lump-sum payment after they had returned to work. Many of the processing delays that caused late payments are inherent in the design of the program. Most workers indicated that they experienced no severe economic hardship as a result of their layoff--which for most was not permanent--and were able to rely on regular unemployment insurance benefits and other income sources to meet their financial needs.

AREAS WHERE WE HAVE RESERVATIONS

There are several matters that give me some concern which I believe the Congress needs to address as it considers the new Administration's program. These are executive pay, budgeting for capital investments, productivity improvement, exports, energy, and medical programs.

Executive pay

Having served as the Comptroller General for 15 years, I have come to recognize that one of the most serious problems facing the Government is the inadequate salary levels for top Federal officials and their depressing effect on the pay rates for Senior Career officials. I recognize that budget reductions involve financial sacrifices for many people. For this reason the Congress may be hesitant to support such salary increases. We must remember, however, that top Federal officials, including Members of Congress, have been making financial sacrifices for many years.

In my opinion, the pay situation for top Federal officials where five levels of responsibility (some GS-15 and all GS-16, GS-17, GS-18 and Executive Level V) receive the same pay is completely unacceptable, leading to lower morale and incentives and excessive turnover which would never be tolerated in private industry.

I strongly endorse the recommendations of the Commission on Executive, Legislative, and Judicial Salaries for increases. In my opinion, the case for meaningful adjustments has clearly been made by the Commission and others and the need is compelling. The relatively small cost will be repaid many times over in better management of Federal programs.

I urge the Congress to give early and favorable consideration to the Commission's recommendations.

Infrastructure and budgeting for capital investments

The President's proposal to stretch out and retarget public sector capital improvement programs needs to be reviewed most carefully. The President has identified water resource projects, waste water treatment facilities, highways, mass transit, and airports for change. The strategy of cutting capital investment and maintenance has been practiced over and over again by governments and businesses faced with declining resources. Cuts that are taken without awareness of the future consequences can slow economic growth and increase costs over the longer term. For example, maintenance cuts particularly contribute to this. Therefore, I do want to caution you that these proposed cuts need to be looked at in terms of a complete capital investment strategy, including their impact on private capital investment where private investment depends on the supportive role played by Federal capital investment. Much of the infrastructure built with public funds provides infrastructure needed by business. No stretch-out or re-targeting of capital investments should be undertaken without an analysis of these long-term and cross-cutting effects. Particularly, we need to be aware of the point at which we cannot easily recover from planned neglect.

Productivity improvement

I know you share my concern about the Nation's dismal productivity performance. I have noted that the President's plan calls for reduced tax rates to stimulate productivity. While reduced tax rates should help, I believe that certain direct Federal actions are needed to encourage national productivity improvement.

The Government currently plays an active role in encouraging private sector productivity growth beyond its tax and regulatory policy. It is estimated that the Federal Government now spends more than $2 billion in programs directly related to productivity improvement. These efforts, however, are unrelated and do not add up to a productivity policy or program.

We believe that legislation is needed to provide a central or focal point to review, guide, and coordinate the numerous Federal policies and programs affecting productivity. This focal point in Government should work closely with labor and industry to develop a national productivity program. Such legislation is now pending in the Congress.

In addition to supporting productivity in the private sector, however, we should view improved productivity in the administration of Federal programs, as another way to reduce budget costs. For example, $20 million per year is needed to operate 1,100 Federal Payment Centers. We recently reported that productivity improvements could save $750,000 per year in just 22 of those centers.

There are several factors that are critical to accomplishing this sort of productivity improvement.

Productivity measurement holds employees and managers accountable for their performance and enables the Congress and agency executives to more accurately determine program efficiency and effectiveness.

Second, Federal managers must be provided incentives to improve productivity. A major complaint of agency executives and managers is that productivity related improvements are often met with apathy or arbitrary budget reductions rather than rewards.

Third, agencies must have adequate funds for making labor saving capital investments. Capital investment, which is a major source of productivity growth, must be given greater attention in the budget process.

Fourth, agencies should designate top officials with responsibility for productivity improvement--a practice increasingly followed in industry.

Fifth, productivity improvement must be emphasized during budget preparation and in review and approval by the Congress. Productivity is not currently an important part of the budget process.

Reduction of Export-Import Bank direct lending

GAO has reservations about the Administration's proposal to reduce the Eximbank's authority to make new direct loans. As the Administration indcates, the Eximbank finances a relatively small share of our total exports. Where it does participate, however, the assistance it provides may well be crucial in maintaining important export markets. Our major competitors frequently have access to government subsidized export financing. Failure on our part to respond may have a direct effect on our international competitiveness. In addition, it would make more difficult the task of negotiating a general reduction in export subsidies. A general, multilateral reduction of export subsidies would contribute to more efficient patterns of international trade, but this is not necessarily true of unilateral termination of subsidies by the U.S., acting alone. Accordingly, we urge the Congress to consider carefully the broader implication of this proposal before acting on it.

Energy programs

The Administration's proposals on energy, with their emphasis on private market forces and the use of tax incentives to improve the Nation's energy posture, imply a fundamental reorientation of the Federal Government's role in energy policy and programs.

While our program by program analyses of the Administration's proposals indicate an agreement in many areas, there are areas of concern with respect to specific proposals. Even more important for congressional consideration are the fundamental energy-related issues raised by the assumptions which underlie the Administration's proposals. Let me briefly highlight what we see as four of the more important issues.

First, collectively, the Administration's assumptions imply that deregulation of oil and gas prices and accelerated Federal leasing may lead to increased domestic oil and gas production. While higher prices should lead to greater production than may be otherwise available, GAO's work on resource limitations indicates that the United States is not likely to reverse the long-term decline taking place in domestic oil and gas production since the early 1970's. Absent effective efforts in conservation and other energy areas, our reliance on imports could grow.

Second, many of the Administration's proposals refer to an acceleration of natural gas deregulation now scheduled to be essentially complete by 1985. While early deregulation could result in some increase in production from existing fields and further encourage conservation, it would also substantially increase consumer costs in the short term, and could cause some industrial users to switch to alternative fuels, including oil.

Third, the administration's proposals repeatedly refer to the Government's responsibility for long-term research and development, without defining specifically what is meant by long term. It will be difficult to draw this distinction, particularly as research and development moves toward the high-cost projects needed to demonstrate technical feasibility on a reasonable scale. Industry may not be willing to underwrite the risks where technology is uncertain and cost effectiveness in an equally uncertain energy world is not clear. The issue of how far the Government may want to go in demonstrating commercial feasibility of a particular technology can be influenced by a variety of factors, including not only cost-effectiveness but also national security concerns and institutional constraints, which private market forces may not be willing or able to respond to in the short-term.

Fourth, related to the third issue are the national security arguments for Government efforts to further breakthroughs in technologies which are not yet cost-effective, but which offer substantial possibility for reducing U.S. reliance on imported energy sources. This was the principal justification for the synthetic fuels program, as well as for other programs to spur energy activity where private market forces and tax incentives may not yet be adequate.

In summary, GAO's view is that a central focus on energy is needed, either within a Department of Energy or as part of a new Department of Energy and Natural Resources designed to focus not only on energy but also on developing long-term policies for all fuel and non-fuel resources.

Medicaid

For some of the proposals the full range of budgetary effects is very unclear and we would suggest that the Congress consider them most carefully.

The proposal to cap Federal support of the Medicaid program falls in this category. Many beneficiaries of this program are also served by the Medicare program--the so called "dual beneficiaries." It is possible that with pressure to hold down costs under Medicaid, States will have strong incentives to utilize available ways to legitimately shift costs to the Medicare program where they would be financed through the Medicare trust funds. Our more detailed comments on the Administration plan include a discussion of how this might occur.

In addition, given the present system of third party payments which characterize the health care system, attempts to limit public sector payments will lead either to the curtailment of health services to the affected part of the population or to attempts by health care providers to recoup their costs by increasing charges to patients who are privately insured.

ADMINISTRATIVE REFORMS

Numerous administrative reforms have been recommended by our office which I believe should be given early attention. These are: budget reform including personnel cost controls, congressional oversight, and Government organization and operation.

Budget concepts and procedures

We believe that Congress should take several steps, including establishing a budget study group or commission, to help strengthen the budget process. Several recent developments have placed strains on the capacity of existing budget concepts and procedures to serve the budget information and control needs of the Congress, the executive branch, and the public.

Legislation has been enacted removing important Federal programs from the budget, resulting in incomplete budget coverage and totals that do not reflect the true level of Federal activities. Furthermore, the growth in the "relatively uncontrollable" portion of the budget and the increasing importance of new or indirect kinds of Federal activities with economic consequences--notably direct and guaranteed loans, special tax preferences, and regulations--have created new budget control and information problems. In addition, the budget process itself has been encumbered with complicated procedures, paperwork, and measurements that make it difficult for the Congress to understand the budget, assess program results, and set national spending priorities.

The basic objectives of further budget reform actions should be to:

--place most off-budget Federal activites back onto the budget;

--provide control over short-term and long-term budget levels;

--strengthen program and policy level accountability;

--streamline the process in order to reduce paperwork and superficial reviews and increase the time for careful analyses and informed debate; and

--increase the reliability, consistency, and comparability of budget figures.

We have described the specific actions we believe are needed in a report now being issued, which we will provide to your committee.

Hiring freezes and personnel ceilings

We need to find a better way to limit personnel costs in the Federal Government than the imposition of rigid personnel ceilings and hiring freezes. In study after study, the GAO has concluded that such measures are an inefficient way to achieve reductions in personnel costs. These devices create regidities and flexibilities which make it much more difficult for managers to operate programs and there are many ways in which the objectives of these devices can be bypassed.

In GAO's opinion, there is a more effective and less wasteful method for accomplishing the objective, namely to place limitations on cost of personal services, including personal services obtained by contract. Managers would have an opportunity to have much more flexibility and the savings objectives could be accomplished in a more effective manner.

Congressional oversight

The Congress needs a more systematic way of overseeing and reconsidering Government policies and programs. To be workable, an oversight process should require the Congress to set its own oversight agenda for at least two Congresses ahead and it should cover all programs including tax expenditures. Only by having full coverage and adequate lead time can the Congress carry out needed analyses and reconsideration of groups of inter-related spending, credit, regulation and tax policies and programs. We worked closely with the House Rules Committee during the last Congress on development of a workable approach which is now reflected in H.R. 58. Our views are summarized in a forthcoming report which we will provide to you.

Government organization and operations

Chairman Bolling and Chairman Roth have proposed the establishment of a commission to study ways of improving the effectiveness of the Federal Government. I believe this subject needs to be addressed by a broadly based, high-level group that can build the support and consensus needed to make and fully implement substantive changes in Government organization and operations. I detailed my views on this proposal in a letter to Chairman Brooks last year which I will provide to your committee.

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In summary, the President has presented a multiyear plan for achieving substantial reductions in the Federal budget through many individual items requiring congressional action. We agree with many of these proposals. Indeed, many of them are identical to recommendations which we, ourselves, have made. Others give us some concern either because of the details of the proposal or because some of the broader implications of the proposal do not appear to have been fully considered. Finally, we believe there are other areas, such as the review of tax expenditures, reform of indexation, aggressive collection of debts and followup on audit findings, where we believe the Administration has not fully exploited the available opportunities to reduce the budget deficit.

That concludes my statement. My colleagues and I would be pleased to answer any questions you may have.